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INVESTMENT ISSUES • STRATEGIES • INSIGHTS FROM DONVILLE KENT

Luck vs. System

Since our last monthly commentary (HERE), the tariff headlines have made a comeback. We haven't fundamentally changed our outlook on the market and investment strategy in a market like this. Our focus remains on knowledge-based industries. The majority of our investments aren't selling physical products. Instead, they are providing a service, like software, surveillance, power, financing, etc. These business models make the tariffs, cross provincial trade, and international trade all much easier issues to deal with. We still wouldn't be comfortable investing in companies directly exposed to tariffs because how do you value a business without knowing what its expenses are going to be?

After performing extremely well in 2024, the political environment has given people an excuse to pause and trim stocks. However, after receiving Q4 '24 and Q1 '25 earnings results, we've increased our 2025 earnings projections for a majority of our investments. We remain focused on the fundamentals at the company level which leads us to have a positive outlook on the rest of the year.

From a macro perspective, one dynamic we would like to speak to is interest rates and their impact on stocks. A majority of countries are now cutting interest rates as inflation has subsided, and the focus has shifted to balancing employment risks with price risks. The main point to hammer home is the impact rates have on asset values. In 2022, as rates rose at the fastest rate in history, companies were reporting record revenue and earnings, but their stock prices declined. This was due to:

1. Higher "risk-free" rates attracted more capital into bonds/debt instruments
2. Higher interest expenses reduced earnings for companies carrying debt
3. Interest rates are an input in the denominator for the common formulas used to calculate asset values, so as they rise the result is a lower asset value. Currently, rates are declining and should support higher asset values.
    a. An interesting experiment you can do is take a generic DCF (Discounted Cash Flow) and raise and lower the discount rate (interest rate). Using broad generalities, lowering interest rates by 1% supports a 10% increase in asset values. This is why the economy can be weakening but stock prices can be strong. We expect lower

interest rates in Canada (less so in the US) to support the market more than the weakness from trade will hurt the market.

These three forces are now reversing around the globe, and besides the projected growth in earnings, the direction of rates is the next most important aspect supporting stock prices.

THE ULTIMATE GUIDE TO MODERN 10-BAGGERS

RiskHedge recently published a report with the tagline "How to find the next 1,000% gainer without getting lucky".[1] They studied every US stock in existence over the last 20 years in order to find what these companies had in common. We've included the link to their report in the endnote.

The 20-page report on finding 1,000% investment returns can be summarized as follows:

- Companies with sustainable revenue CAGR growth of at least 20%
- Company has a market cap above $200 million but below $20 billion. Share prices tend to be under $20/share
- The company is either profitable or "intentionally unprofitable" due to aggressive reinvestment growth
- The company concentrates in technology, especially platform technologies
- **"Less than 1% of stocks share all 4 traits."**
- "The basic premise: find fast-growing companies that can sustain revenue growth, are profitable and aren't overvalued. Do this, and your odds of finding a big winner skyrocket."

The type of company this report is truly studying is what you have heard us refer to as "compounders". Their report was based on the US market so we're going to apply our knowledge and experience with what we have seen in the Canadian market.

The term "lucky" can play a role in investing just like anything else. There are many stories of large investment returns based on events like drug breakthroughs, or gold and oil discoveries. We view this type of investing similar to playing the lottery. Sure, someone wins the lottery, and it could be you, but you have to be extremely "lucky".

Investing in a stock that appreciates +1,000%, referred to as a 10-bagger (+10,000% is a 100-bagger etc), sounds unrealistic on its face but it can be much more systematic than one would assume. You don't have to be lucky, but you do have to be patient.

