STERN IAG

Board of Advisors Meeting

March 12th, 2024

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Letter from Portfolio Managers

Dear Board of Advisors,

Welcome back to our first meeting of the 2024 spring semester! Over the course of winter break, each of our analysts have worked independently to bring in a new pitch of their own. Throughout this first month of the semester, we have screened, discussed, and conducted further research on these winter pitch ideas, while also looking to re-examine and re-pitch a number of the older, core positions in our portfolio that were passed down by graduating analysts, which has led to meaningful reallocation in our portfolio going forwards. In addition, we have concluded our new class recruiting efforts for the semester, and would like to welcome six new trainees: Samyukta Banthia, Aditya Gupta, Darren Lou, Boid Nako, Aman Nimse, and Samuel Pan.

Since our last meeting in mid-December, the market has performed extremely well, with the S&P 500 and Russell 2000 returning ~8% and ~10% respectively. While the risk of a recession is still present, it seems that overall prevailing expectation in the market is for a "soft landing" in 2024, as the consumer remains resilient, mortgage rates persist downwards, and earnings continue to outperform expectations across the board. None of these trends are new, though we believe that the risk appetite and overall bullishness of the average retail investor has increased significantly relative to last year, which can be seen through the incredible performance of cryptocurrencies such as Bitcoin (up ~50% YTD). The strong performance of the broader market has also buoyed returns in the IAG portfolio, but we intend to stay vigilant in tracking the positions in our portfolios from a fundamental basis to ensure that we are holding our best possible set of ideas.

In 2023, the IAG portfolio performed extremely well, returning 35.5% compared to the S&P 500's 26.3% and the Russell 2000's 15.2%. Year to date, the IAG portfolio has also performed well with returns of 9% compared to the S&P 500's 7.7% and Russell 2000's 3%. Performance has been driven by a mixture of new and old names such as United Rentals (19% YTD), Transdigm (17% YTD), and Flex (~34% YTD).

Today, we are looking to sell two of our existing positions, Camtek (NASDAQ:CAMT) and ZTO Express (NYSE: ZTO), while also proposing the addition of one position to our portfolio:

1. Medical Facilities Corporation (TSX: DR): A high-quality, specialty surgery hospital operator trading at 7.5x FCF with significant upside optionality via sale of assets over the next 3-18 months.

Finally, we would like to note that this will be our final oversight meeting as the portfolio managers for IAG. We have learned a lot throughout our term and are excited to welcome Nihir Addla and Sherry Hu as our new portfolio managers starting in April. The two of us have truly enjoyed working with the Board of Advisors and are extremely grateful for your support and guidance over the last year!

Best,

Nithin Mantena and Winston Yin

Portfolio Managers

II. Performance Analysis

Returns Summary *(as of March 10th, 2024)*

Period	IAG's Returns	S&P 500 Returns	Nasdaq 100 Returns	Russell 2000 Returns	MSCI World Returns
Q1 2021	9.7%	7.5%	3.5%	14.1%	6.2%
Q2 2021	13.8%	7.8%	9.3%	3.4%	5.4%
Q3 2021	0.2%	1.2%	1.6%	(3.8%)	(0.8%)
Q4 2021	14.4%	9.8%	10.5%	(0.1%)	5.0%
2021	**43.1%**	**28.8%**	**26.9%**	**13.5%**	**16.6%**
Q1 2022	(10.0%)	(4.3%)	(9.0%)	(6.8%)	(5.1%)
Q2 2022	(15.0%)	(15.5%)	(22.0%)	(17.3%)	(15.9%)
Q3 2022	(1.1%)	(5.9%)	(5.3%)	(3.7%)	(7.9%)
Q4 2022	10.3%	7.6%	(0.4%)	5.6%	9.1%
2022	**(16.5%)**	**(18.2%)**	**(33.0%)**	**(21.6%)**	**(19.8%)**
Q1 2023	12.0%	7.4%	20.5%	2.4%	7.4%
Q2 2023	10.4%	8.8%	15.1%	4.9%	5.2%
Q3 2023	(7.0%)	(3.2%)	(3.0%)	(5.5%)	(3.7%)
Q4 2023	17.9%	11.7%	14.3%	13.5%	10.2%
2023	**35.5%**	**26.3%**	**53.9%**	**15.2%**	**19.9%**
YTD 2024	**9.0%**	**7.7%**	**7.2%**	**3.0%**	**6.2%**
Annualized Return (21' to 23')	**17.4%**	**10.0%**	**9.3%**	**0.8%**	**3.9%**
Total Return	**61.9%**	**33.1%**	**30.7%**	**2.5%**	**12.2%**

IAG has compounded its returns at 17.4% from 2021 to 2023 compared to the various benchmarks which have returned anywhere from 10% (S&P 500) to .8% (Russell 2000).

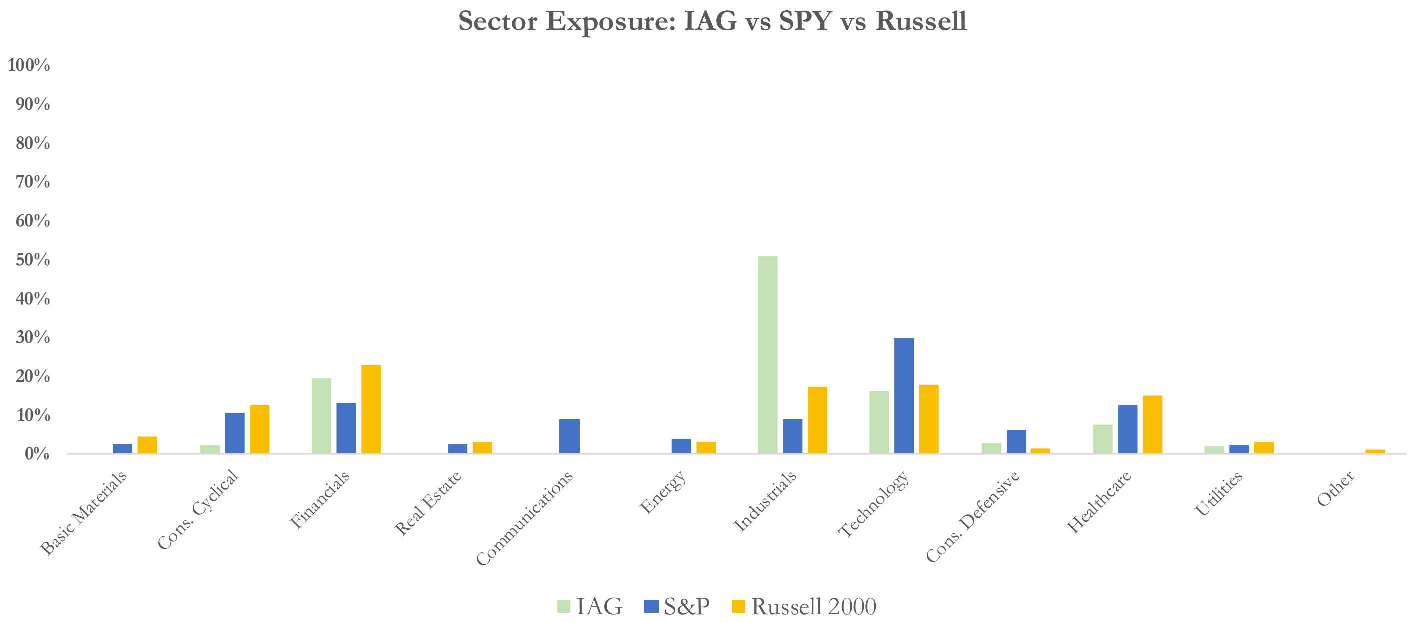
Originally, IAG benchmarked its returns against the S&P 500 as this was the most likely alternative investment for the Stern endowment. In 2022, we then added in the Russell 2000 as an additional benchmark due to the IAG portfolio skewing towards smaller cap companies.

