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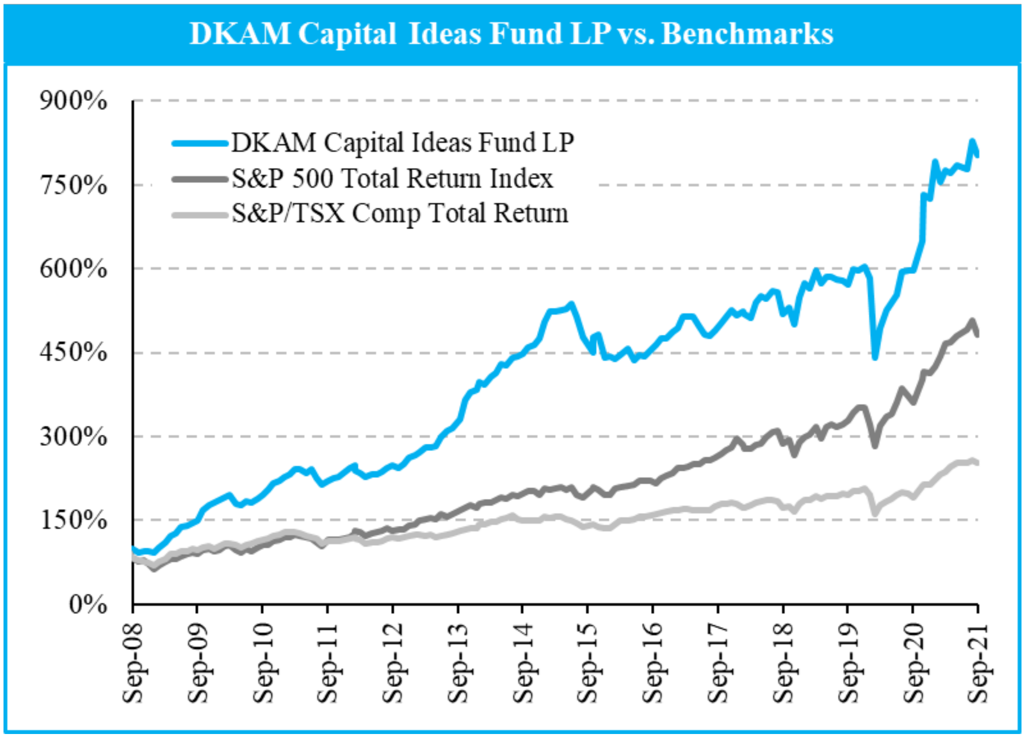
INVESTMENT ISSUES • STRATEGIES • INSIGHTS FROM DONVILLE KENT