To start, we'll highlight a few Canadian companies. This isn't an exhaustive list but illustrates the point of starting size, holding period, growth and profitability. *(The timeline ends when growth or margins no longer meet the criteria or the company is acquired)*

Company	Timeline	Starting Market Cap	Ending Market Cap	Average Revenue Growth	Average Profit Margin
Paladin Labs	2004-2013	$72M	$1,442M	28%	38%
Carfinco	2004-2015	$34M	$298M	28%	26%
MTY Food Group	2006-2018	$122M	$1,651M	28%	22%
Constellation Software	2008-2025	$448M	$103,268M	25%	22%
Boyd Automotive	2011-2021	$136M	$3,389M	24%	5%
Photon Control	2013-2021	$26M	$331M	31%	21%
People Corp	2014-2021	$108M	$1,094M	31%	14%
GoEasy	2014-2025	$267M	$2,490M	19%	14%
Average	10.6 years	$152M		27%	20%

The common denominator for the companies listed above is compound growth and time. The companies started small, grew consistently and profitably for a long time, providing significant returns for shareholders.

Our experience in finding long-term winners can be summarized as:

1. Invest in companies growing revenue +20%
2. Invest in companies that are highly profitable
3. Invest in these companies when they are small (<$500M market capitalization)
4. Pay a cheap/fair multiple (valuation)

After checking these boxes comes the analysis to make sure the runway for growth is long enough.

1. Can they reinvest their profits back into their business at +20% ROE
    a. This is an important qualifier because some companies may check the other boxes but they're just price takers and not capital allocators. We've found that growth isn't sustainable without being able to reinvest back into the business at high rates of return. Having high profit margins is a strong signal for having a defendable moat.
2. Is their opportunity large enough to support this growth for 10+ years (total addressable market).

If we can find businesses that have all these traits, then the chances are we have a potential 10-bagger.

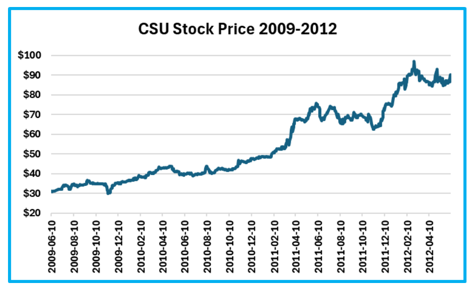
Two important points to consider.

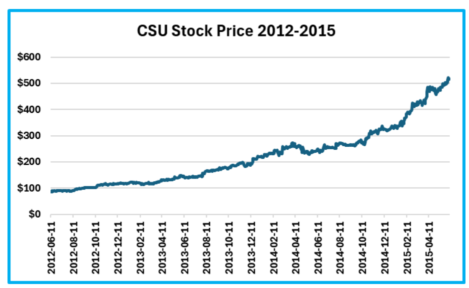
One, compound growth is wonderful, but it takes time. Exponential growth is back-end loaded and rewards those investing for the long-term.

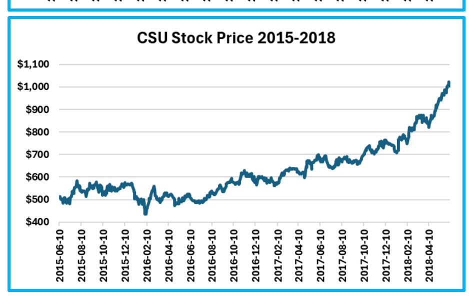
Two, if a company is executing and achieving these targets, then the stock will increase over time. There are people who will look at a successful stock price chart and feel like they've missed the investment opportunity even if it's in the early stages of growth.

We highlight Constellation's historical revenue and income growth from 2009-2024 below as a great example. This is the high, reliable, and stable growth everyone should be looking for. We've broken out CSU's stock price chart over 3 different multi-year periods. When looking at these charts, something in our mind makes us feel like we've missed out on the opportunity. However, the stock goes from ~$20/share in 2009 to over $5,000/share in 2025. Investing anywhere along that timeline led to a great outcome.

