LIONGUARD
CAPITAL MANAGEMENT INC.

LionGuard Capital Management Inc.
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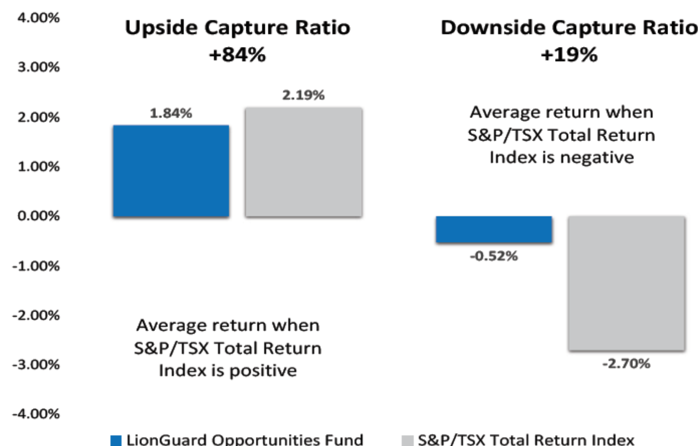
LIONGUARD OPPORTUNITIES FUND
QUARTERLY REPORT – SEPTEMBER 2020

Dear everyone,

During the quarter ended September 30, 2020, LionGuard Opportunities Fund ("Opportunities Fund") had a net (after all fees and expenses) return of 13.10%. **Since Opportunities Fund's inception, exactly six years ago, the annualized net return amounts to 11.52% and cumulative net return to 92.38%.**

Time period	LionGuard Opportunities Fund (net returns)
YTD	**3.91%**
1 year	**25.80%**
3 years (annualized)	**6.28%**
5 years (annualized)	**11.44%**
Since Inception (annualized)	**11.52%**
Since Inception (cumulative)	**92.38%**

Since Opportunities Fund's inception, as compared to the broad market index (S&P/TSX Total Return Index), its upside capture ratio amounted to 84%, and downside capture ratio to only 19%.



In addition to industry-leading downside capture ratio, we outperformed S&P/TSX Total Return Index by on average 7.12% per annum while maintaining an average net long exposure of 59% and holding on average 9% of the Opportunities Fund's assets in cash. Our largest since inception drawdown amounted to 15.90%, followed by a 32.88% return over the subsequent 12-month period.

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Q3-2020 Contributors:

During the quarter ended September 30, 2020, some of our largest contributors were: **Issuer Direct (ISDR), Sangoma Technologies (STC), MDF Commerce (MDF),** and **DIRTT Environmental Solutions (DRT)**. On the opposite side, our detractors of note included **American Software (AMSWA), Iteris (ITI)**, and a mix of short positions. Please see the below comments for details.

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 also discussed at length, in the prior quarterly reports, 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.

Issuer Direct (ISDR) is one of our top contributors for the quarter and remains one of our highest conviction positions. We have followed ISDR closely for more than a year and overtime have gained a strong confidence in: management's ability to successfully transition to a SaaS and recurring revenue business with a massive total addressable market, sizeable organic and acquisitive growth potential, low churn (single digit) high renewal rate (90%+) business model. In addition, ISDR currently provides ~7.0% free cash flow yield (on enterprise value) and maintains 20%+ of net cash on the balance sheet which can be deployed accretively at any moment.

Issuer Direct was founded by CEO Brian Balbirnie as he aimed to consolidate public and private Company compliance and communication services into a single or multi-module platform at an enhanced price and quality of service. What started as a compliance-driven Company quickly grew into a leading rapidly growing communication business through a mix of organic and acquisitive initiatives as the ISDR team executed on the transition from a legacy Services Company to a leading Platform & Technology business.

Despite the nature of the transition whereby growth had been masked by a declining, print-based service business, Issuer Direct has grown revenues at a ~14% CAGR over the last two years, propelled by its rising

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Platform & Technology business (up 24% in Q2/2020), underpinned by consistent 30%+ growth in Top 4 newswire business ACCESSWIRE, an exploding virtual business, and strong subscriber addition in Platform ID (forecasted to end the year with over 300 subscribers vs 109 in 2018).

With Services business nearing a saturation point (i.e. declining <4%-5%/year) and Platform & Technology (P&T) accounting for 68% of revenue growing at over 20%+ Y/Y, the transition to higher-margin, more recurring P&T revenue (78%-80% Gross margin vs Services at 60%), has begun to bear fruit. Accordingly, Q2/2020 results saw significant margin expansion with: 27.7% EBITDA margin and strong revenue growth of 18%, 24% growth in platform & technology supported by 20% growth in ACCESSWIRE, explosive virtual business benefiting from COVID-induced shift to a virtual world (we expect at the minimum a hybrid model going forward), and impressive 22 subscriber additions.

With over $17 million in net cash on the balance sheet (23% of market cap), most of the investment heavy-lifting completed, the transition to digital marketing, and a move upmarket, the Company is poised to accelerate growth in Platform & Technology at lower customer-acquisition costs (CAC) and higher ARPU as management targets to expand its ACCESSWIRE market share ($1.0 Bn newswire market) from 1% to 3%-5% organically over the next 3 years.

In addition to high visibility on an organic growth trajectory, we expect management to deploy cash on the balance sheet on strategic initiatives and top-up M&A to support platform functionality, user retention (90%+ renewal rate), and revenue growth.

