LIONGUARD
CAPITAL MANAGEMENT INC.

LionGuard Capital Management Inc.
1010 rue Sherbrooke Ouest, Suite 2350
Montréal (Québec) Canada, H3A 2R7
www.lionguardcapital.com

LIONGUARD CANADIAN SMALL CAP EQUITIES FUND

QUARTERLY REPORT – SEPTEMBER 2020

Since Inception Returns:

LionGuard Canadian Small Cap Equities Fund (“Small Cap Fund”) gross returns, as of September 30, 2020, can be summarized as follows:

Time period	LionGuard Canadian Small Cap Equities Fund	S&P/TSX Small Cap Total Return Index	Value Added
YTD	5.73%	-8.60%	**14.33%**
1 year	16.21%	-2.93%	**19.14%**
2 year (annualized)	10.62%	-4.79%	**15.41%**
3 year (annualized)	6.70%	-3.20%	**9.90%**
4 year (annualized)	7.19%	-2.12%	**9.31%**
5 year (annualized)	9.37%	4.51%	**4.87%**
Since Inception (annualized)	**5.79%**	**0.42%**	**5.37%**

Market Commentary & Investment Strategy:

Our commentary as of the end of Q2/2020 included the following:

“As we enter Q3/2020, and despite a 34.88% return for the Fund in the second quarter, we continue seeing numerous cases of small caps mispricing. Although some securities appreciated closer to their intrinsic values, some companies trade at even higher discounts than was the case 3 months ago. As a result, we intend to continue to optimize positions in the Fund to further improve Fund’s overall risk-adjusted upside.

With access to capital for LBO transactions for private equity firms poised to improve in 2H/2020, we fully expect to see a lot of take-out announcements among small cap and mid cap securities.”

With the Fund delivering 13.83% return in Q3/2020, and 5.73% YTD, some of the lower-hanging fruits (which were obvious during the broad-based sell-off) have been harvested. At the same time, we have made necessary reallocations to ensure that the risk-adjusted upside is where we want it to be.

On one hand, we are positioned on the side of caution given increasing economic hardships, due to COVID-driven shut down, on numerous industries. On another hand, we recognize that lower interest rates for the foreseeable future materially alter the valuation equation and provide little other alternatives than being invested in the market. We also see several companies whose business is booming due to COVID and which still trade at extremely attractive levels vs our calculations of their intrinsic values.

All considered, despite all the main-street issues, it remains an interesting market to invest in with increasing importance of stock picking and understanding fast-changing market forces. We believe that exercising our prudent and opportunistic investment process is the right approach for Q4 and into the foreseeable future.

We also take this opportunity to highlight that numerous companies in the Fund are major takeout candidates by private equity firms and/or strategic acquirors. Most obvious ones are Sangoma Technologies (STC), MDF Commerce (MDF) and Firan Technology (FTG).

Q3-2020 Investment Performance:

LionGuard Canadian Small Cap Equities Fund outperformed its benchmark, S&P/TSX Small Cap Total Return Index ("Benchmark") during the Q3-2020. During this period, Fund returned 13.83% as compared to Benchmark at 6.63%.

The sectors where the Fund performed best in comparison to the Benchmark were Communication Services with 245 bps of relative outperformance and Real Estate with 173 bps of relative outperformance. Sectors where the Fund underperformed vs the Benchmark included Consumer Staples with -69 bps of relative underperformance and Materials with -50 bps.

Our largest relative contributors came from being overweight in **MDF Commerce (MDF)**, **Major Drilling (MDI)**, and **Badger Daylighting (BAD)**. At the same time, being overweight in **SSR Mining (SSRM)**, not owning **Trillium Therapeutics (TRIL)** and being overweight **Morneau Shepell (MSI)** has cost us relative to the Benchmark. See below our comments on **MDF Commerce (MDF)** as well as two of our favorites – **Sangoma Technologies (STC)** and **DIRTT Environmental Solutions (DRT).**

MDF Commerce (MDF) is a SaaS-based, diversified technology Company that has three distinct business segments: Strategic Sourcing, Unified Commerce, and B2B Market place (B2B businesses). The Company is largely misunderstood by most investors because historically, in addition to the three verticals, MDF was also involved in the business-to-consumer (B2C) side of things. As a result of the cutthroat competition in the B2C space, the overall revenue growth rate was negatively impacted and thereby, masking the underlying strength of the B2B businesses. Here are some of the metrics of the B2B business:

- Despite minimal business reinvestment, the B2B businesses were growing at a healthy mid-single-digit organic growth rate prior to the appointment of the new CEO. In sharp contrast to some of the high growth SaaS tech peers, MDF was enjoying an EBITDA margin of as high as 35%.

- About 77% of the revenue is recurring with 65% blended gross margin (professional plus software). These two metrics place MDF Commerce comfortably in the same category as other SaaS tech companies.

LionGuard Capital Management Inc.
1010 rue Sherbrooke Ouest, Suite 2350
Montréal (Québec) Canada, H3A 2R7
www.lionguardcapital.com

- COVID-19 outbreak has greatly accelerated the adoption of MDF's solutions. Notably, its Unified Commerce business has experienced robust customer demand due to its solid performance amid surges in eCommerce activities (Unified commerce grew over 48% YoY).

- In addition to serving some of the most recognized retail grocer brands (IGA, Carrefour, Sobey's, etc.), MDF recently announced it was selected as an exclusive eCommerce platform provider to one of the biggest retail grocers in the world (the retailer has more than 10,000 stores worldwide across more than 40 countries). Signing a global brand such as the one mentioned here is a clear validation of the Company's eCommerce solution.

