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LIONGUARD MARKET NEUTRAL STRATEGY ("MN Strategy")

QUARTERLY REPORT – SEPTEMBER 2020

Market Commentary & Investment Strategy:

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

"We are very pleased with MN Strategy's ability to protect investor's capital during the most violent market environment seen over the last 50+ years. The MN Strategy also demonstrated outstanding intra-day volatility with no correlation to daily market movements.

Throughout Q2, we increased long positions in companies that corrected much more than they should have from the fundamental standpoint, while keeping our net long exposure around 0%.

As we enter Q3, we see more opportunities to further optimize MN Strategy's positions to both further improve the overall quality of the MN Strategy and to improve its risk-adjusted return profile. Very rarely are investors provided with opportunities to materially improve both at the same time.

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."

Going into Q4, we believe the MN Strategy is well-positioned to take advantage of numerous opportunities among its long positions. 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.

We are also quite comfortable with the shorts, although re-evaluating whether it is time to start rotating away from the lower-quality ones. Those companies tend to outperform the market in the case of a further run-up, which is possible given more stimulus and forthcoming positive vaccine developments. We are increasingly looking for shorts which are less exposed to said risks (and certainly on the flip side – opportunities), as we steer away from making a call on overall market direction. We are confident that our long positions will fair very well in case of a run-up, which largely diminishes the issue at hand.

We take this opportunity to highlight that numerous companies in the MN Strategy are major takeout candidates by private equity firms and/or strategic acquirors. Some of the most obvious candidates are Sangoma Technologies (STC), MDF Commerce (MDF), Firan Technology (FTG), Iteris (ITI-US), American Software (AMSWA) and others.

MN Strategy remains exposed to highly diverse number of positive dynamics for its long positions, including but not limited to stand-alone multiple expansion opportunities, relative multiple expansion opportunities, numerous takeout announcements, correction in market misconceptions, positive earnings and free cash flow generation above the levels priced in by the market, mispriced volatility and resulting covered calls potentials. On the short side, the MN Strategy remains mainly exposed to mispriced securities and securities with numerous prevailing MN Strategyamental risk factors.

Q3-2020 Investment Performance:

LionGuard's MN Strategy had a positive net return of 0.78% during the third quarter of 2020. Long positions added 568 bps while shorts cost us 490 bps. The sector with the biggest positive contribution was Industrials at 193 bps while the sector with the largest negative contribution was Consumer Discretionary at -134 bps.

Our largest contributors during the period were our long positions in **Vocera Communications (VCRA)**, **Badger Daylighting (BAD)** and **DIRTT Environmental Solutions (DRT)**. Our biggest detractors included our longs in **Iteris (ITI)** and **American Software (AMSWA).** See below our comments on some of those names as well as one of our top pick – **Sangoma Technologies (STC)**.

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.

We discussed at length, in the prior quarterly reports (Q1 and Q2), our views of **American Software (AMSWA)** and **Iteris (ITI)**. Our views of their business prospects remain largely intact while they trade at increasingly attractive valuation levels. It is worth highlighting that the sizeable correction in AMSWA stock price, following their reporting of quarterly results in August, clearly demonstrates how irrational stock market participants can be. Similarly, we see no fundamental reason for the lower stock price at ITI, which continues to execute very well in this environment.

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)