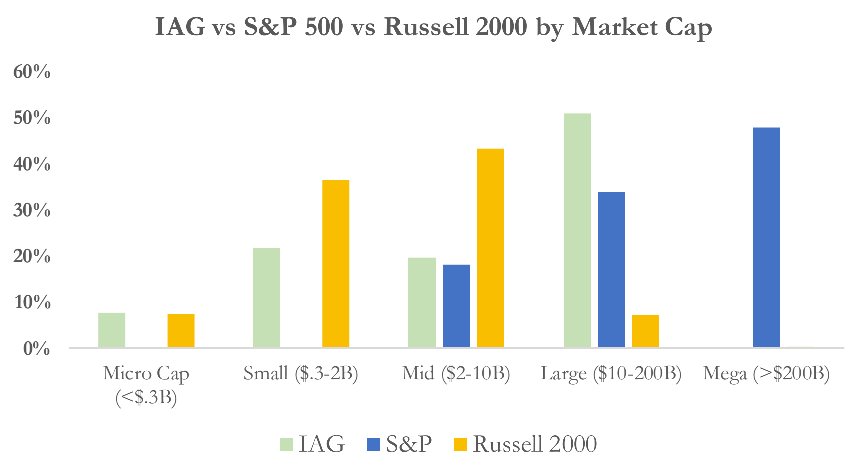
For the first time, IAG will be including the Nasdaq 100 and the MSCI World Index in our returns analysis. Our goal is to beat all of the most common benchmarks over an extended period of time.

Holdings Summary *(as of March 10th, 2024)*

Current Holdings											
Company Name	**Ticker**	**Coverage**	**Date of Purchase**	**% of Portfolio**	**Share Count**	**Price At Purchase**	**Share Price**	**Current Return**	**Beta**	**Industry**	**Holding Type**
American Coastal Insurance Corp.	NASDAQ: ACIC	Aryann G.	11/10/2023	**7.81%**	1101	8.18	10.04	22.76%	0.8	Financials	**Core**
APi Group Corp	NYSE: APG	Rohit D.	9/24/2020	**4.40%**	160	14.29	38.93	172.4%	1.5	Industrials	**Core**
Berry Global Group Inc	NYSE: BERY	Aryann G.	12/2/2020	**2.13%**	50	54.6	60.32	10.48%	1.2	Industrials	**Core**
Builders FirstSource Inc	NYSE: BLDR	Nihir A.	10/5/2021	**11.30%**	80	52.2	199.8	282.8%	2.4	Industrials	**Core**
Camtek LTD	NASDAQ: CAMT	Nithin M.	10/7/2022	**4.92%**	90	22.07	77.34	250.4%	1.0	Technology	**Core**
Conrete Pumping Holdings	NASDAQ: BBCP	Alex I.	3/26/2021	**1.65%**	300	7.07	7.80	10.33%	1.2	Industrials	**Core**
Credit Acceptance Corp.	NASDAQ:CACC	Pravar J.	5/15/2023	**3.54%**	9	429.2	556.5	29.67%	1.3	Financials	**Core**
East West Bancorp	NASDAQ: EWBC	Nihir A.	10/30/2023	**4.07%**	75	53.61	76.82	43.29%	1.4	Financials	**Core**
Embecta Corp	NASDAQ: EMBC	Sherry H.	10/7/2022	**1.46%**	150	28.05	13.77	-50.91%	1.5	Healthcare	**Core**
Exelon Corp	NASDAQ: EXC	Kush M.	4/30/2021	**1.83%**	70	31.74	36.96	16.45%	0.6	Utilities	**Oppt.**
Flex Ltd	NASDAQ: FLEX	Kush M.	10/5/2021	**7.06%**	335	18.58	29.82	60.50%	1.4	Industrials	**Core**
HCA Healthcare Inc	NYSE: HCA	Karen P.	9/26/2019	**4.37%**	19	120.0	325.37	171.2%	1.6	Healthcare	**Core**
JD.com Inc ADR	NASDAQ: JD	Nithin M.	4/30/2021	**0.70%**	40	77.55	24.75	-68.09%	1.2	Cons. Cyclical	**Core**
Joyce Corporation LTD	ASX: JYC	Nithin M.	12/20/2022	**1.22%**	730	2.2917	2.37	3.48%	1.2	Cons. Cyclical	**Core**
LNA Sante	ENXTPA: LNA	Sean C.	4/24/2023	**1.25%**	70	35.1	25.18	-28.28%	0.8	Healthcare	**Core**
Nextracker Inc.	NASDAQ: NXT	Kush M.	1/2/2024	**2.44%**	58	27.09	59.57	119.9%	1.4	Industrials	**Oppt.**
Palo Alto Networks Inc	NASDAQ: PANW	Lawrence W.	9/24/2020	**5.94%**	30	80.17	280.2	249.5%	1.2	Technology	**Core**
Richardson Electronics	NASDAQ: RELL	Sherry H.	10/30/2023	**1.33%**	223	10.95	8.425	-23.06%	0.8	Industrials	**Oppt.**
Rimini Street	NASDAQ: RMNI	Winston Y.	11/11/2022	**1.12%**	515	4.29	3.08	-28.21%	1.2	Technology	**Oppt.**
Sea Ltd ADR	NYSE: SE	Nithin M.	2/18/2022	**0.98%**	24	133	57.72	-56.60%	1.7	Technology	**Oppt.**
Showa Paxxs	TSE: 3954	Aryann G.	11/1/2023	**1.69%**	200	11.86	11.95	0.78%	1.1	Industrials	**Oppt.**
Thryv Holdings Inc	NASDAQ: THRY	Winston Y.	12/9/2022	**2.46%**	160	17.5	21.8	24.57%	1.0	Technology	**Oppt.**
TransDigm Group Inc	NYSE: TDG	Raunakk J.	4/9/2020	**9.06%**	11	546.4	1165	113.2%	1.4	Industrials	**Core**
United Rentals Inc	NYSE: URI	Carol S.	3/14/2019	**6.69%**	14	114.9	676.1	488.7%	2.0	Industrials	**Core**
Valvoline Inc.	NYSE: VVV	Sean C.	11/10/2023	**2.57%**	84	35.92	43.63	21.46%	1.0	Cons. Defensive	**Core**
Willis Towers Watson	NASDAQ: WTW	Raunakk J.	11/9/2021	**3.29%**	17	231.7	273.7	18.13%	0.7	Financials	**Core**
ZTO Express	NYSE: ZTO	Erika L.	3/14/2019	**1.42%**	100	19.43	20.14	3.65%	0.6	Industrials	**Core**
Total Equity Holdings				**96.70%**	**$136,844**				1.3		
Cash				**3.30%**	**$4,674**						
Total Portfolio Holdings				**100.00%**	**$141,518**						

Portfolio Exposure vs. Benchmark





While historically we have felt that the S&P 500 provides an ample proxy to the market, because IAG is overexposed to smaller companies relative to the S&P 500 we have also added the Russell 2000 index as a benchmark for our returns.

IAG is still overexposed to micro and small cap stocks and underexposed to mega cap stocks compared to the SP500. IAG still believes that the best investment opportunities exist within the small cap space due to a variety of well researched factors.