CSU Historical Growth		
Date	**Revenue Growth**	**Income Growth[2]**
2009	32%	17%
2010	45%	24%
2011	22%	13%
2012	15%	14%
2013	36%	22%
2014	38%	54%
2015	10%	26%
2016	16%	17%
2017	17%	17%
2018	23%	28%
2019	14%	19%
2020	14%	25%
2021	29%	23%
2022	30%	13%
2023	27%	30%
2024	20%	22%
2025*	17%	17%
2026*	17%	21%
Average	**23%**	**22%**







WHICH ONES ARE NEXT

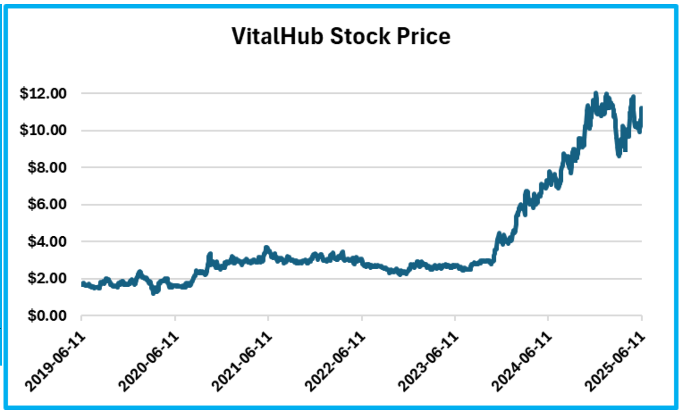
We obviously start with companies that will grow +20% per year reliably, are profitable (preferably highly profitable), trade at a fair/cheap valuation, and are still small. As mentioned, less than 1% of stocks check these boxes but we list four below that are our highest conviction investments and believe they could have significant long-term returns.

Company	Timeline	Stock Price	Current Market Cap	Average Revenue Growth	Average Profit Margin
VitalHub	2019	$11.13	$621M	38%	22%
Propel Holdings	2021	$34.23	$1,330M	51%	11%
Enterprise Group	2021	$1.63	$126M	25%	24%
Zedcor	2022	$3.50	$364M	52%	20%
Average			$610M	42%	19%

If you want to read more of our analysis on these companies, please refer to HERE, HERE, and HERE.

VitalHub (VHI)

Date	Revenue Growth	Income Growth[2]
2019	12%	25%
2020	35%	20%
2021	79%	67%
2022	62%	183%
2023	31%	45%
2024	31%	44%
2025*	31%	36%
2026*	25%	37%
Average	**38%**	**57%**

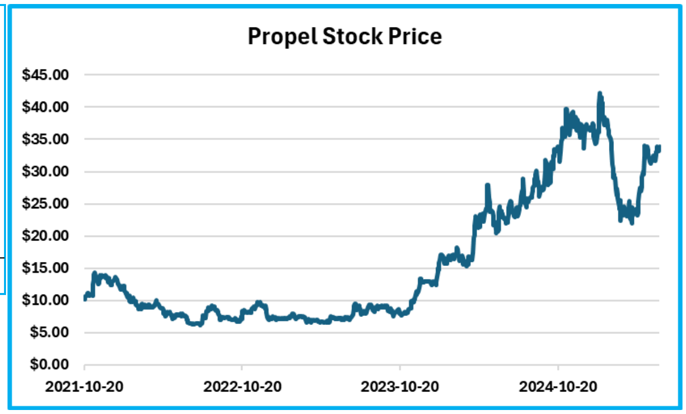


VitalHub recently reported a phenomenal quarter. In addition, their acquisition of Induction is set to close ahead of schedule, which will increase VHI's revenue by ~30%. Also, factor in their large cash balance and no debt, we expect additional M&A imminently. The stock price was weak in May, and we heard a few "reasons", but they were all just trying to fit a narrative to the stock price. We have been using the pullback in the stock as a buying opportunity.

Since day one of meeting VHI, they have executed extremely well and like similar long-term compounders, the exponential growth doesn't get the respect it deserves. If VitalHub doesn't get acquired along the way, we can see them becoming our next 100-bagger, which seems like an aggressive statement, but the systematic math supports it.

