LIONGUARD
CAPITAL MANAGEMENT INC.

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LIONGUARD OPPORTUNITIES FUND
Q2-2024 REPORT

Investment Performance

Since inception in October 2014, LionGuard Opportunities Fund ("Fund") delivered annualized net return of 11.17%. This compares to S&P/TSX Total Return Index at 7.20%.

	LionGuard Opportunities Fund	S&P/TSX Total Return Index
2014 (Oct-Dec)	4.11 %	(1.47) %
2015	13.07 %	(8.32) %
2016	20.30 %	21.08 %
2017	17.00 %	9.10 %
2018	(15.90) %	(8.89) %
2019	32.88 %	22.88 %
2020	24.32 %	5.60 %
2021	15.37 %	25.09 %
2022	(21.84) %	(5.84) %
2023	14.38 %	11.75 %
2024 (Jan-June)	18.25 %	6.05 %
Annualized Net Return	**11.17 %**	**7.20 %**

On a compounded basis, the Fund delivered a net return of 180.72%. This compares to S&P/TSX Total Return Index at 96.94%.

	LionGuard Opportunities Fund	S&P/TSX Total Return Index
2014 (Oct-Dec)	4.11 %	(1.47) %
2015	17.71 %	(9.67) %
2016	41.60 %	9.37 %
2017	65.67 %	19.33 %
2018	39.33 %	8.72 %
2019	85.14 %	33.59 %
2020	130.17 %	41.08 %
2021	165.56 %	76.47 %
2022	107.55 %	66.17 %
2023	137.39 %	85.69 %
2024 (Jan-June)	180.72 %	96.94 %
Cumulative Net Return	**180.72 %**	**96.94 %**

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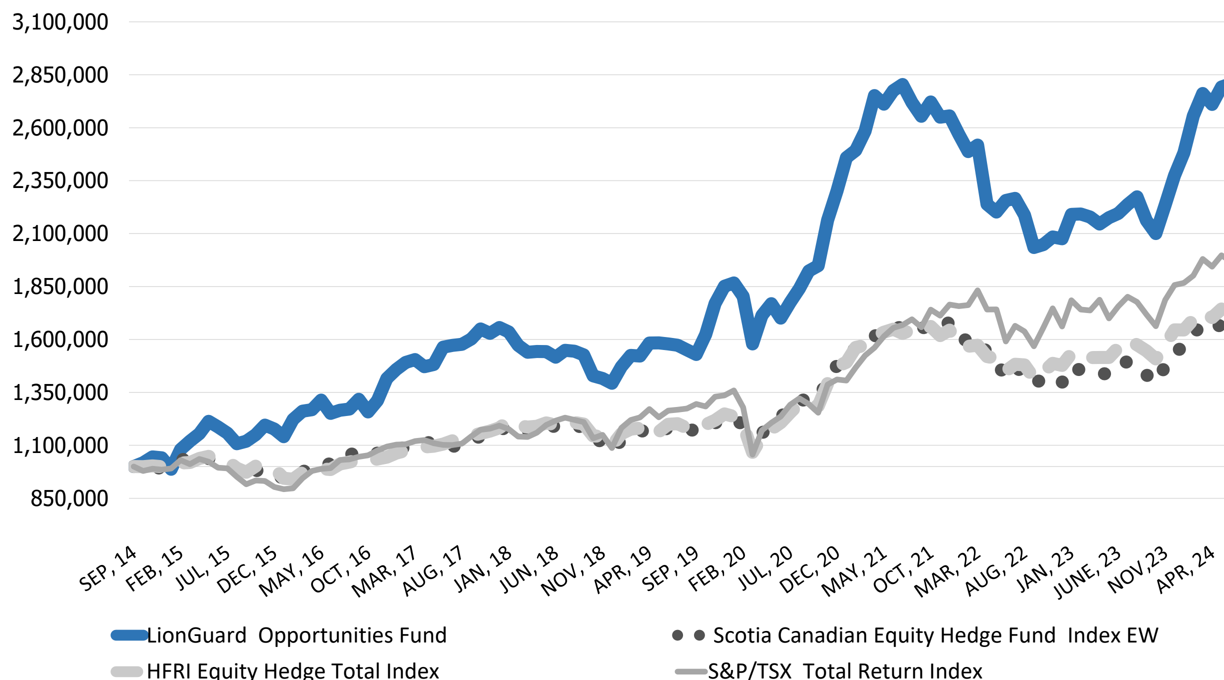
Exhibit 1: Investment Performance



