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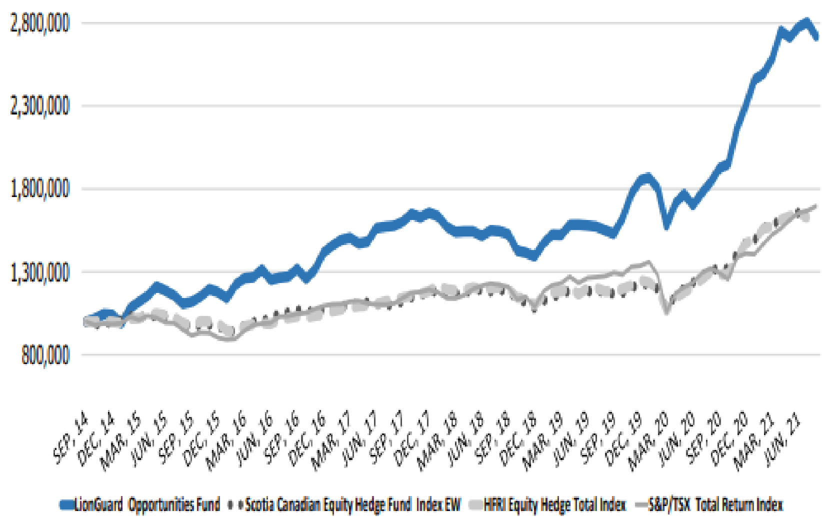
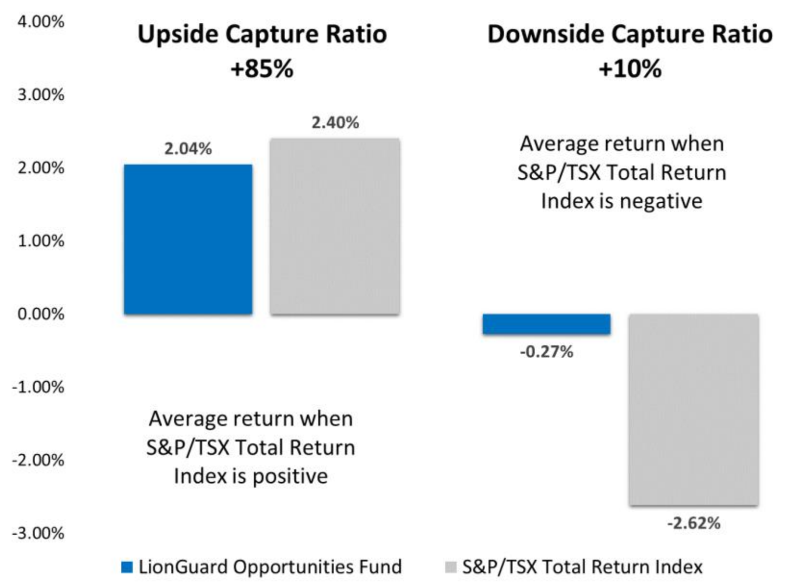
LIONGUARD OPPORTUNITIES FUND
QUARTERLY REPORT – SEPTEMBER 2021

Dear Investors/Partners,

During the quarter ended September 30, 2021, LionGuard Opportunities Fund ("Opportunities Fund") had a net return (after all fees and expenses) of -4.38%. **Since the Opportunities Fund's inception, exactly 7 years ago, its annualized net return amounts to 14.96%.**



As compared to the broad Canadian market index (S&P/TSX Total Return Index), the Opportunities Fund's upside capture ratio amounted to 85% while its downside capture ratio is at only 10%.



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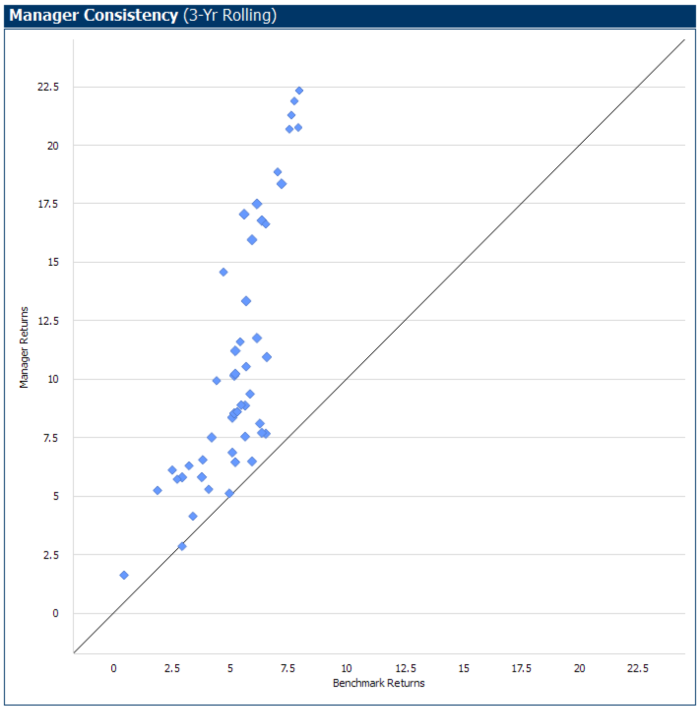
In addition to the industry-leading downside capture ratio, Opportunities Fund's annualized net return divided by its largest drawdown since inception amounts to 0.94x. This ratio is frequently used by sophisticated investors to gauge funds' return profiles relative to the amount of risk they take.