Pitch Log Since November Meeting

Internal Pitches Since December 2023 Meeting				
	Company	**Stage**	**Date**	**Analysts**
1	Playstudios Inc.	Initial Screen	1/30/2024	Rohit Dayanand
2	Medical Facilities Corp.	Initial Screen	1/30/2024	Aryann Gupta
3	Enphase Energy Inc.	Initial Screen	1/30/2024	Lawrence Wang
5	Alight Inc.	Initial Screen	1/30/2024	Sherry Hu
6	Air Transport Service Group Inc.	Initial Screen	1/30/2024	Marshal Wang
7	Hyatt Hotels Corporation	Initial Screen	2/7/2024	Isabel Kong
8	Jonh, Wiley, and Sons Inc.	Initial Screen	2/7/2024	Nabil Kassam
9	Text S.A.	Initial Screen	2/7/2024	Kush Malpani
10	Hasbro Inc.	Initial Screen	2/7/2024	Carol Sun
11	Green Plains Inc.	Initial Screen	2/7/2024	Erika Lei
12	Medical Facilities Corp.	First Update	2/15/2024	Aryann Gupta
13	Vistry Group PLC	Initial Screen	2/15/2024	Nithin, Aryann, Nihir
14	Atkore	Initial Screen	2/15/2024	Liya Chen
15	WillScot Mobile Mini Holdings Corp.	Initial Screen	2/15/2024	Lawrence Wang
16	Wayfair Inc.	Initial Screen	2/21/2024	Marshal, Liya
17	Wayfair Inc.	Devil's Advocate	2/21/2024	Kush Malpani
18	Heritage Global LLC	Initial Screen	2/21/2024	Rohit Dayanand
19	Wise PLC	Initial Screen	2/21/2024	Raunakk Jalan
20	R&R REIT	Initial Screen	2/21/2024	Aryann, Nithin
21	APi Group	Repitch	2/27/2024	Isbael Kong
22	WideOpenWest Inc.	Initial Screen	2/27/2024	Claire, Rohit, Kush
23	Exelon Inc.	Repitch	2/27/2024	Pravar Jain
24	Duratec	Initial Screen	2/27/2024	Nithin, Aryann, Lawrence
25	Palo Alto Networks Inc.	Repitch	3/5/2024	Lawrence Wang
26	American Coastal Insurance Corp.	Q4 Update	3/5/2024	Aryann, Nithin
27	WillScot Mobile Mini Holdings Corp.	Repitch	3/5/2024	Lawrence Wang
28	Wayfair Inc.	Initial Screen	3/5/2024	Marshal, Liya, Erika
29	Kaspi	Initial Screen	3/5/2024	Erika Lei
30	Cipher Pharmaceuticals Inc.	Initial Screen	3/5/2024	Aryann Gupta

Active Pipeline				
	Company	**Stage**	**Date**	**Analysts**
1	Vistry PLC	Initial Screen	2/15/2024	Nithin, Aryann, Nihir
2	Duratec	Initial Screen	2/27/2024	Nithin, Aryann, Lawrence
3	WillScot Mobile Mini Holdings Corp.	First Update	3/5/2024	Lawrence Wang
4	Cipher Pharmaceuticals Inc.	Initial Screen	3/5/2024	Aryann, Liya
5	John, Wiley, and Sons Inc.	Initial Screen	2/7/2024	Nabil Kassam
6	Alight Inc.	Initial Screen	1/30/2024	Sherry Hu
7	WideOpenWest Inc.	Initial Screen	2/27/2024	Claire, Rohit, Kush

III. Key Holdings Update

Portfolio Updates Since December 2023 Meeting

Company	Ticker	Update
American Coastal Insurance Corp **Share Price: $10.04** **PT: $24.34**	**ACIC**	We propose a hold on ACIC at its current portfolio weighting with a price target of $24.34. Since doubling dow ACIC in December of 2023 it has appreciated by 23%, underperforming comps such as HCI, UVE and HRTG. This is due to a recent Q4 earnings 'miss' which led to a price decline of 28%. A lot of market participants were comparing the Q4 gross premium written number (revenue before reinsurance costs) to the Raymond James projected Q4 gross premium written number which missed by 26%. This came in below the momentum established in Q1 and Q2 number which is the only reference point that market participants currently have. This alongside the mention of higher competition and rate moderation (i.e., hard market softening, with lower rate increases projected) only further concerned market participants. To us it seems very likely that GPE will increase YoY and reinsurance costs before ceding commissions from quota share will come in below 2023, which together will lead to a significant jump in net premiums earned (revenue after reinsurance costs). While most would view a hurricane as being bad for business, we view the impact of a couple of Florida hurricanes as a net positive as it would have an outsized negative impact on competitors and lengthen the hard market. We had a call with Dan Peed (CEO of ACIC), Brad Martz (President of ACIC) & Svetlana Castle (CFO of ACIC) to get clarity on all aforementioned factors and are confident that ACIC will deliver a great FY2024.
APi Group Corp **Share Price: $38.93** **PT: $46.35**	**APG**	APi group is the largest industrial safety and inspection services provider in the United States. Over the last three years, APi Group has undergone a significant shift in their revenue sources. From providing a variety of construction, installation, and maintenance services to now primarily just inspection and safety services, it has built a near recession proof business model that is propped up by government regulations that mandate regular inspections. In 2022, APi group acquired Chubb, a major multinational fire safety player for 3.1 billion dollars. Management guided for approximately 100 million in cost saving synergies over 2023-2024, and as of Q4 2024 it has exceeded that target by 25 million, totaling 125 million in value capture. We think that API group has demonstrated a prowess in accretive M&A, by finding and acquiring business trading at 4-7x EBITDA valuations and growing their margins by 50% through repricing, cross-selling, and consolidation synergies. While APi Group isn't aiming to acquire Chubb-size companies in the near future, it has spent 90 million in 2023 acquiring 'mom and pop' safety and inspection service providers and growing their margins from ~7% to 11%. We propose holding for the foreseeable future, as the company continues to acquire smaller service providers in 2024. We are going to look more deeply into how much pricing determines their margin expansion as opposed to synergies from consolidation and cross-selling opportunities.
Berry Global Group Inc **Share Price: $60.31** **PT: $72.94**	**BERY**	We recommend a hold on Berry Global, with an updated price target of $73. While 1Q24 operating earnings have compressed compared to 1Q23, Berry remains well positioned to respond to the continually challenging macro environment and overall weaker consumer demand. Berry has continued to make efforts to increase its cost efficiencies, even amongst softer demand and weaker revenue caused by lower resin pass-through prices. Berry continues to focus on higher value products, which help to improve margins. We also believe that Berry will continue to benefit from its focus on sustainable packaging options. Berry notably has increased its FCF by 10% over 1Q23, and the company continues its aim of deleveraging, to a target leverage ratio of 3.5x which it expects to reach by the end of the year. Most notably, Berry has announced the spin-off and subsequent merger of most of its Health, Hygiene & Specialties segment with Glatfelter in a $3.6 billion deal. Berry shareholders will own 90% of the newly combined company, with Berry expected to fill 6 out of the 9 Board positions. The deal is expected to close in the latter half of 2024, and we will continue to monitor its progression as well as how Berry returns capital to shareholders. Berry expects to receive $1 billion in cash as a result of the deal, which the company has stated will be used to pay down existing debt.
Builders FirstSource Inc **Share Price: $199.84** **PT: $315.60**	**BLDR**	We propose a hold on BLDR, even though it is our largest position and we have made a substantial amount of money on it, we believe that the business will be able to compound per share intrinsic value substantially in the future. When we initiated the position, we believed BLDR would be able to produce earnings of ~$1B in 2022 which would grow at MSD through the cycle. We not only underestimated the increase in earnings power of the business that would come with its integration with BMC but also management's outstanding capital allocation in not only finding tuck-in acquisition targets that BLDR could use to expand into new target markets but also to squeeze margins from suppliers. While BLDR's market cap has ~2.4x, its per share price has increased fourfold implying that management took the opportunity to opportunistically buyback shares which has thus far been massively accretive. We see the M&A engine they have created continue to chug along and further substantial value creation to be more than possible. BLDR also trades for ~15x 2023 FCF, which in our estimates is cheap for a business that can grow topline at HSD, expand margins by ~50bps every year (this is a 12% EBIT margin business) and has an aligned management team that will opportunistically buyback shares. As such, we propose a hold on BLDR, liking the size of our current exposure, with a price target of $315.60.