True North Strong



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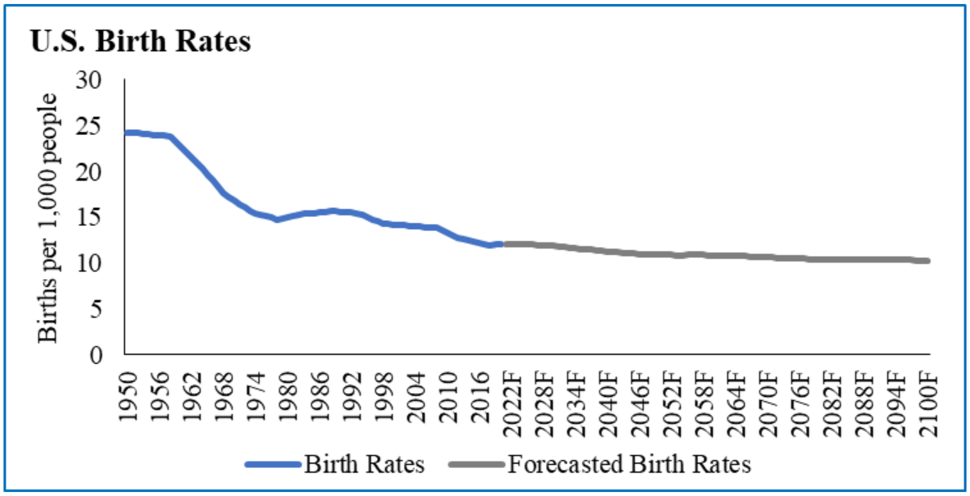
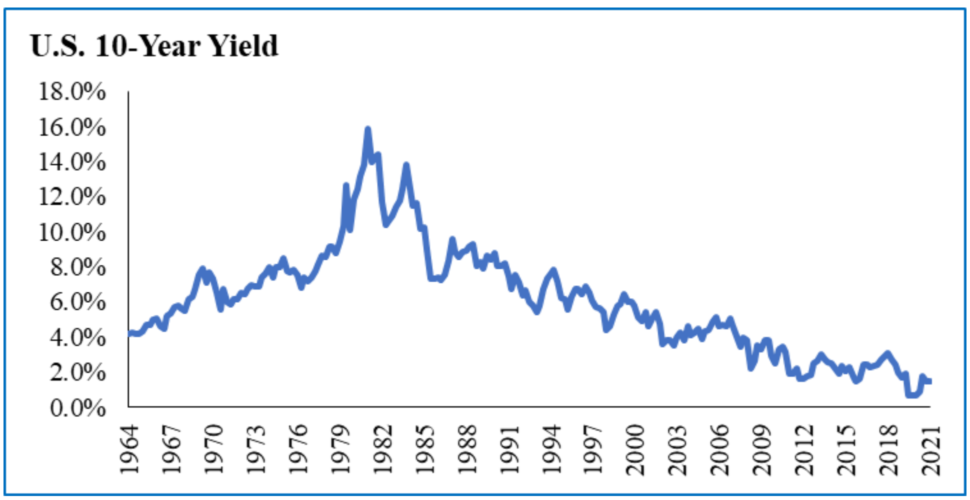
At an intellectual level, investors understand that market pullbacks and corrections are natural and to be expected. However, this rationale does not always hold true when a pullback or correction is actually happening. This recent pullback was stoked by the potential impact of Evergrande's financial crisis, the US government's attempt to raise or suspend the nation's debt ceiling, and economists' suspicions about the increasing likelihood of a rate hike by the Fed sooner rather than later. Broadly speaking, we feel the market was looking for an excuse to correct and these factors, coupled with seasonality, are an easy scapegoat. We predict a couple more weeks of choppy market activity followed by a shift to a major rally into year-end, propelled by negative seasonality shifting to positive seasonality, as well as the quelling of inflation fears and the unleashing of pent-up demand.

As a refresher, there is a sharp distinction between the economic impact of price shocks and persistent inflation. Supply chain issues and demand spikes are one-time events rather than continuous pressure forces. Case in point: corrections in many commodities and semiconductor chips are underway. Because inflation is a year-over-year comparison and in 2022, inflation gauges will measure 2022 vs. 2021. Looking ahead, we believe inflation in many categories will turn negative (deflation).

Since 1981, interest rates have been declining as the age of science and mass production has now shifted to the rise of digital technology.[1] In addition, we are seeing a declining pace of demographic growth.[2]





These two factors indicate that the headwinds facing rates should persist, emphasizing how critical it is to focus on growth, particularly growth that isn't dependent on GDP growth or growth that isn't relegated to certain macro environments. In other words: investors need to concentrate on compounders. Software companies do not rely on GDP growth or population growth to be successful. Plus, they do not grapple with supply chain challenges and their long-term growth prospects are absolutely inevitable (unlike the Russian roulette of

[1] Bloomberg.
[2] United Nations – World Population Prospects.

investing in cyclical businesses). We anticipate that the software industry will continue to be an investment priority for years to come.

Team Canada!

