LIONGUARD
CAPITAL MANAGEMENT INC.

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LIONGUARD U.S. SMALL CAP FUND
QUARTERLY REPORT - MARCH 2021

Dear Investors,

We are pleased to publish our first quarterly report for the newly launched LionGuard U.S. Small Cap Fund ("Fund"). Although the Fund structure is new, our team has successfully invested in U.S.-listed small capitalization equities as part of allocations in other Funds managed by the Company. U.S. small-capitalization market is filled with numerous highly attractive opportunities, which can be uncovered using our rigorous fundamental research investment process.

LionGuard US Small Cap Fund outperformed its benchmark, the Russell 2000 Total Return Index ("Benchmark") during our inaugural quarter, having returned 15.72% as compared to a 12.70% return for the Index.

The sectors where the Fund performed best in comparison to the Benchmark were Technology with 624 bps of relative outperformance and Healthcare with 183 bps of relative outperformance. Sectors where the Fund underperformed vs the Benchmark included Materials with 26 bps of relative underperformance and Consumer Staples with 22 bps.

Our largest drivers of our outperformance came from positions in Donnelley Financial (see comments below), Bausch Health and Allot. We also benefitted from Perspecta reaching an agreement to sell itself to a private equity firm. At the same time being long KAR Auction, Alteryx and Elanco Animal Health detracted from our performance relative to the Index.

We take this opportunity to discuss some of our largest contributors for the quarter: **Donnelley Financial (DFIN US)** and **Franklin Covey (FC US)**.

Donnelley Financial (DFIN US) is a leading global risk and compliance solutions business with over 50% recurring revenue. It provides regulatory filing and deal solutions via top-notch software, technology-enabled, and print solutions. In fact, their Venue product is the 3rd largest Virtual Data Room software solution in the industry and their SEC compliance solutions (ActiveDisclosure and FundSuiteArc) are some of the leading offerings in the space with well over 90% and 95% retention rates, respectively.

When we initially came across the company, in the summer of 2020, the business was cheap by all standards. At that time, its Sum of Parts valuation implied at least 70% upside. Fortunately for us, mispricing was a function of (a) poor screening on unattractive headline numbers and (b) a deteriorating print business masking the true earnings power of software and tech-enabled solutions. These factors brought forth enough complexity to push others to allocate time and resources to other ideas, thus placing DFIN's valuation in the penalty box for a prolonged enough time for us to complete our research and become comfortable with establishing a position.

Mistaken for a print business, DFIN is a strong cash flow generating company with solid prospects for years to come. The company is in the midst of a cost-cutting and operating model transformation that will take

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the low-margin print business from ~40% of revenue in 2016 to less than ~20% as we move past the newly implemented SEC Rules 30e-3 & 498a. These rules are expected to have a $130 - $140M revenue impact in 2021 with just under $5 - $10M EBITDA impact, reflecting the low margin nature of that business. As we move past these transitory "blessing in disguise" headwinds and execute on a well-planned cost-cutting plan, we end up with a highly sticky software business and a high margin transactional technology-enabled business driven by robust capital markets activity.

Our understanding is that ~40% and ~30% of DFIN's Transactional business, respectively, is driven by IPO and M&A activity. Cognizant of a hot market in both, and an unprecedented (yet in our opinion temporary) environment for SPACs, we were extremely confident in DFIN's ability to capitalize on these trends. After all, speaking with different service providers, we highlight that the company has one of the leading market shares in the space with its solutions used in at least 40% - 50% of all IPO/M&A deals. Equally important, their Virtual Data Room offering, Venue, is ranked 3rd in the industry. Confident in management's ability to execute and reassured by a solid cost-cutting plan, de-leveraging process, and an active buyback program, we decided to take a position in the company.

As expected, the company's Q4 earnings largely outperformed expectations with Revenue and EBITDA of $210.3M and $34.9M vs consensus at $180M and $27.4M respectively. These were underpinned by a 10.5% increase in revenues driven by robust IPOs and software sales, prompting the company to issue strong Q1 guidance and 2021 commentary while expanding its buyback program to $50M following the completion of their earlier $25M program.