Propel Holdings (PRL)

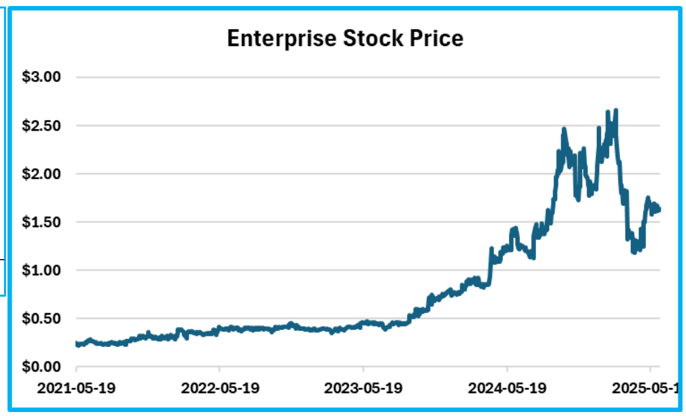
Date	Revenue Growth	Income Growth[2]
2021	78%	5%
2022	76%	96%
2023	36%	84%
2024	42%	67%
2025*	50%	100%
2026*	26%	41%
Average	**51%**	**66%**



Propel's growth continues to be impressive as they expand their product offering as well as geographic reach. Their capital allocation decisions have done a great job balancing top line growth with growing profit margins as well as increasing their dividend.

Enterprise Group (E)

Date	Revenue Growth	Income Growth[2]
2021	21%	26%
2022	44%	67%
2023	25%	61%
2024	3%	-1%
2025*	28%	36%
2026*	29%	37%
Average	**25%**	**38%**



Enterprise announced the acquisition of Flex Energy Canada for $20M. We see this as an extremely important move as they now have exclusivity for the technology across Canada, but they also received current assets generating relatively significant earnings.

With Enterprise now having full exclusivity, they get high margin and recurring service contracts for ~60 permanently installed Flex units. The deal they made is even more attractive since they received 17 turbines that would have cost them ~$12M, plus these turbines are already under contract and bringing in cash.

This deal is similar to how Toromont (TIH) & Finning (FTT) have exclusive contracts for Western and Eastern Canada to supply and service Caterpillar equipment. The service revenue is exclusive, sticky, and has high margins.

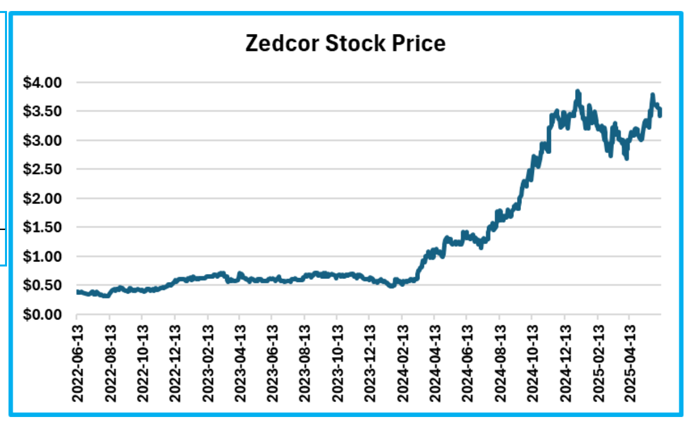
We'll highlight one example of the ~60 permanent Canadian installations of Flex's nat gas turbines that illustrate the potential for Enterprise. One of the Flex installations is in Grand Prairie, Alberta, and the turbines power the local recreation centre which has been operational long enough to have real performance data.[3] The Grand Prairie Eastlink Centre is powered by two 333 kWh Flex turbines that offload 5M kWh strain for the local electrical grid. In addition, it reduces emissions by 849 tons of carbon dioxide per year and reduces the rec centre's energy costs by $336k/year. These turbines are a phenomenal ROI for the rec centre strictly based on savings and without factoring in reduced emissions and eliminating demand on the local electrical grid. This example reinforces the win-win dynamic for the end user, and Enterprise should see significant demand across industrial sites, data centers, and energy companies.

Figure 1 - Flex Energy's turbines running the power for Grand Prairie EastLink Centre[3]

As Enterprise continues to scale and diversify end markets, the company will be viewed as a power/infrastructure business. We expect to hold this investment for years to come and it checks all the boxes of the next potential 10-bagger.