The DKAM Capital Ideas Fund is geographically agnostic between Canada and the US. However, most of the tech companies capturing our attention are based in our own backyard. Canada has become a global tech hub as public and private investment continues to flood Canada's tech sector. Toronto tech funding has soared to a new record in every quarter of 2021 so far, including the record $1.64 billion raised by Toronto startups in Q3 2021.[3] As of the end of Q3, Toronto startups have raised a cumulative $4.1 billion this year, exceeding the total investment raised in 2020 by 281%.[4] These statistics are staggering in the best possible way.

The Toronto-Waterloo tech ecosystem is now globally recognized and for good reason. University of Waterloo startups rank second in North America for investor ROI.[5] A new report from a US platform for investors and startups has found that ventures founded by Waterloo alumni produce a higher-than-expected return on investment than their counterparts at Stanford, MIT, and Harvard.[6] Notably, University of Toronto and McGill University also ranked in the top 20 for investor ROI in North America.[7]

We continue to meet outstanding companies coming out of The Great White North, spanning a wide range of verticals, including fintech and AI. We are also seeing an emerging trend of "rent now, pay later", similar to the "buy now, pay later" trend. The pipeline of IPOs in Canada's tech scene is strong and we are excited to capitalize on the most compelling opportunities.

[3] Betakit, "In Q3, Toronto startups broke venture funding records… again" (October 25, 2021).
[4] Betakit, "In Q3, Toronto startups broke venture funding records… again" (October 25, 2021).
[5] Waterloo News, "UWaterloo startups rank second in North America for investor ROI" (August 23, 2021).
[6] Waterloo News, "UWaterloo startups rank second in North America for investor ROI" (August 23, 2021).
[7] Waterloo News, "UWaterloo startups rank second in North America for investor ROI" (August 23, 2021).

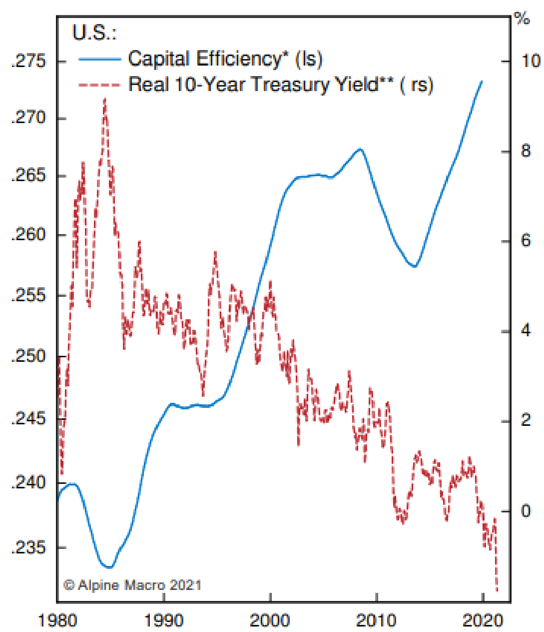
“Venture capital rounds are being raised faster than most of us have ever experienced, across every stage… It’s worth noting that the companies being funded are oftentimes warranting quick fundraises because of their quality. What I see in today’s early-stage market is more companies with impressive fundamentals such as revenue growth, retention, strong unit economics, and quality teams than I’ve ever seen before.”

“My friends focused at the later-stage say the same thing — that while companies are getting funded quickly and at higher valuations, the quality of businesses they’re seeing has gone up too, and of course, as stated above, the data on the size of exits going up backs up this anecdotal data as well.”

- Nikhil Basu Trivedi, General Partner at Footwork (VC firm)

Stack ’em up

We are passionate about software businesses and in this issue of the ROE Reporter, we will dive into a specific aspect of the software business: tech stacks. Simply put, a tech stack typically consists of programming languages, frameworks, a database, front-end tools, back-end tools, and applications connected via APIs. Think of each piece as a building block, and these building blocks all work together to deliver a solution.