The company delivered as per our expectations and we continue to see significant leeway for growth for years to come or a potential take-private of the business as excellent execution, shedding of low-margin print business, debt paydown, buybacks, cheap valuation and improving profitability come to light.

Franklin Covey (FC US) – we came across this leading provider of corporate training and performance improvement in the summer of 2020. At the time, FC was unwarrantedly yielding well over 9.0% in FCF for a business that (a) *is the final innings of a major transformation to recurring high margin revenue*, (b) *can grow high single-digit to teens organically with over 50% incremental margin contribution*, (c) *is expected to double EBITDA in the next two years organically*, and (d) *has a leading, timeless content position in a ~$100 billion market*. We initiated a position in early Q1/21 buoyed by improving fundamentals and a cheap valuation.

Franklin Covey is a producer and owner of valuable and timeless content (intellectual property) that touches on key corporate and personal self-improvement issues that are here to stay. These issues range from personal and interpersonal skills to leadership and strategic development. Their content, which is more often consumed on a subscription basis (All-Access Pass), is highly regarded, and is consumed by thousands of clients including a meaningful portion of Fortune 100 and Fortune 500 companies.

Since the transition to a subscription business model is key to our thesis, we will refrain from discussing different P&L segments, and instead focus on their All-Access Pass (AAP) offering and how their go-to-market approach has evolved since 2017. Prior to releasing All-Access Pass, FC had primarily sold its solutions on a "per case / per need" basis: A Franklin Covey salesperson would meet with a company representative/HR to determine which course/module would be ideal to meet that company's needs at

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that time and complete a sale. The issue with that go-to-market strategy is that it is not a “one size fits all” product – some employees may benefit from other courses that were not necessarily discussed.

Cognizant of the broader opportunity in the market, FC released its All-Access Pass, which essentially gives clients access to most of its content – this is a stellar way to monetize hundreds of millions of dollars in timeless content at an extremely high incremental margin (~50%). The transition has been a success thus far with AAP & related-service accounting for 83% of North America sales (vs 2% in 2016), ~70% of UK/Australia sales and low 20s% of China/Japan sales as these countries continue to ramp up their AAP sales efforts. More importantly, the average AAP value continues to increase growing from ~$31K just a year ago to ~$38K, with 90% retention, 44% service attachment rate (vs 17% a year ago), and a blended gross margin of 85% vs 70% on the legacy model. Effectively, the value of the AAP and related services combined is well over $55K today.

More importantly, the success of the AAP model is further highlighted by its effectiveness in capturing a larger percentage of the client’s share of wallet at a higher margin: in the legacy model, a client which spent $10K in their first year spent an additional $10K over the next two years for a total three year spend of $20K at ~70% gross margin. A typical AAP client today would spend $55K on their initial purchase and over $149K over 3 years at greater than 85% gross margin! With management targeting 90% of all revenues in memberships and related sales within the next 3-4 years, it does not take much to see how it can achieve well over $40M of EBITDA (vs $20M guidance F21) in the next 2 years given the economics attached to AAP.

Lastly, we take a moment to highlight that the company reported strong Q2/2021 results underpinned yet again by double-digit growth in AAP which was partially offset by lower onsite training and school access days which impacted their Education division (~20% of revenue). We note that these are primarily delays and that this revenue stream is under contractual obligation and will be most likely recognized in the back half of the year. Despite a strong beat, management opted to maintain its guidance and not increase it out of (a) typical FC conservatism and (b) more clarity needed on the Education segment which we should get in Q3.

At ~7.0% FCF yield and precedents selling for >7.0x sales (vs FC implied AAP valuation of <3.0x), Franklin Covey remains a highly attractive takeout candidate and one of our high-conviction positions

May you have any questions, please contact us at any time.

Yours sincerely,

Andrey Omelchak, CFA
President, CEO & Chief Investment Officer
(on behalf of LionGuard Capital team)

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