Sources: Bloomberg, LionGuard Capital

Market Commentary – Extreme Performance Bifurcation

The first half of 2024 is in the books, and while major equity benchmarks are widely positive, the broad participation seen in Q1 narrowed considerably in Q2. The first quarter could be described as a "rising tide lifts all boats" scenario, with all major indices finishing firmly in the green, supported by robust breadth, including new all-time highs for the S&P Midcap 400 and S&P 500 equal weight indices. Conversely, Q2 was characterized by poor market breadth and negative performance for most indices, yet a small group of large-cap growth stocks with outsized index weightings posted robust gains. Consequently, the Nasdaq-100 and S&P 500 indices had strong returns in the first half of 2024, significantly outperforming value stocks as well as mid- and small-cap benchmarks.

All but one of the major U.S. equity benchmarks (Russell Microcap Index) were in positive territory for the first half of 2024, led by the Nasdaq Composite (+18.6%) and the S&P 500 (+15.3%) indices. From there, index performance dropped off sharply. The small-cap Russell 2000 fluctuated around the breakeven level throughout most of the year before and delivered a modest of 1.3% for the first six months of the year.

Among the majors, only the Nasdaq Composite (+8.5%) and the S&P 500 (+4.3%) finished in the green in Q2. The Nasdaq-100 equal weight declined 0.2% in Q2, underperforming its cap-weighted benchmark by 8.2 percentage points, while the S&P 500 equal weight declined 2.6%, underperforming its cap-weighted

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benchmark by 6.9 percentage points. This 6.9 percentage point spread between the S&P 500 and its equal weight index is the third widest since the inception of the equal weight index in 1989.

Extreme performance bifurcation highlights the robust gains by a few select mega-cap stocks, which have the largest weightings in their respective indices, with three companies alone comprising more than 20% of the S&P 500. This trend has created a significant gap between large-cap and small-cap performance, with the top ten S&P 500 members now holding a combined index weighting of approximately 35%.

”LionGuard's Magic Quadrum” Situations for Best Risk-Adjusted Returns

"LionGuard's Magic Quadrum" approach prioritizes investing in situations where risk-adjusted returns are the highest. One such situation is when a high-quality company, led by an exceptional management team, in an expanding industry, temporarily trades at a large discount relative to its intrinsic value. The underlying growth of the industry acts as a powerful tailwind, akin to rowing with the current rather than against it, which when applied to right securities limits downside risk while providing significant upside potential. By aligning our investments with the said parameters, we have been able to deliver some of the best risk-adjusted returns, per basis points of allocated capital. Conversely, investing in stagnant industries can be highly misleading. While such businesses may appear very attractively priced of the surface, the absence of industry growth can introduce unforeseen challenges, potentially turning seemingly safe "deep value" investments into disappointments.

We would encourage all investment professionals to clearly determine situations that constitute their Magic Quadrant. To further illustrate the importance of this, here is an excerpt and a picture from Ted William's "*The Science of Hitting*". This picture is framed on the desk of yours truly as a constant reminder to focus on situations where the odds of success are the highest. This framework can be applied to almost all industries and professions, with the varying degrees of success, depending on the evolution of the landscape and flexibility with application.

Exhibit 2: Ted William's "The Science of Hitting"

My first rule of hitting was to get a good ball to hit. I learned down to percentage points where those good balls were. The box shows my particular preferences, from what I considered my "happy zone" - where I could hit .400 or better - to the low outside corner - where the most I could hope to bat was .230. Only when the situation demands it should a hitter go for the low-percentage pitch.