*Real GDP divided by capital stock; shown as 5-year moving average
**Deflated by core PCE inflation

The reality is that many businesses today, especially small businesses, still lean heavily on traditional software like Microsoft Outlook and Microsoft Excel (or even pen & paper) to run their operations. They don’t understand the big picture benefits of switching to tech stacks and that layering pieces of software can be incredibly multiplicative and not strictly additive to productivity. A quick glance at capital efficiencies since the 1980’s and it is immediately apparent that companies today are doing much, much more with much, much less and we're seeing *a lot* more room for improvement.[8]

We chatted with the CEO's of selected portfolio companies about tech stacks and improving productivity and here's what they had to say on how layering can dramatically boost a business:

SANGOMA

"More than ever before, companies are faced with a growing need for productivity, often operating with fewer staff (especially during the pandemic) and/or staff working remotely. Equipping a business with the right kinds of 'productivity software', can offer a huge benefit under these circumstances. However, one challenge in so doing, is the number of software applications that are used in a company, and more precisely, the integration of such programs so they work together elegantly."

"While simply having such tools is a big step in the right direction, using such software in an un-integrated manner, often results in low employee engagement and lower productivity, two things that managers and owners care very much about. What makes Sangoma unique is that we unify all of our customer's communication and collaboration tools, in a single, integrated SaaS suite."

- Bill Wignall, CEO of Sangoma

wishpond

"For small businesses, scaling the founder's time can be one of the biggest levers of growth. That's why savvy business owners understand the importance of automating repetitive tasks and using technology to free up time in their calendars. Wishpond's software is designed to alleviate this pain…business owners are able to spend more time working on the things that matter to them and less time on tedious follow-ups, searching through their email, and missing important calls that could result in new business."

- Ali Tajskandar, CEO of Wishpond

[8] Alpine Macro, "ZIRP Forever?" (July 6, 2021).

mediavalet

"Digital asset management is the future foundation of all organizations' IT stacks – not just those of marketing departments. The accessibility, security and continuity of organizations' digital assets can no longer be ignored, as doing so is severely hindering organizations' overall performance and their ability to scale effectively."

- David MacLaren, Founder and CEO of MediaValet

Kneat

"Kneat.com has helped multiple businesses that have said the software has had substantial impact on the business by enabling more right-first-time, greater productivity, shorter cycle times and a higher compliance standard."

"One client noted that by going fully electronic, they reduced the number of manual and paper-based validation process steps by 60% and the results are impressive: productivity improvements of more than 100%, cycle time reductions of more than 60%, as well as major improvements across site alignment, validation quality, and compliance. Another client saw 65% reduction in labour hours per product."

- Eddie Ryan, CEO of Kneat.com

The examples above illustrate just how powerful a software partnership can be. Companies are beginning to realize the power of implementing the best-in-class software solutions.

Furthermore, we continue to be impressed by the number of technologies that can join forces in a single tech stack. VerticalScope, an operator of a cloud-based digital platform for online enthusiast communities in high-consumer spending categories, partially attributes its success to its leveraging of more than 18 different best-in-class infrastructure and commercial software.

Naturally, many online-first or strictly SaaS based businesses are the early adopters of new technology. That being said, the benefits of combining all of these technologies goes well beyond technology companies and is why we are so early on in this eventuality. An excellent example is RediShred (KUT), which is based in Toronto and provides shredding and document scanning services in the US. Sure, it’s not a particularly glamorous business, but it is one that has grown revenue at a 28% CAGR over the last five years while improving EBITDA margins to more than 30%, on par with some of the best well know technology companies. One of the reasons RediShred has scaled so efficiently is the implementation of its own technology stack.

REDISHRED CAPITAL CORP. Technology Stack

OUTCOMES	Increased leads	Increased cash Increased accuracy Reduced time	Increased safety Reduced time	Increased accuracy Increased cash	Increased sales	
OUTPUT	Reports Communication	Reports Tickets Routes	Routes Reports	Reports Transactions	Communication	
USERS	Sales	Operations Accounting	Operations	Accounting	Everyone	
TOOLS	SharpSpring CRM/MA	DHS Workflow	Samsara/Nextraq Telemtric	GP / QB Accounting	3CX / Other Phones	**INTEGRATED**
FOUNDATION	Microsoft 365 Security · Stability · Access · Speed · Integration Easy to support. Easy to train. Easy to communicate.					
	Firewall					
	Hosted platform					

REDISHRED CAPITAL CORP.