Zedcor (ZDC)

Date	Revenue Growth	Income Growth[2]
2022	63%	93%
2023	13%	34%
2024	33%	46%
2025*	80%	104%
2026*	71%	89%
Average	**52%**	**73%**



We've included a simplified financial model of Zedcor below. They recently started to breakout Canadian versus US operating groups in their financials. This is notable because the Canadian business is more established and "built-out", while the US business is in "expansion" mode. The Canadian business grew 40% in Q1 2025 with +60% EBITDA margins!

As the business scales across the US, overall profit margins of the business should continue to grow, so earnings should grow at a much faster clip than revenue.

Our model focuses on Cash Earnings, which is cash the business generates that can be re-invested back into the business at +40% IRRs. *The accounting treatment of depreciation versus the reality of necessary maintenance capital expenditures is an adjustment that needs to be made in order to get real cash earnings.*

Zedcor Financial Projection Summary

	2021	2022	2023	2024	2025E	2026E	2027E	2028E
# of Towers	265	506	825	1337	2700	4600	7000	10000
Growth YoY	*70%*	*91%*	*63%*	*62%*	*102%*	*70%*	*52%*	*43%*
Revenue ($M)	14	22	25	33	63	113	170	238
Growth YoY		*63%*	*13%*	*33%*	*91%*	*79%*	*50%*	*40%*
Gross Profit	8	13	16	24	46	84	129	181
Gross Margin	*57%*	*58%*	*63%*	*73%*	*74%*	*74%*	*76%*	*76%*
G&A	4	6	8	12	24	41	61	83
Lease Payments	2	2	2	4	4	5	6	7
Adj. EBITDA	2	5	5	8	18	38	62	91
EBITDA Margin	*17%*	*23%*	*20%*	*25%*	*29%*	*34%*	*37%*	*38%*
Interest Expense	2	1	1	2	1	4	6	7
Tax Expense	0	0	0	0	1	1	6	8
Maint Capex	*0*	*0*	*1.0*	*0.4*	*0.8*	*1.4*	*2.1*	*3.0*
Cash Earnings	1	4	3	6	16	32	48	73
Growth Capex	6	9	13	21	49	70	82	108

**DKAM Estimates*

Zedcor Projected Valuation Metrics

Valuation	
Stock Price[4]	$3.60
Market Cap[4]	$373M
2026 EV/EBITDA*	9.8
2027 EV/EBITDA*	6.0
2028 EV/EBITDA*	4.1
2026 P/Cash Earnings*	11.6
2027 P/Cash Earnings*	7.8
2028 P/Cash Earnings*	5.1

* DKAM Estimates

We normally wouldn't present valuation metrics like this but we're illustrating how cheap a high-quality business can be if they continue to compound. We experienced this over the years with Constellation Software, where the main criticism was that the stock was expensive, but if you were to project ahead 2-3 years, it would be cheap again. So, the stock might be stagnant from time to time but then time passes and people are able to see what was two years ahead of them is now in front of them.

Another way to explain this systematic way to investing is if Zedcor hits these 2027 estimates, or is anywhere close, that the stock will still be trading on 7x 2027 earnings. If they just posted 50% growth in earnings, you'd think the stock would realistically be trading on at least 20x earnings, which implies 233% stock appreciation from now until then.

We hope Zedcor doesn't get acquired before reaching its potential which is more than a 10-bagger from here. Considering its quality, size, and outlook, we expect an uplisting to the TSX in the coming year.

Final Thoughts

Less than 1% of companies share the 4 starting traits we're looking for, but *lucky* for us, we only need to invest in a small amount of compounders in order to get great long-term returns. We believe we're in the early stages of many of our compounders and we're always on the outlook for the next ones.

Regards,

Sincerely,

Jason & Jesse

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1 The new rules of finding the next 10-baggers article found here
2 Internal DKAM estimates for 2025 and 2026 growth
3 https://www.flexenergy.com/2024/08/27/clean-combined-heat-and-power-from-flex-turbines-power-grand-prairie-eastlink-centre/
4 As of June 11, 2025