Since some players are better high-ball hitters than low-ball hitters, or better outside than in; each batter should work out his own set of percentages. But more important, each should learn the strike zone, because once pitchers find a batter is going to swing at bad pitches he will get nothing else. The strike zone is approximately seven balls wide (allowing for pitches on the corners). When a batter starts swinging at pitches just two inches out of that zone (shaded area), he has increased the pitcher's target from approximately 4.2 square feet to about 5.8 square feet - an increase of 37 percent. Allow a pitcher that much of an advantage and you will be a .250 hitter.

Source: Internet

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Example Of A Growing Industry: Surge In Power Generation Demand

The surge in US power generation demand presents a high-conviction growth industry, driven by the electrification of various sectors, advancements in renewable technologies, and the burgeoning demand for data centers powered by artificial intelligence (AI) and machine learning (ML). Central to this theme is the urgent need to modernize and enhance the US electric grid, which is currently ill-equipped to handle the anticipated growth in demand.

The shift from traditional energy sources to electricity in heating, transportation, and other sectors necessitates a modernized grid capable of managing increased and intermittent power loads. This "electrification of everything" megatrend is a significant driver of future electricity demand. Renewable energy technologies are becoming more cost-effective, spurred by government initiatives like the Inflation Reduction Act (IRA).

These renewable sources require significant upgrades to the grid to handle intermittent supply and increased distribution needs. The rise of AI and ML has led to an explosion in data center construction, significantly increasing electricity demand. To put it in perspective, AI queries can use 30 times more energy than traditional searches, massively escalating power demand. Thus, data centers, already major electricity consumers, are expected to see their demand grow exponentially, necessitating enhanced grid capacity.

The existing US electric grid is outdated and not designed for the anticipated load growth. Investments in smart grid technologies are crucial to enable real-time supply-and-demand management, improving grid resilience and efficiency. Upgrading the grid to accommodate both renewable energy and increased consumption from data centers and electrified transportation is essential. Improving the efficiency of primary energy delivery to end customers is a practical and time-effective approach to addressing increased load demand. Furthermore, significant energy losses occur during transmission and distribution, presenting opportunities for efficiency improvements.

The transition to renewable energy has increased the demand for transformers, essential for adjusting voltage levels to match grid requirements. Shortages and price hikes, driven by increased demand for raw materials, still present pandemic-related supply chain disruptions, and geopolitical tensions, have limited utilities' ability to integrate renewable energy.

Investment Operations

During the quarter, some of our largest contributors included **Coca-Cola Consolidated (COKE), IES Holdings (IESC)**, **Bombardier (BBD), Goeasy (GSY)** and **Lumine (LMN).** On the opposite side, our detractors included **Colliers International (CIGI)** and **Badger Infrastructure (BDGI).**

- **Coca-Cola Consolidated (COKE)** – Coca-Cola Consolidated, Inc., headquartered in Charlotte, North Carolina, is the largest independent Coca-Cola bottler in the United States, boasting a history of over 120 years. The company manufactures, sells, and distributes Coca-Cola products along with

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other beverages to a market of 65 million people across 14 states. With 11 manufacturing facilities and 60 distribution and sales centers, COKE operates in a duopoly market with Pepsi, granting it significant pricing power and a resilient business model. The company's strong ownership, with Coca-Cola (KO) and the heirs of the founder collectively owning 44%, underscores long-term shareholder commitment.

Recent margin expansions, driven by economies of scale, strategic price increases, and operational leverage from territory acquisitions, have significantly strengthened its financial position. Moreover, COKE's robust free cash flow growth and net cash status enhance its capacity for further expansion and capitalize on growth opportunities. While potential risks such as competition, M&A activities, and revenue concentration exist, the company's historical resilience and strategic advantages make it a highly attractive investment. We view COKE as a long-term compounder, poised to consistently grow earnings and free cash flow, supported by its strong market position and substantial barriers to entry.