Portfolio Updates Since December 2023 Meeting

Company	Ticker	Update
Camtek Ltd. **Share Price: $77.34** **PT: $64.00**	**CAMT**	Sell note in packet
Concrete Pumping Holdings Inc **Share Price: $7.80** **PT: $10.85**	**BBCP**	We propose holding our position in BBCP. Since our last update on December 12, 2023, Concrete Pumping Holdings (BBCP) has reported significant developments, including its 4Q23, FY2023, and 1Q24 results. For the fourth quarter and fiscal year, BBCP reported a 5% increase in quarterly revenue to $120.2mm and a 10% increase in annual revenue to $442.2mm. The company's net income for the quarter increased by 10% to $9.4 million. Additionally, BBCP provided a positive financial outlook for fiscal year 2024, indicating expectations for continued growth and operational efficiency. 1Q24 presented some challenges. Revenue increased by 4% to $97.7mm compared to the same quarter in the previous year, but gross profit decreased by 9% to $33.3mm. Income from operations significantly decreased to $1.5mm, and the company reported a net loss of $3.8mm, compared to a net income of $6.5mm in the 1Q23. Adj-EBITDA also decreased by 23% to $19.3mm. The company attributed these results to severe winter weather that impacted its U.S. market, estimating that weather events lowered the expected volume of U.S. concrete pumping work by approximately $7mm in January. Despite these setbacks, management remains optimistic about growth prospects for 2024, driven by increasing infrastructure activity and diversified end markets. Given these developments, our position is now up 10.3% since our purchase at $7.08. Despite the challenging first quarter, BBCP's diversified services, including its Concrete Waste Management Services and U.K. operations, continue to show growth potential. The company's proactive approach to managing the impacts of severe weather and its optimistic outlook for recovery and growth in 2024 support our decision to maintain our investment.
Credit Acceptance Corporation **Share Price: $556** **PT: $650**	**CACC**	We propose a hold on Credit Acceptance Corporation with a price target of $650. Since our last update, CACC has released its Q4 earnings and full-year data. Quarterly net income has dropped by roughly 25% to $93.6mm, representing the negative effects of rising interest rates and the impact on credit access amidst markets. However, this still plays into our thesis in allowing for CACC to garner more market share as other competitors leave the market due to the unattractiveness of companies without a similar loan financing plan to CACC. Consumer loan assignment volumes have grown by over 20% along with a higher spread on consumer loan assignments. Declining short-term profitability had been priced in by the market when we had purchased the stock, as there has not been any meaningful change in the company's valuation. We still believe the thesis that this company will outperform peers during and post the high interest rate environment is still intact to play out in the next few years.
East West Bancorp **Share Price: $76.82** **PT: $115.42**	**EWBC**	We propose holding East West Bancorp at its current weighting with a price target of $115.42. Following the initiation of the position, the stock has risen 43.3%. In the same timeframe, the KRE has risen 21.7%. We regard the short term outperformance of the stock relative to the market in general as merely a product of the factor exposure to regionals which have generally done well in the same timeframe. However, the outperformance of East West relative to the other regionals comes down to its lower losses than peers with fourth quarter charge-offs of 15bps for the fourth quarter (multiples below the industry average); strong levels of reserve capital (13.3% CET1), as well as management taking advantage of the cheap equity prices to buy back shares. We view this as a long-term holding and do not expect the short term outperformance we have had to continue into the future on a near term basis. That being said, given our confidence in management's ability to allocate capital in a manner that leads to long-term, per share value accretion - I recommend we hold the position as is.
Embecta Corp. **Share Price: $13.77** **PT: $30.00**	**EMBC**	We propose a hold on Embecta and maintain our PT of $30. Since the last oversight meeting, Embecta's share price is down 19.4% despite surpassing revenue and earnings guidance on Q1 2024 earnings. For Q1, Embecta reported revenues of $277mm, a decline of 0.3% on a constant-currency basis. Excluding non-diabetes products that Embecta manufactures for Becton Dickinson (BD) as a part of the post-spinoff transition agreement, revenue is up 0.5% on a constant currency basis. In this quarter, Embecta made meaningful progress in continuing to separate its operations from BD, having transitioned 60% of its revenue base to a new ERP system. Embecta also completed the transfer of its Suzhou, China manufacturing entity from BD to Embecta, and expects to resume production for Chinese domestic pen needles and exports in Q2. After an extensive R&D process, Embecta also announced the submission of a 501(k) premarket application for a patch pump in January 2024, which takes around 90 days for the FDA to approve, and has been working with contract manufacturers to prepare for the commercialization of this technology. As we discussed in our original thesis, the patch pump can help Embecta expand from the type 1 diabetes market to the type 2 diabetes market (280mm population compared to 28mm for type 1, 20-25% pump penetration expected in the next decade). To clarify the risk on GLP-1s, many GLP-1's such as Mounjaro actually recommend Embecta's pen needles as the method of subcutaneous injection on its label, which we view as a tailwind to sales. Overall, we were pleased to see progress made in Embecta's patch pump R&D spending, as neglected R&D was a major reason behind Embecta's separation from BD.

Portfolio Updates Since December 2023 Meeting

Company	Ticker	Update
Exelon Corp. **Share Price: $36.96** **PT: $45.00**	**EXC**	We propose a hold on our position in Exelon with the intent to sell out in the upcoming portfolio team meetings. Q4 earnings release highlighted solid operations with a 50% YoY improvement in quarterly EPS to $0.62 per share. Exelon has plans to invest $35 billion in CapEx over the next four years, implying a rate base growth of 7.5% off their current rate base of over $50 billion at an average authorized ROE between 9-10%. Dividends have also increased 5.6% from last year, resulting in a dividend yield of 4.11%. In recent news, after requesting a $1.5bn rate base increase with a 10.5% ROE, the Illinois PUC rejected the plan and only granted a $500mm increase off an 8.92% ROE. This was a shockingly poor outcome, and while Exelon has 3 months to refile and explain why they are benefiting consumers, Illinois jurisdiction seems to be under pressure to toughen up against utilities. With ComEd, Exelon's utility assets in Illinois, accounting for over a third of their approved rate base, may be at risk of lower quality if these stringent jurisdictions stand.
Flex. Ltd **Share Price: $29.82** **PT: $31.50**	**FLEX**	We propose a hold on FLEX. Since our last update in December, Flex underwent a spin-off of the Nextracker business, leading to a ~25% fall in share price on 2nd Jan, 2024. However, the stock has rebounded phenomenally over the last 2 months, with prices back to pre-spin off levels. Most of our original theses regarding the move from commoditized, low-margin, consumer electronic end-markets to more niche, vertically integrated, higher-margin, and reliable end markets such as auto, aerospace, etc. have been realized significantly. Share buybacks have continued as expected, with further buyback allowances issued for '24 as well. It has grown to become 9% of our portfolio, but we continue to have strong conviction in the growth runway, with various opportunities available across higher-margin end markets. Flex's superior supplier selection and supply chain management empowers it to utilize market tailwinds, and we see them increasing or at least maintaining market share in these markets.
HCA Healthcare Inc **Share Price: $325** **PT: $358**	**HCA**	We propose a hold on HCA with a price target of $358. Q4 2023 results were strong, with same facility admissions increasing 3.1% and same facility equivalent admissions increasing 3.9%. Hospitals have witnessed an increase in patient volumes and have benefited from permanent recruiting, and HCA reported reductions in temp nurse utilization, enabling reduced reliance on contract labor, and we will continue to monitor the inflection in volumes and earnings for the firm. Next month, the new Two-Midnight Rule, for medicare advantage plans will come into effect with operators unable to deny coverage or redirect patients to a lower level of care unless the patient does not meet specific criteria required for recommended level of care. HCA emphasized the rule should ultimately benefit patients in providing medical necessities. HCA remains the largest hospital operator in the US, with a presence in 21 states for a total of 182 hospitals and about 2,300 ambulatory sites, and HCA continues to build strength in its core business and hospital centric networks. In tact with our thesis, HCA dominates with utilization strength, driven by strong local market demographics. In their recent investor day, the firm highlighted they are top in market-share in Florida, Colorado, Texas, and other core states. The firm also maintains its labor talent pipeline from nursing colleges.
JD.com **Share Price: $26.45** **PT: $79.00**	**JD**	We propose a hold on JD.com and maintain our belief that JD.com is worth approximately $106 billion in equity value compared to its current equity value of ~$33 billion as of March 9th. For those looking for our recent thoughts on JD.com please refer to the JD.com hold note that we sent to the board via email on November 7th of 2023. In this writeup we discussed our view that JD.com would face strong competition from Pinduoduo. However, we discussed that as long as JD.com maintained market share within its core consumer electronics and appliance niche, gained traction on their logistics as a service business, and found intelligent ways to distribute capital to shareholders, it would be a good investment. In the two quarters since our extended hold note, our theses have continued to play out. JD.com has continued to see growth across most sectors of their business, maintaining market share against Pinduoduo whilst generating ~$3.5 billion in net income. In addition, JD Logistics saw 21% growth for the year and currently operates at a positive operating margin. Lastly, JD.com recently announced a large dividend of $1.2 billion (~3% of the equity value) and approved a new share repurchase plan of $3 billion. We will watch to make sure our theses play out as expected and plan to keep you updated over the rest of the semester.