> “The key here is make it easy for our clients, internal and external, make it easy to transact business, make it easy to see data, make it secure, fast and reliable. We have begun this journey, and it is a never-ending one.”
>
> \- Jeff Hasham, RediShred CEO

What are the implications from an investing standpoint? This means that we are still in the very early innings of software implementation and tech stack construction. These types of B2B software solutions are where Donville Kent spends its time. Growth in this sub-sector of software will continue to ramp up and we will see years and years of dramatic growth.

Hot offW the press

We are always on the hunt for new, under-the-radar compounders. Here are two companies (one that just went public and one that is just about to go public) that have captured our attention:

Propel Holdings (PRL) is an online lending platform that facilitates access to credit products (including installment loans and lines of credit) under the MoneyKey and CreditFresh brands to underbanked American consumers. The platform is driven by its in-house technology that enables 88% of credit approval decisions to be made automatically. With employees split between Toronto and Winnipeg, Propel Holding has over 380 employees in Canada, including a 30-person tech team in Toronto.

We participated in the Propel Holdings IPO in October 2021, and of all our portfolio companies we believe this company has the greatest potential upside over the next 12 months. A lot of this upside is driven by the valuation difference between itself and competitors. This discount should prove to be temporary as the stock becomes better known receives its first analyst coverage. When it comes to attributes of a potential multi-bagger, Propel Holdings checks the boxes:

- ✓ Founder-run with significant inside ownership
- ✓ Founders have started, grown, and sold a similar business
- ✓ Founded in 2011, the company has been profitable since 2015 and margins continue to improve
- ✓ Small enough size to have long runway for multi-year elevated growth
- ✓ Priced extremely cheap on 2022 estimates; well-capitalized for growth
- ✓ Forecasting close to 100% growth in both revenues and EBITDA in 2022

Pluribus Technologies was founded in 2018 with the goal of consolidating smaller players in the B2B software industry. We participated in the company's private capital raise and intend to add to our position when the company goes public in the next couple months.

We are excited about Pluribus and see many similarities with Constellation Software (CSU), which we invested in at $20 in 2009 and continue to hold today at $2,242.80. Like CSU, Pluribus acquires small software companies ($1-$10 million of revenue) and wins deal by being vendor-friendly and by keeping management teams engaged. Although Pluribus is focused on slightly different verticals than CSU, the company has been able to generate comparable margins in the 30%+ EBITDA range. Pluribus recently hired a new CFO who previously spent nearly a decade closing acquisitions at the long-time compounder, Enghouse Systems. We have always deemed Enghouse to be an incredibly astute acquirer and we are confident this new CFO will help Pluribus scale and complete at least one deal per quarter to scale M&A activity as the company grows. Furthermore, Pluribus is starting out as a small cap company at a discounted valuation, just like CSU used to be. Based on our estimates, Pluribus should be able to grow at a faster rate than other consolidators, such as CSU and Enghouse, while also having a projected stock price at half the multiple.

Final thoughts

Our advice to investors is to stay focused on the direction of fundamentals: revenue growth, as well as the direction of margins and earnings growth. Fundamentals drive long-term performance and we are seeing incredible momentum in our portfolio companies' reported earnings. We eagerly await for our portfolio companies to announce their Q3 earnings in the coming weeks, which should prove to be one of the strongest quarters of 2021 and stocks should react accordingly. With a mere eight weeks left of the year, we are seeing green shoots throughout the economy and are quite positive on the direction of the market for the end of 2021 and into 2022.

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All estimates, projections, and calculations have been generated by DKAM. This does not constitute advice for personal investments but rather a breakdown of how Donville Kent approaches stock analysis.