Exhibit 3: Coca-Cola Consolidated 2-Year Chart

Sources: Bloomberg, LionGuard Capital

- **IES Holdings (IESC)** – IESC, led by Jeffrey Gendell's Tontine Partners, which owns more than 50% of the stock, exemplifies exceptional capital allocation. Gendell's successful acquisition strategy focuses on acquiring small companies at lower multiples and has been effectively applied at IESC over the past decade with low or zero leverage and no stock dilution.

  With a very large Total Addressable Market (TAM), IESC has ample room for growth through accretive mergers and acquisitions. The company's significant size lends credibility in its service areas, and its low capital intensity and zero leverage further bolster its financial stability. The

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exemplary compensation structure aligns the interests of management with minority shareholders, incentivizing long-term EPS per share growth and mitigating potential dilution through the absence of "free" stock options. Headquartered in Houston, TX, with an executive office in Greenwich, Connecticut, IESC provides critical infrastructure products and services to key markets in North America. We acquired company's shares in January of this year after following the company for more than six years.

Exhibit 4: IES Holdings 2-Year Chart

Sources: Bloomberg, LionGuard Capital

- **Bombardier (BBD)** – Bombardier Inc., a Canadian multinational specializing in business jets, has undergone a significant transformation since becoming a standalone business jet franchise in early 2021. This strategic shift followed the divestment of its commercial aviation and rail manufacturing assets, which had burdened the company with substantial overhead costs and a $10 billion debt load. At that time, Bombardier's business aviation segment struggled under the weight of these legacy issues and the adverse effects of the pandemic. Historically, even before the pandemic, the business aviation division rarely reached its full potential, often reporting single-digit EBITDA margins despite offering competitive products.

  Fast forward to the present, Bombardier has made remarkable progress. Since 2020, the company has increased revenue at a 13% CAGR through 2023, driven by 11% growth in Aircraft Manufacturing and 21% growth in the Aftermarket segment. Adjusted EBITDA has grown at an 84% CAGR, with margins expanding by over 1,100 basis points to a historically high 15.3%. This significant improvement in financial performance has been recognized by the market, leading to strong share price appreciation and a recent valuation multiple re-rating.

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Looking forward, we view the business jet cycle positively due to recent backlog growth, restrained OEM production rates, and secular trends. We believe growth in earnings and margins will continue, supported by organic growth opportunities within Bombardier's more economically resilient aftermarket and defense businesses.

The company's solid book-to-bill ratio and the order for 244 aircraft from NetJets suggest a strong competitive position that will likely endure through the late 2020s. Most importantly, we do not foresee any capital-intensive projects in the near-term, which means that solid free cash flow generation will benefit shareholders. However, we are aware of likely forthcoming capital investments several years out, which must be properly reflected in DCF-based valuation. We encourage thoughtful investors to forego using EV/EBITDA valuation methodology, which does not incorporate future capital requirements, for Bombardier. Overall, over the next 1-2 years Bombardier should be on track to achieve an increasing margin profile while reducing its leverage. This financial strength should enable significant capital returns to shareholders through share buybacks and dividends.

- **Goeasy (GSY) -** In previous quarterly reports, we have shared our perspectives on Goeasy. Since then, GSY has delivered outstanding results and is well-positioned, in our view, to continue expanding its loan portfolio at a robust pace while maintaining profitable underwriting standards. Although the recent announcement of the planned departure of CEO Jason Mullins is unwelcome news, we believe that the efficient operations of Goeasy will persist under new leadership. We sincerely thank Jason Mullins for his remarkable tenure at Goeasy, appreciate his commitment to remain on the Board, and wish him great success in his future endeavors.

- **Lumine (LMN)** - We have also extensively discussed our views on Lumine, one of Canada's most exciting compounders and a spin-off from Constellation Software. We continue to believe that Lumine's vast addressable market, their capability to deploy capital at returns exceeding 25%, and the highly favorable capital deployment environment (with significant accretive capital deployments anticipated in the second half of 2024) are not fully reflected in the stock price. Companies with exceptional long-term capital deployment prospects should not be valued based on next year's multiples.