Portfolio Updates Since December 2023 Meeting

Company	Ticker	Update
Joyce Corporation **Share Price: $2.38** **PT: $3.21**	**JYC**	Joyce recently announced their December 2023 Half Year report where they have continued their operational success, leading us to recommend a hold for this company. Joyce has issued a dividend of $0.11 per share, to be distributed on April 5th. Joyce's top line has grown by 5% to A$73 million, net income has grown by 20% in the past year to A$9.4 million, and their EPS has grown by 33% to 16.65 cents per share. Their kitchen renovation business (KBW) closed one store in the past year, leading to 25 showrooms across Australia, against our projections. Despite this, KBW's EBIT by 36%. Their mattress franchisor (Bedshed) has opened 2 new franchises, and grown EBIT by 22%. Joyce's new home staging business Crave has seen consistent growth and increased market penetration, finally achieving positive earnings. On 21 December 2023, the Group's wholly-owned subsidiary Sierra Bedding Pty Ltd acquired the assets, liabilities and operations of Bedshed Castle Hill from a former franchisee as part of a strategic move to give Bedshed direct access to the Sydney market and grow its business in NSW. The 934k transaction was settled in cash. Overall, we have revised our target down from A$4.86 to A$4.84, representing an upside of 36%
LNA Sante **Share Price: $25.17** **PT: $45.40**	**LNA**	We maintain a hold on LNA with a calculation of the intrinsic value per share of the company to be $45.4. The company hasn't reported financials or any material information since the last update was written. Unfortunately, the stock rallied after the last meeting from $17.56 to $23 meaning we weren't intelligent enough to capitalise on the fortuitous pricing the market had handed us. We believe shares had fallen due to competitor Korian (now known as Clariane) following the path of Orpea and entering restructuring. As a reminder, on the operating level LNA is 1.9x levered and we do not believe the company will have credit troubles. We look forward to full year operating results at the end of March.
Nextracker Inc. **Share Price: $59.57** **PT: NA**	**NXT**	We propose a hold on Nextracker Inc. (NXT). Nextracker was a fully-owned segment of $FLEX's business until February 2023, when it received private investments and IPO'd as a separate company. On January 2nd, 2024, $FLEX spun off all Nextracker holdings as shares, with $FLEX holders receiving 0.17 NXT shares per share. Nextracker is a market leader in the solar tracker industry, supplying mission-critical equipment that tracks the Sun's direction, increasing panel energy output by 30-40%. Nextracker dominates the market with 30%+ share that has consistently grown within the US and internationally in the middle-east and south-asian markets, especially India and Australia. Its superior quality and lower overall cost of ownership, accompanied by superior management forms a strong, tangible competitive moat. As of its latest Q3 filings, quarterly net income has tripled YoY to $270mm, FCF has also almost 4x'd YoY, and revenues have compounded at a 30% CAGR over the last 5 years despite COVID slightly disrupting the solar industry. With multiple industry tailwinds including 45X tax credits from the Inflation Reduction Act 2022 that will likely improve GMs by 500 bps, NXT is poised to rapidly gain market share and improve profit margins.
Palo Alto Networks Inc. **Share Price: $280.2** **PT: $330**	**PAN**	We propose a hold on Palo Alto Networks ($PANW). Since our purchase at $80.17, our investment has grown by over $249%. Prior to the 2Q 2024 earnings, PANW has appreciated by over 119% over the course of the year, with the reaction initially tumbling by over 25% after earnings. This is primarily attributed to the decreased billings guidance for FY24 by over $600m. However, we do not see this as a threat to PANW's competitive market position due to their shifting strategy to platformization which will enable Palo Alto to poach market share from historically strong point security providers by decreasing the switching costs for onboarding a fully integrated service. Furthermore, this will contribute to a recurring revenue structure that exceeds 90% in addition to a 4x target in ARR to $15b by the end of the decade. We believe that these trends outweigh the short-term hit to billings growth at 10-11% compared to an original 16-17% as well as revenue growth at 15-16% compared to the original 18-19%. Furthermore, a majority (~60%) of the billings decrease is a one-off instance due to the delay of a government contract that is inconsequential to PANW's long-term outlook, leading to an overattribution of the billings cut to declining contract structures. When considering the 22% y/y growth in remaining performance obligations (RPOs), we are confident in the durability of Palo Alto Network's business as well as its scale-based moats in shifting to a platformization based strategy. Given that PANW is trading below historical medians on a multiples basis with a now superior go-to market strategy in addition to secular tailwinds in generative AI-based automation through their Cortex line (which has already achieved $100m in ARR), we maintain our hold position for PANW.