Lastly, as compared to HFN Long/Short Equity Index, a well-recognized global benchmark for Long/Short equity managers, Opportunities Fund demonstrated consistent outperformance for almost all 3-year rolling periods.



Sources: eVestment, LionGuard Capital Management.

<u>Less Speculation = More Rationality:</u>

Our recent internal analysis on Canadian-listed equities, excluding the Materials and Energy sectors, with market capitalizations between $100M and $3.0B, for a total list of 335 securities, yields interesting results. The average pullbacks from 52-week highs, for respective market capitalizations, are the following:

- For market capitalizations between $2B and $3B -16%
- For market capitalizations between $1B and $2B -19%
- For market capitalizations between $500M and $1B -25%
- For market capitalizations between $250M and $500M -30%
- For market capitalizations between $100M and $250M -39%

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Further analysis of securities portrays that the companies that pulled back the most are mainly those that largely benefitted from the recent speculative craze we warned about several quarters ago. Fueled by large inflows from inexperienced traders, and in numerous cases from trigger happy fund managers who chose to try to make quick returns while assuming high risks, numerous companies' valuations defied common sense.

With a lot of speculative bubbles deflating, we view the current environment as much more rational. At the same time, with so many companies' stock prices retreating from recent highs, even some high-quality businesses are now selling at attractive prices.

Our Take on Inflation:

With high inflation likely here to stay (careful with buying into Fed's transitory inflation), many investors are wondering what to do in an environment when the purchasing power of their currency is eroded year after year. Historically, the stock market has proven to be a good place to invest to counter the harmful effects of inflation. Numerous businesses can, after all, over time, pass on price increases to their customers.

The best businesses to consider during times of high inflation are those with strong pricing power and low requirements for additional capital investments. Pricing power is often linked to the perceived brand value, as well as the structure of the industry in which said business operates. Real estate tends to perform well because of the higher replacement cost unless sizeable additional capital is required to maintain the property. Software-centric technology companies, that can scale up easily, are certainly very well-positioned relative to unscalable and capex-heavy alternatives. This is the case during most environments but is especially so when inflation is in high gear. Capital-light businesses can accelerate the growth of their revenues and potentially further expand their margins despite higher labor costs.

The worst businesses to invest in during a high inflationary environment are those that operate in commoditized industries and thus command no pricing power. One should certainly stay away companies that have long duration commitments at fixed prices. Most long-term commercial contracts do include inflation adjustments, yet it is often the case that their realized margins often end up lower during the fulfillment cycle.

We strongly discourage investors from holding high cash levels and from allocating capital to long duration fixed income securities. Handpicked high-quality businesses, acquired at sensible prices, should materially outperform such alternatives, especially during the environment of high inflation. Overall, high inflation should not be of too much concern to investors who can identify businesses that are able to not only protect their current businesses but can further deepen their moats vis-à-vis weaker rivals.

Q3-2021 Contributors:

During the quarter ended September 30, 2021, some of our largest contributors were: **Franklin Covey (FC US)** and **Sangoma Technologies (STC CN)**. On the opposite side, our detractors included **DIRTT Environmental (DRT CN)** and a mix of short positions. Please see the below comments for details.

Franklin Covey (FC US) – is one of our top contributors for the quarter. Please refer to our Q1 and Q2 letters for a detailed discussion of this business. As discussed in our most recent letter, FC's operational execution during the last-reported quarter was nothing short of phenomenal. The company generated over 17% growth in AAP and 26% growth in deferred revenue coupled with a sizeable beat on the profitability line.

We continue to expect the company's growth and profitability metrics to exceed guidance and street projections, buoyed by accelerating growth in the Enterprise division (>80% of sales) as well as clear evidence of pent-up demand in the Education division (balance of sales). Typically ignored for being a small percentage of the business and not the key thesis driver (justifiably so as the Enterprise TAM >$ 90 Bn), the Education market is likely to experience material growth over the next few years when contrasted with historical trends. As per our research on the Education space, we believe that, after having prioritized spending and resources into digitization initiatives over last the 2-3 years (accelerated by Covid-19), school districts are now well-positioned to re-allocate budgets, including a portion of the significant Education Stimulus dollars, into supplemental initiatives aimed at improving the learning experience and creating well-rounded students. We expect Franklin Covey, over the next few years, to benefit materially which will complement the strong double-digit growth we anticipate from its AAP segment.

While Franklin Covey is up a lot year-to-date, the company remains extremely undervalued relative to its potential, market size, and margin expansion opportunity. In Franklin Covey, we have bought into a non-cyclical high-quality business underpinned by (a) evident competitive moat (decades of timeless IP), (b) high teens organic growth in recurring revenue (>95% retention), (c) a largely underpenetrated customer base and (d) 40% - 50% incremental EBITDA margin flowthrough in what is a $90 billion TAM for a $220 million revenue base. Despite these dynamics and a compelling setup for years to come, Franklin Covey continues to trade for ~6.5% FCF yield, or 3.5x implied EV/AAP sales vs precedents in the 7x – 8x range. As they continue to execute on their growth strategy, we remain supportive shareholders of this business and its top-tier management team.