Digging deeper into the different segments, we begin with ACCESSWIRE. This is the Company's crown jewel and the entry point to upsell other modules. This leading newswire business, acquired in 2013, has consistently grown over 20% Y/Y, scaling from a few hundred thousand dollars in revenue to well over $6.0M as per our estimates today. This implies ~1.0% market share, while the management is targeting 3%-5% market share (via organic growth) over the next 3 years. This alone implies more than doubling ISDR's revenue as the team executes on its strategy. With most of the heavy lifting behind them, digital marketing strategy in place and distribution comparable to larger newswires (at a compelling starting point of 15%+ discount to peers), we believe ISDR is well-positioned to continue gaining market share. We highlight that as of Q1/2019, well over 55% of ACCESSWIRE revenue was recurring. We expect this business to continue to experience stable and predictable organic growth for the foreseeable future.

Separately, the Company's Webcasting Module platform has seen significant demand from the COVID-induced shift to a virtual world, as it facilitates conducting earnings & events via teleconference, webcast, or both. Used to deliver live and on-demand streaming of events to an audience of all sizes, this highly capable platform serves companies of all sizes and sectors, including some of the world's most renowned financial institutions, at a very attractive price point (25%-35% less than peers).

The Company's virtual backlog is currently at a record high, and should competitors and other software companies of interest are of any indication, we expect Issuer Direct's team to be extremely busy in the back half of the year into the first half of 2021. We also note that as the world moves past the pandemic, the offering will be suitable for on-premise events, thus accommodating a likely (in our opinion) new hybrid normal.

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Finally, the Company recently introduced its Subscription-based offering, Platform ID which bundles key modules into a unified platform. In a span of 2+ years, Issuer Direct has onboarded over 295 users and is expected to end the year with well over 300 users at an ARPU of $6,000+. As management continues to move upmarket, we anticipate a gradual increase in ARPU with the Company serving over 1,477 public companies (ARPU >$12,000) and 1,390 private companies (ARPU >$4,000). We take a moment to highlight that despite the impact of the pandemic, the Company experienced a 16.5% increase in its customer base, now serving 2,837 customers, driven by 40% growth in private customers (49% of total) and 3% increase in public customers. We highlight that while people think of Issuer Direct as a small-cap provider, the business has a compelling roster of large corporations using one or more of its services, including the likes of Sherwin Williams, Kellogg's, Ford, Johnson & Johnson, D.R Horton, and EY. As it continues to move upmarket, we are comfortable with the future trajectory of average revenue per user and its low-churn high renewal profile.

Speaking of subscription revenue, as discussed at the beginning of our report, Issuer Direct's ongoing shift to Platform & Technology (P&T) has resulted in higher revenue visibility given P&T's recurring nature and high renewal rate. In fact, we estimate over 80% of revenue is recurring and over 60% is likely based on a subscription cloud-based model. As this stream continues to grow double digits Y/Y, we would expect to see gross margin expansion which coupled with a leaner cost structure (most of the big investment spending is completed), should result in 20%-25%+ EBITDA margin over time.

Lastly, we take a moment to touch on valuation. Our Sum of the Parts (SOTP) valuation gives $31.20 target price, or 60% upside. We assume 16.0x EBITDA multiple on ACCESSWIRE, broadly in-line with precedent transactions in the space as we account for rapid growth rate and expansion of market share. We apply a 7x sales multiple on Platform & Technology which is at a large discount to other rapidly growing technology companies with the average BVP Nasdaq Cloud Emerging index at 14.8x. As management streamlines its reporting and provides more disclosure transparency, we are likely to be more comfortable to increase the multiple.

Our Discounted Cash Flow (DCF) valuation is based on a conservative discount rate (given a highly recurring nature) of 8.5%. It also assumes a very conservative 2.5% growth in perpetuity beyond 2029. Those assumptions result in $37.75 target. By taking the average target prices of our SOTP and DCF, our overall target is $34.50, for a total upside of 75% from current levels.

At an enterprise value of just $51M, shares of Issuer Direct have material upside as management executes on its strategy. In Issuer Direct (ISDR) we found a high margin, high cash flow (~7.0% FCF yield on EV, for a technology Company growing 17%-20%+), high recurring revenue business at a growth and profitability inflection point run by a highly capable and properly incentivized management team (insiders own 25% of the Company, including 16% ownership by the CEO). We view limited downside given its cash treasure (23% of market cap) and its active buying back program, with 9.1% of the shares outstanding retired since the beginning of 2018. At this point, we would not rule out the Company as a highly compelling takeout candidate considering its cash generation, balance sheet, and industry consolidation.

Some of the positive dynamics and catalysts which will help unlock the intrinsic value include:

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- ACCESSWIRE organic growth acceleration – as it ramps up on digital marketing initiatives and presses the gas on ACCESSWIRE's continued market expansion complemented by a robust virtual business in the back half of the year.
- Good growth from Platform ID – Company stated it may end the year with 300+ users.
- Confirmation of record growth in virtual business – on the back of the shift to a virtual world. We highlight that this trend is likely to continue into FY21 and believe that the world will likely shift to a hybrid model (virtual + physical), playing in favor of ISDR's offering, over the long-term.
- Margin expansion – operating leverage + lower required R&D investments going forward.
- Greater reporting transparency – will provide increased comfort to investors and highlight the value of the underlying business segment. We expect better reporting transparency to take place over the next 6-12 months.
- Cash deployment via M&A – with $17M in cash on the balance sheet, we believe ISDR is well-positioned to announce a strategic bolt-on acquisition to support revenue growth while further strengthening its retention profile.
- Buybacks – have full support from the board of director and management. We expect them to continue to support the price as long as it does not reflect the intrinsic value of the Company.
- Highly compelling take-out target – given its characteristics. In case of a takeout, we would expect the agreed-upon takeout price to be at least $35/share.

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.

- 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.

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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.

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.

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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)

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