Portfolio Updates Since December 2023 Meeting

Company	Ticker	Update
Richardson Electronics **Share Price: $8.42** **PT: $16.99**	**RELL**	We propose a hold on Richardson Electronics with a PT of $16.99. Since the initiation of coverage, Richardson's share price is down 21.7%. We attribute the underperformance to the decline in semicap sales as predicted in the initial screen, which management still expects to be down by $20mm (50%) by the end of FY2024. Since the last oversight meeting, Richardson reported Q2 2024 earnings. In particular, Green Energy Solutions (GES) sales decreased $9.7mm year-over-year because many wind turbine customers finished shipments for Phase I of their ultracapacitor replacements in Q4 2023 and expect to place Phase 2 orders in Q3 and Q4 2024. The decline in GES sales is caused by timing delays from customers finalizing the budget for Phase 2 before placing orders, which Richardson mentioned was completed recently. While existing customers finalized their budgets, Richardson added new customers such as BP Energy, EDF Energy, and EDP Renewables, with 90% of wind turbine sales being with new customers this quarter. We will continue monitoring GES sales in Q3 and Q4 2024 to assess management's claims about wind turbine order timing and adjusted our price target accordingly to reflect the timing delays. We still believe that our purchase price offers us adequate downside protection even without continued growth in GES, but due to the opportunity cost of holding the position, will consider re-assessing our position if GES sales do not improve materially by the end of FY2024. On a positive note, Richardson announced a new ownership requirement for the Board of Directors this quarter, requiring owning a minimum of $150,000 of stock after 3 years.
Rimini Street **Share Price: $3.08** **PT: $4.25**	**RMNI**	We propose a hold on Rimini Street but are dropping our price target to $4.25. Q4 earnings for the company were a mixed bag and have demonstrated pushback against a number of our initial thesis points. Top-line growth from both a billings and a revenue perspective has decelerated dramatically to the tune of LSD YoY, with the company suspending guidance on FY24 financials and CEO Seth Ravin refusing to point towards a re-acceleration in the coming fiscal year. Additionally, the bottom line for the company has struggled to maintain consistency as Rimini is consistently battered with legal fees from Oracle and experiencing significant troubles ramping up its sales force. This goes against our initial investment thesis of revenue reacceleration and operating margin increase upon resolution of the Rimini II lawsuit, and bringing our base case assumptions down in our model shaves off significant upside for the stock. Despite these problems, we still believe that the company is optically very cheap and trades below intrinsic value even pricing in declining revenues going forwards. At current prices, the resolution of Rimini II also serves as a call option that provides further upside if the scales tip in Rimini's favor. As such, we would still like to hold this position, but would be very open to selling to free up capital for higher-return ideas or if the stock price returns closer to our initial cost basis.
Sea Ltd. **Share Price: $57.52** **PT: $140**	**SE**	We recommend holding Sea Limited with a price target of $140. Sea operates three main businesses: Garena (mobile gaming business), Shopee (e-shopping platform), and SeaMoney (payments platform). Garena,, started in 2009, focusing on being a platform where developers could publish their games. In 2017, management took a risk and decided to publish their own game called *Free Fire*, growing to become the most popular mobile game in the world. Seeing the popularity and cash flow that Free Fire's in-game marketplace had, management decided to start their own e-shopping platform for emerging markets. Unlike other players at the time, Shopee emphasized the use of data to drive marketing insights, allowing it to gain share quickly. Management eventually created SeaMoney, a payment and banking platform, which they believed would help facilitate payments on their other platforms - Shopee and Garena. Over the last twelve months the company has deliberately been increasing take rates, decreasing discounts, and decreasing overall marketing spend without sacrificing market share to show that they can become profitable at will, a feat they achieved for the first time on an LTM basis this quarter. However, the company is constantly battling between whether they want to forego growth in a pursuit of profitability or vice versa. The main arguments that we have to convince ourselves of is whether we think Sea can win SouthEast Asia ecommerce and make large inroads in LATAM without sacrificing a high near-term ROIC. If we can convince ourselves of that then we will own a company with a gaming platform that generates high levels of free cash flow, a payments processing platform that is further gaining share and has a strong regulatory moat, and multiple ecommerce businesses that are reaching high enough scale to become profitable. The combination of these three things creates a very good investment setup.
Showa Paxxs **Share Price: $11.97** **PT: $23.63**	**3954.T**	Our thesis with Showa Paxxs remains unchanged. When pitched three oversight meetings ago we saw Shinsei Pulp & Trading's activism and corporate governance reform catalyzing value realization. Both these forces are still at play and we will be looking toward this year's proxy season. Since the last meeting, the business has not released earnings. Book value per share remains unchanged from ¥4817. Since the last oversight meeting, we have also seen a weakening in the Yen against the Dollar, with the Dollar now being able to buy 147 Yen, as opposed to 144 Yen as of the last oversight meeting. While as a club we do not like to take any significant view on currencies, we are optimistic about the Yen against the Dollar given the significant capital inflows being enabled by friendly government policies such as allowing M&A costs to be booked as operating costs and feed into an operating loss. Our hope to be able to engage with management in February were not able to materialize given that out IR contact in Japan said that we are required to hold a certain material percent float of the company for management to engage directly with us and be a fund of a certain AUM. We are however looking forward to the AGM taking place at the end of this month and are hopeful of updating the oversight board of significant changes in the firm's capital allocation policy at the next meeting. We are optimistic and maintain our original price target of ¥3475.

Portfolio Updates Since December 2023 Meeting

Company	Ticker	Update
Thryv Holdings Inc. **Share Price: $21.80** **PT: $37.00**	**THRY**	We would like to hold our position in Thryv while maintaining our current price target of $37.00. Thryv recently reported its FQ4 2023 earnings, which were impressive across the board and continued to confirm our initial investment theses. SaaS subscribers and top-line both grew ~25%, and the business has now inflected from unprofitable to profitable on a non-GAAP EBITDA basis, with the company reporting a 5% adjusted EBITDA margin for the software segment. Churn has also remained stable, with revenue retention increasing ~100bps YoY, which should also accelerate into FY24 as the company turns its focus to cross-selling additional services to its subscribers. The Yellow pages segment of the business also continues to decline in line with our assumptions of 15-20% a year, and remains highly FCF-generative, which allowed the company to retire another $25mm in debt in the quarter. Looking forward, the company projects the SaaS segment to continue to grow at a 20%+ pace, with margins expanding 300-400bps as a result of increased operating leverage and cross-selling. We are very happy with Thryv's current SaaS transition and expect to see significant returns for the stock over the course of FY24.
TransDigm Group Inc. **Share Price: $1164** **PT: $1275**	**TDG**	We propose a hold on TDG for now with an updated PT range of $1275. Transdigm delivered strong Q1 earnings with balance sheet leverage now sitting at the low-end of the historical range of full utilization, despite having just paid a $2.0bn special dividend and announcing the medium-sized CPI acquisition which will be paid for nearly entirely by free cash generated between announcement and close. The organic business continues to see strong growth and margins including 20%+ organic revenue growth in all three recognized end-market verticals and a 51% EBITDA margin in the quarter. While the price target is close to current prices, TDG remains one of the best businesses we own and continues to compound.
United Rentals **Share Price: $676** **PT: $944**	**URI**	We would like to propose holding our stake in United Rentals (URI) at $676.14. The updated price target is $943.60, representing a targeted upside of 40%. Since our last update, URI released an impressive FY2023 results, proving sustained growth in the business that is underpinned by broad-based activity for construction. Rental revenues increased 13.1% YOY, driven by demand growth across end markets that URI specializes in. Used equipment sales rose 7.1% YOY, though margins contracted 630 bps to 55.3%. Speciality rental revenues increased 14.6% YOY but margins contracted 210 bps because of a higher proportion of lower-margin ancillary revenues and certain increases in operating expenses. Adjusted EBITDA rose 22.1% but margin contracted 50 bps. The company increased cash from $106M to $363M on the balance sheet, bringing the net leverage ratio down from 2.0x to 1.6x compared to last year. The market recognized the stellar top-line growth and healthy balance position, corresponding to the share price steadily appreciating to $712.31 on March 4 of this year. These healthy financial positions allowed me to change my projections to be much more bullish, as I was previously over-conservative inlight of supply chain issues and macro volatility in the previous years. Since then, share price has come back down after the announcement of a $1.1B acquisition of Yak Access, a leader in the North American matting industry with a fleet of approximately 600,000 hardwood, softwood, and composite mats. Market seems to be mainly concerned with the fact that the deal will be financed with a mix of debt and asset-based lending, making the company's leverage ratio go slightly up to 1.7x after years of continuous de-leveraging. However, I believe that management has not paid an unfair multiple here, as previous specialty acquisitions were even more expensive (General Finance for 10.6x in 2021, BakerCorp for 9.0x in 2018) and the company has not had any difficulty integrating those solutions in. URI has worked with the PE firm, Premium Equity, they bought Yak from before, with the 2018 BlueLine acquisition working out well for the business since. The global construction mats market size was valued at $1.3 billion in 2021, and is projected to reach $2.1 billion by 2031, growing at a CAGR of 4.6% from 2022 to 2031, and are crucial for the the growing amount of energy/power/renewable energy projects in the year to come, allowing for cross-selling potential. Thus, I think the market concerns about this acquisition are temporary, but I will continue to closely monitor the integration of this business before the following update.