Sangoma Technologies (STC CN) – For a detailed discussion of the company, please refer to our past quarterly and annual reports as our view on the company and the industry remains intact.

STC's recent quarterly results were strong and complemented with FY 2022 guidance significantly above expectations. Based on our internal estimates, the FY 2022 guidance implies 12% - 15% organic growth for its service revenue. While the service revenue may not necessarily compare favorably to other UCaaS providers, we highlight Sangoma's best-in-class margin profile vs peers. Compared to peers that have taken a "growth-at-all-cost" approach, often operating at a significant loss, Sangoma has decided to adopt a prudent approach by balancing growth with profitability. The management guidance for the next fiscal year implied an adjusted EBITDA margin of 20%, which is significantly above expectations. A higher margin is expected because of a better revenue mix, operating leverage, cost synergies, etc.

We are also very pleased with the management commentary on Star2Star integration. As of the end of September 2021, the integration is substantially complete. STC identified various cost savings, which are well above initial expectations, which will be put to work to generate a higher organic growth rate. They are also very confident in cross-sell opportunities, for what is now the broadest portfolio of products in the industry, between S2S and legacy Sangoma. It certainly looks like the management is conservative on its organic growth rate guidance for the next fiscal year.

We are fully supportive of management's decision to ensure the long-term financial stability of the business including by having no reliance on capital markets to "subsidize" its growth. Under the current operating scenario, Sangoma is expected to grow its recurring revenue in the mid-teens while commanding a free cash flow yield of 6.0% - 6.5% (based on next fiscal year), which is unheard of within the UCaaS space.

Rather than relying on the frequently quoted price to sales multiples, used by most to value STC's industry peers, we prefer to remain grounded and compute a DCF valuation for the company. Such an analysis leads us to believe that the current risk-reward for Sangoma is beyond compelling.

DIRTT Environmental (DRT CN) – The company was a key detractor this quarter as its stock price pulled back from its July peak. We believe the main reason for the pull back is related to the construction projects delays. The company's products are installed in the last phase of a project and delays in projects completions negatively impact the timing of delivery and recognition of related sales.

At the same time, over the last several months, we continued gaining increased confidence that the world is moving towards the "hybrid work model". All our channel checks are pointing to senior management teams and heads of HR working to determine the inner workings of new office environments, which certainly require, in almost all cases, complete reconfigurations of the current offices. Senior decision makers are also increasingly mindful of their companies' environmental footprint and are thus likely to choose a modular construction option via-a-vis alternatives.

Temporary project delays will certainly abate over time and DIRTT will then likely face new challenges of delivering on all the work urgently requested by its clients. Their quoting activity remains very robust, and we believe that DRT has been gaining more and more national accounts, which increases the visibility and predictability of its business.

Rising labor costs make DRT's product offering more compelling versus conventional construction alternatives. Schedule delays also further highlight the benefits of a prefabricated approach to interior construction.

We remain supportive shareholders of DIRTT, buoyed by the massive opportunity for modular construction and excellent management execution to date. There is clear evidence of a forthcoming massive demand for DIRTT's services for years to come.

We view the pullback as a great buying opportunity and are undeterred by the short-term stock price volatility. **Other investors clearly share our view with 22NW (~18.2% holder of DRT) filing a 13D on Oct 7th stating its intent to "communicate with the issuer's management and Board about a broad range of operational and strategic matters".**

We believe 22NW's involvement adds more oversight to help potentially unlock shareholder value and bridge the market-to-intrinsic value gap considering the massive opportunity on the company's hands. As a matter of fact, 22NW has a successful track record of constructive involvement: in 2017, 22NW made an offer to acquire all outstanding shares of INFU for $2.00 per share, or a 29% premium to the close at the time. INFU's share price is $13.50 today. **We view its involvement in DRTT as validating the opportunity at hand today and we would not be surprised to see additional activist shareholder(s) involvement. We see these dynamics as setting a tangible floor for the stock, further de-risking the valuation aspect of the story.**

7-Year Track Record:

Our team remains focused on identifying numerous mispricing opportunities present among North American small- and medium-capitalization equities. The recent increase in market volatility is good news for our investors, as it provides us with opportunities to acquire high quality businesses at increasingly attractive prices.

After 7 years since the launch of the LionGuard Opportunities Fund, our repeatable process has yielded our investors/partners an annualized net return of 14.96%, outperforming all major market indices and other potential benchmarks. Most importantly, we believe to have done so without taking unnecessary risks, by holding drawdowns in check, keeping cool heads during times of market turmoil, and sticking to our circle of competence.

We take this opportunity to thank our investors/partners, as we continue our journey to compound the capital in a prudent and disciplined manner by purchasing pieces of high-quality businesses when they are available at highly attractive upside-to-downside levels.

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)