Given the tailwind from digital transformation due to social distancing coupled with a new CEO who has a fast yet profitable growth mindset, we believe the Company is very well-positioned to deliver significant organic and acquisitive growth for years to come.

MDF also has all the attributes to greatly increase its valuation multiples (it currently trades at a big discount as compared to its industry peers) as it continues to benefit from the booming eCommerce trends and becomes increasingly followed by North American institutional investors, investment advisers and numerous retail investors.

We wrote extensively in the past quarterly reports about **Sangoma Technologies (STC)**. To access past reports, please contact our team at any time. Since our update last quarter, STC has done an exceptional job operationally and raised $80mn to fund future acquisitions. As one indication of its ongoing success, and robust product offering, they have recently signed Randall-Reilly (an organization with approximately 300 employees) a new client. Given management's excellent M&A track record, we are confident that their acquisition(s) will lead to further increases in the Company's overall recurring revenue percentage, even more robust product offering, and higher intrinsic value per share on a pre-raise basis.

Therefore, as STC deploys newly raised capital (most likely in Q4/2020), we expect further share price appreciation at the time of the announcement. We also expect STC to list on the NASDAQ exchange within the next several quarters, which will certainly be a major catalyst to propel its valuation multiples closer to US peers. We look forward to supporting this outstanding management team for years to come as they become a must-own multi-year compounder.

DIRTT Environmental Solutions (DRT), which stands for "Doing It Right This Time", is a disruptive manufacturer and software/virtual reality provider of the customized prefabricated interior. The Company operates primarily in the interior construction renovation market, which consists of prefabricated, customized modular walls, ceilings, floors, network and power infrastructure and functional millwork. This is a large, highly fragmented, $150 Billion market in the U.S alone, which has supported DRT's growth since going public and is likely to provide significant growth leeway, propelled by the advantages achieved by prefabricated construction vs conventional ones (lower costs, accelerate build schedule, improved quality/energy performance, flexibility, lower reliance on on-site labour). To put this in context, despite being the "leader" in the space, DRT controls a mere 0.16% of the market.

In fact, capitalizing on favourable industry trends, the Company has managed to achieve strong double-digit growth leading up to 2019. However, a combination of corporate governance issues,

mismanagement of costs, and the inability to further scale the Company triggered a seismic shift in how things are run – the Board of Directors decided to replace the founder with a new high calibre management team emphasizing growth with smart revenue-generating OpEx. As an example, the Company was previously not capable of tracking its sales pipeline and conversion due to something as basic as the lack of a proper CRM system. New management has since adopted a new CRM system and continues to emphasize a culture of accountability.

As with most significant senior management changes, a transition of such magnitude did result in temporary sales disruption which prompted new management to revise down its 2019 guidance twice. Naturally, combined with the onset of COVID-19, the share price declined by as much as 75% off its $9 peak in mid-2019. While we acknowledge the optics that come with a downward revision and transitions of such sort, our analysis leads us to believe that the intrinsic value of the business is around $7/share (for an upside of 400% from current levels).

Putting things into perspective, during its 2019 investor day, management introduced 2023 revenue and EBITDA margin targets of $450-$500M (essentially doubling the business in 4 years) and 18%-22% respectively. Although those numbers were communicated pre-COVID and we viewed them as overly optimistic at that time, COVID may counter-intuitively propel industry changes that may help DRT achieve some of its ambitious objectives.

Speaking of COVID, we have heard the bears arguing that DRT is likely to see a sustained reduction in its business on the back of a "permanent reduction of commercial office space" demand owing to a new work-from-home culture. We take a somewhat contrarian view here, arguing that while work-from-home has various advantages, employees are bound to gradually start returning to the office.

We highlight that corporate culture is an integral part of any corporation and the remote working environment fails to foster or instil a sense of corporate culture in employees. After all, that culture is how team chemistry and employee loyalty and retention is built. In addition, it is perfectly clear that working from home for an extended period has a negative impact on employee's mental health. Our channel checks with numerous C-level executives further support our understanding that the hybrid model is the right approach going forward. An increasing number of companies are already making changes to their office configurations to effectively implement such a model.

Accordingly, we view a shift to the hybrid model in the near future as a key catalyst for DIRTT's business model as it is undoubtedly bound to trigger an enormous amount of reconfiguration activity. While we acknowledge short-term reduction in office space demand, our view of a hybrid model is supported by channel checks across numerous C-suite executives across North America.

As we look ahead, we view evolving industry dynamics (growing prefabricated construction market), growth leeway (minimal market share), and forthcoming huge pickup in office reconfiguration activity as key catalysts to unlock DRT's intrinsic value.

Corporate Updates:

Despite temporary yet dramatic healthcare and economic challenges, LionGuard remains committed to growing our dedicated team and expanding operations. To that end, in July 2020, we welcomed Jordan

Steiner as a Portfolio Manager to our team. With Jordan joining, we have grown our team by three professionals since the beginning of the year.

Mr. Steiner brings extensive investment industry experience to LionGuard. He most recently was Lead Portfolio Manager for Canadian Fixed Income and U.S. and Global Equities as well as Chief Compliance Officer at an investment management firm. At LionGuard, Jordan will be responsible for conducting detailed fundamental research on North American equities and managing client's assets across select funds and strategies.

We are excited to welcome Jordan to our team as we further deepen our expertise across North America's small- and medium-capitalization equities. Jordan is a natural fit for our Company given his rigorous fundamental research orientation, breadth of complementary experiences, and his dedication to delivering the best risk-adjusted results over the long term. He is an outstanding investment professional with an eye for uncovering unique investment opportunities, which will certainly benefit our sophisticated clientele.

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)