Portfolio Updates Since December 2023 Meeting

Company	Ticker	Update
Valvoline Inc. **Share Price: $43.63** **PT: $54.02**	**WTW**	We would like to propose a hold on our stake in Valvoline with a price target of $54.02. We do not believe a substantial margin of safety exists and believe the principal means by which we would make money on the investment is by the intrinsic value of the business compounding. In Q1 of 2024, the business managed to grow store count at a cadence we expected, did so while having ~24% EBITDA margins, returned $171mm to shareholders via share buybacks and grew system wide same store sales at 7.1%. We see the theses playing out as we expected but will conduct a more holistic review on whether we should hold the position given it trades at 15.7x management's guided 2024 EBITDA.
Willis Towers Watson **Share Price: $274** **PT: $320**	**WTW**	We would like to propose a hold on WTW. The street is still underappreciating the impact of ramping talent production and cost efficiencies. Results so far from Q4'23 provided concrete evidence that the talent dynamics are taking hold, which resulted in better than expected margins, FCF, and growth. The secular tailwinds to FCF margins in the medium term support a higher valuation as we see WTW was a standout amongst peers in achieving sequential organic growth acceleration within P&C brokerage despite decelerating global P&C renewal premium changes. We attribute this outperformance to material new business wins and better retention in light of a turnaround in WTW's talent base, combined with WTW's specialization strategy. With respect to talent dynamics, we believe the impact of recent talent investment of the past few years were, and still are, underappreciated. Additionally, we think that the company will continue to see the flow through of transformation cost savings and expense discipline beyond the restructuring program, which includes savings from lower marketing spend, T&E, and staffing actions for a smaller number of underperformers.
ZTO Express **Share Price: $20.14** **PT: $37.00**	**ZTO**	Sell note in packet.

IV. Sell Note

Sell Note: Camtek (NASDAQ: CAMT)

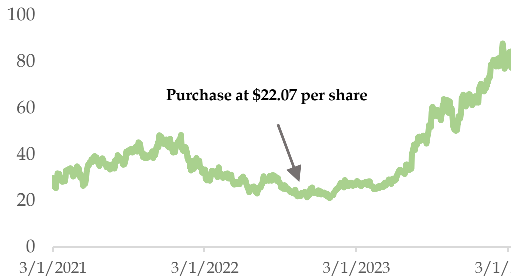
Dear Board of Advisors,

We recommend selling our 5% position in **Camtek (NASDAQ: CAMT), realizing a gain of ~250%.** We initially invested in the company in October of 2022, a time when the company was being heavily misunderstood. However, as time has passed, not only has the market price of Camtek risen due both predicted and unpredicted factors, but we have realized how little understanding we have of the competitive dynamics at play in the everchanging semiconductor industry.

Stock Overview (LTM Figures)

	At Purchase:	Current:
Share Price:	$22.07	$77.34
Price to Earnings:	~13x	~52x

Performance Since Purchase on 10/7/2022



Camtek operates within the semiconductor capital equipment industry specifically manufacturing metrology equipment which is used to inspect semiconductors as they make their way through the manufacturing process. The semiconductor manufacturing process can be broken into three main segments: front-end (the part of the process where blank silicon wafers are etched onto) , mid-end (where the wafer is broken apart and then interconnected with other chips), and back-end (further packaging that tends to be less complex). Camtek focuses on creating metrology equipment for the mid-end which is generally perceived by investors to be less attractive due to slower growth. Because of this perception, at the time of pitching, Camtek traded at sub 13x P/E. Its front-end competitors, perceived to be more attractive due to faster growth, traded at 25x or even higher in some cases.

However, based on expert calls, we gained an understanding that while the incumbents in the front-end do generally have faster growth and market share gains in the short-term, in the long-term the rapid innovation of the space leads to weak competitive moats. The mid-end, while still fast growing and necessary to semiconductor manufacturing plants, was filled with companies such as Camtek who had more durable long-term moats.

In addition, Camtek was being unfairly punished for having a majority of their sales being to Chinese fabs, a perceived risk given that the Department of Commerce (DOC) was placing many of the most innovative semiconductor companies on an export-ban lists. After thorough research, we understood that Camtek's position within the less innovative mid-end space meant an unlikely chance of being placed on these export-ban lists. In fact, we viewed exposure to China as a net-positive as once these restrictions by the DOC went into effect, China would likely make a major shift away from sourcing metrology equipment from the US and towards countries such as Israel where Camtek is located.

Our theses played out better than we could have ever expected with rapid growth in the semi-industry in China, lack of export restrictions on Camtek, and the unpredicted boom in mid-end metrology due to AI all leading Camtek to rise ~250% in less than 2 years.

This leads us to today where Camtek trades at a current P/E of 52x and a forward P/E of 32x. These high prices are likely due to AI related euphoria. At these prices, Camtek would need to have net income margin expansion from 25% to 30% and a revenue CAGR of 20% over the next 10 years to earn us a 15% IRR. The level of foresight and understanding of the semiconductor industry required to underwrite these assumptions given the non-existent margin of safety is far too high. As such, we believe that cash is significantly more attractive than Camtek.

Best,

Nithin Mantena

Sell Note: ZTO Express (NYSE: ZTO)

Stock Overview (LTM Figures)		
	At Purchase:	**Current:**
Share Price:	$19.43	$20.05
Market Cap (mm)	$13,673	14,520

Performance Since Purchase on 3/12/19

Dear Board of Advisors,

We recommend selling our ~1.5% position in ZTO, a Chinese expressed delivery company that operates sorting hubs and line-haul transportation vehicles and relies on "network partners" to complete last mile delivery. The original pitch centered around 3 main theses: (1) the parcel delivery system in China had reached an inflection point in profitability, with a commoditized product causing price wars, consolidation, until only the best-in-class players remained – and that ZTO was the company poised to become a monopoly, (2) ZTO was operationally superior to it's competitors due to good management and it's network model and (3) that company was being traded at an unfair multiple due to US-China geopolitical overhang.

We originally pitched ZTO on the March 12th when it was trading at $19.43. At the time our price target was $26.24 which would have implied upside of approx. 30.4%. Today, the stock price sits at $20.05, up 3.2%.

In the following 12 months, ZTO's price ran up from $19.43 to $38.64 due to COVID-19 driving up the demand for e-commerce. However, after the pandemic ended and the Chinese government ended the zero-COVID policy, demand for e-commerce began to normalize – along with ZTO's share price. ZTO was driven to 6 years lows due to the late January western investor sell-off following news of Chinese macroeconomic weakness. Since the initial pitch, ZTO has realized a 3% gain of market share in the logistics market – nowhere close to the monopolization we initially predicted. However, ZTO has not been able improve on its operating metrics: As opposed to the 30% topline CAGR that ZTO has posted from 2016-2019, revenue has only grown by 11% since the initial pitch. China's weak COVID recovery is partially to blame. In 2022, Chinese volumes only grew by 2%, a historical low for the industry. Revenue growth has fallen from ~30% YoY Pre-COVID to ~15% post COVID, gross margins have shrunk by 5%, and net margins have shrunk by 5%. Operating profit has fell since the initial pitch from 0.46 RMB/Unit to 0.32 RMB/Unit, net income has also fallen by 0.11 RMB/Unit. While units sold have increased, the overall quality of the company is significantly worse than it was when it was first pitched. The reason why this has happened is because ZTO also faces fierce competition from ecommerce platforms such as JD.com (NASDAQ: JD) and Pingduoduo (NASDAQ: PDD) who are integrating their supply chain backwards – taking away the need for Tongdas such as ZTO.

The developments in Sino-American geopolitical tensions have made the discount given to the company by Western investors seem fairer – ZTO has nearly 900M USD tied up in Chinese real-estate loans, a sector teetering on the brink of collapse. ZTO is also dependent on Chinese consumer spending. However, in January, the Chinese government reported a quarter of deflation, showing consumer weakness, low business confidence, and causing a complete flight of FDI. In order for this company to grow and realize upside, we have to bet on a fiscal stimulus by the Central Government, combined with a long term robust economic recovery. As such, there are two factors to realizing growth – both acting against historical trends – (1) The Chinese government enacting fiscal stimulus, something they have failed to do even after months of falling inflation and (2) Chinese consumers responding to fiscal stimulus and spending, instead of saving, which is against the historical behavior of the Chinese consumer base.