- **Colliers International (CIGI)** – Colliers International (CIGI) is a leading Commercial Real Estate (CRE) service provider. Founded by Jay S. Hennick in 1972, who currently serves as Chairman and CEO, Colliers has grown through strategic acquisitions and a spin-off in 2015 that separated its commercial and residential property management businesses. Operating in a highly fragmented global marketplace, Colliers stands out for its outstanding history of capital allocation and operational savviness, high insider ownership, and a unique corporate culture that attracts high-performing professionals. The company is well-positioned to capitalize on market weakness and improve its franchise via accretive mergers and acquisitions, having deployed a record amount of capital in M&A during 2022.

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Colliers operates under four segments: Outsourcing & Advisory, Investment Management (IM), Leasing, and Capital Markets. The first two segments provide stable, recurring revenue, while the latter two are more transaction-driven. The company's asset-light business model, high ROE and ROIC metrics, and ability to reinvest earnings at high rates of return underpin its financial strength. While current subdued commercial real estate transactions environment, due to price discovery issues, is negatively impacting profitability, this is a temporary phenomenon. Furthermore, there is a strong and growing pressure for both sides to make deals.

Colliers' margin expansion opportunities in its base business and growing IM division, which is likely to be spun out within the next few years (it will be a major catalyst for the stock), combined with a highly attractive valuation based on DCF, reinforce its status as a multi-year compounder with significant upside potential once near-term issues abate.

- **Badger Infrastructure (BDGI)** – Badger Infrastructure Solutions is North America's largest provider of non-destructive excavating services, started 2024 on a strong note with Q1 revenue of $161.6 million closely matching estimates and adjusted EBITDA of $29.2 million surpassing forecasts. The company's U.S. operations showed robust performance, with revenue per truck (RPT) in the U.S. increasing by 3% year-over-year, highlighting the positive impact of its sales strategy. Despite a slowdown in Canada due to project delays, Badger's adjusted EBITDA margin improved to 18.1%, the strongest Q1 result since 2019. Fleet growth expectations remain steady, with plans for 190-220 new builds and capital spending between $90-$130 million for the year.

  Badger's outlook is bolstered by significant industry tailwinds in the U.S., including increased infrastructure spending and anticipated heightened activity following the November presidential elections. The U.S. division, which accounts for approximately 80% of Badger's business, demonstrated very impressive results with a 19% year-over-year revenue increase and a substantial improvement in EBITDA margin to 19.7%. These positive trends underscore the effectiveness of Badger’s data-driven sales approach and suggest continued room for growth as new initiatives are rolled out. In contrast, Canadian operations (which account for less than 20% of the business) faced challenges with an 18% decline in revenue due to the delay of several large projects. However, the company expects sequential growth in Canada as these projects commence later in the year and into 2025.

  Although Badger has not yet proven to be a long-term compounder, under the current leadership and with strong and growing industry tailwinds, it is likely to grow its earnings per share at a faster pace going forward. Given the level of mispricing, vis-à-vis its intrinsic value, in our option Badger is a prime takeout candidate at these levels, potentially attracting interest from strategic buyers including Clean Harbors (which tried to buy the company in the past and which coincidentally just increased their Canadian subsidiaries’ credit facilities) and numerous other industry players. The company's strong execution in the U.S., positive industry tailwinds, strategic growth initiatives and room for higher margins, positions Badger favorably for earnings growth for years to come. Whether the company remains public entity for long is a bigger question, in our opinion, than its earnings trajectory.

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Focus on Compounding

We sincerely thank our esteemed partners for placing their trust in our ability to compound their capital. Our commitment remains steadfast: to seize the distinct opportunities presented by the irrationalities of the stock market and its various dynamics, aiming to acquire stakes in superior businesses at exceptionally favorable prices. This approach has proven its merit, as illustrated by our risk-adjusted returns.

We are excited about what the future holds and look forward to sharing our ongoing progress with you.

Sincerely,

Andrey Omelchak, CFA
President & Chief Investment Officer
LionGuard Capital Management

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