Finally, management has been particularly dishonest with investors –According to the Wayback machine on ZTO's website, they had 250k employees, however their 2016 Annual Report filed with the SEC in which disclosed 40.2k employees, including BOTH full-time employees and outsourced personnel. Additional inconsistencies include overstating their margins on their PRC filings compared to their US documents - SAIC shows a 6.3% margin, in line with industry peers, while their SEC filings show a 15.5% margin.

We do not wish to hold this investment any longer as we believe an ample margin of safety does not exist – ZTO has failed to realize market dominance, management's dishonest practices cast doubts on true operational success, and geopolitical tensions make further growth difficult to realize.

Best,
Erika Lei

IV. New Position Proposals

Medical Facilities Corporation (TSX: DR) Initial Screen

High-quality, specialty surgery hospital operator trading at 7.5x FCF with significant upside optionality

Aryann Gupta

Key Ratio and Statistics (CAD)

Recommendation	**Buy**	TEV/Revenue	0.7x
Market Cap	222.2mm	TEV/EBITDA	3.5x
52-Week Low	7.80	P/E	32.6x
52-Week High	10.15	Total Debt/EBITDA	1.5x
Share Price	9.03	Date	5/10/2024

Executive Summary:

Medical Facilities is a small-cap Canadian listed owner and operator of five specialty surgery hospitals (SSHs) across the mid-west. These surgical hospitals are exclusively focused on orthopedic and spinal surgery and are some of the best hospitals in the respective states in which they operate. All of MFC's hospitals have minority physician ownership, which creates a robust regional moat with minimal physician churn. MFC's poor performance stems from financial challenges that started in Q12019 after a poor acquisition In response to these challenges, MFC underwent a strategic shift. Following the divestiture of non-core assets, the company suspended acquisitions, reduced overhead costs, and initiated share buybacks and debt repayments. Our investment thesis revolves around the imminent sale of MFC's remaining core SSHs. This strategic move aligns with the company's commitment to wind down the business and return capital to shareholders.

Business Overview:

Medical Facilities Corporation (MFC), in partnership with physicians, owns a diverse portfolio of highly rated, high-quality surgical facilities in the United States through its wholly owned US-based subsidiaries. MFC's ownership includes controlling interest in four specialty surgical hospitals (SSH) in Arkansas, Oklahoma, and South Dakota and an ambulatory surgery center (ASC) in California.

Summary of Facility Information as of September 30, 2023	Arkansas Surgical Hospital (ASH)	Oklahoma Spine Hospital (OSH)	Black Hills Surgical Hospital (BHSH)	Sioux Falls Specialty Hospital (SFSH)	Surgery Center of Newport Coast (SCNC)
Location	North Little Rock	Oklahoma City	Rapid City	Sioux Falls	Newport Beach
Year Opened	2005	1999	1997	1985	2004
Year Acquired by the Corporation	2012	2005	2004	2004	2008
Ownership Interest	51.00%	64.00%	54.20%	51.00%	51.00%
Non-controlling Interest	49.00%	36.00%	45.80%	49.00%	49.00%
Exchangeable Interest	5.00%	1.00%	10.80%	14.00%	-
Size (sq ft)	126000	61000	86000	76000	7000
Operating/Procedure Rooms	13/2	7/2	11/1	15/1	2/1
Overnight Rooms	41	25	26	33	-

Figure 1: Summary of MFC Facilities

Non-controlling interests in the facilities are indirectly owned, primarily by physicians practicing at the facilities. Upon MFC's acquisition of indirect controlling interests in the SSHs located in Arkansas, Oklahoma, and South Dakota, the non-controlling interest shareholders were granted the right to exchange between 1.00% to 14.00% of the ownership interest in their respective facilities for common shares of the corporation. The liability associated with this derivative instrument is recorded on the consolidated balance sheet.

Figure 2 below provides a more comprehensive breakdown of the revenue contribution by facility.

Revenue Contribution By Facility (In thousands of U.S. dollars)	Nine Months Ended September 30,				% of revenue
	2023	2022	$ Change	% Change	(2023)
ASH	66,623	56,240	10,383	18.46%	20.61%
OSH	58,461	56,319	2,142	3.80%	18.08%
BHSH	75,825	71,308	4,517	6.33%	23.45%
SFSH	103,537	96,963	6,574	6.78%	32.02%
SCNC	7,223	8,226	(1,003)	-12.19%	2.23%
MFC Nueterra ASCs	11,648	18,234	(6,586)	-36.12%	3.60%
Total revenue and other income	**323,317**	**307,290**	**16,027**	**5.22%**	

Figure 2: Revenue Contribution by Facility FY2022 – FY2023 (9M)

Summary of Exited Assets as of Septmeber 30, 2023	Date Exited	C.O.I (%) Prior to Sale	Sale Proceeds ($, mm)	Pre-tax Gain on Sale	Notes
Eastwind Surgical	5/5/23	N/A	-	-	Permanently Closed
Riverview Ambulatory Surgical Center	6/30/23	N/A	-	-	Permanently Closed
City Place Surgery & St. Luke's Surgery Center	7/1/23	30.30%	1.40	1.10	Buyer Assumed debt of $5mm
Miracle Hills Surgery Center	7/31/23	58.70%	1	0.6	-
Brookside Surgery Center	8/25/23	49.60%	1.1	0.8	-

Figure 3: Summary of Exited MFC Facilities

In addition, through a partnership with NueHealth LLC MFC used to own controlling interest in four ASCs located in Michigan, Missouri, Nebraska, and Pennsylvania. This has been part of a strategy to divest non-core assets that were not efficiently run and profitable. Figure 2 summarizes the assets that were divested during FY2023.

The SSHs perform scheduled surgical, imaging, diagnostic, and other procedures, including primary and urgent care, and derive their revenue from the fees charged for the use of their facilities. The ASCs specialize in outpatient surgical procedures, with patient stays of less than 24 hours, whereas SSHs are licensed for both inpatient and outpatient surgeries. The facilities mainly focus on limited clinical specialties, such as orthopedics, neurosurgery, pain management, and other non-emergency elective procedures. In addition to this, two of the SSHs provide urgent care services.

What Went Wrong at MFC?

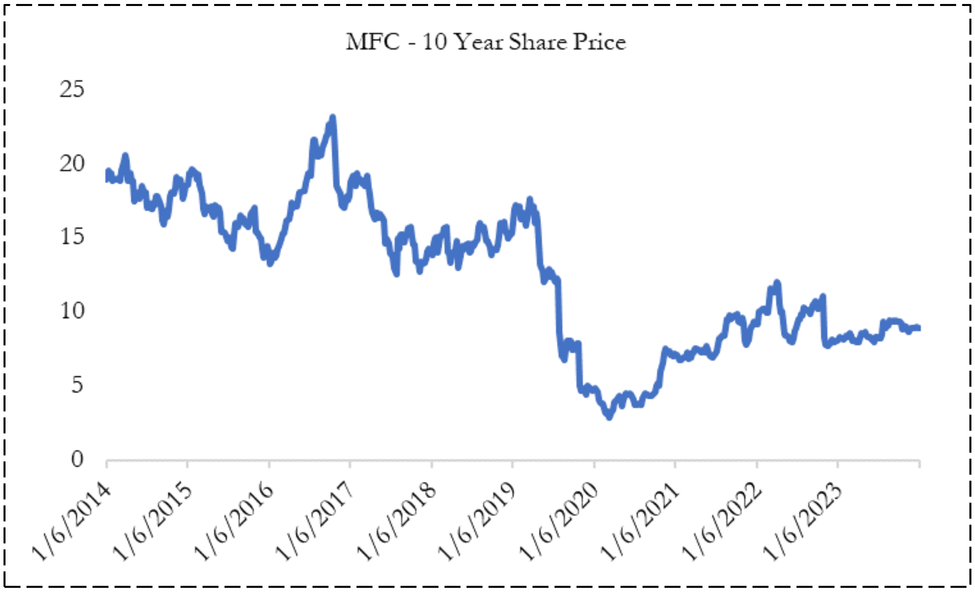


Figure 4: MFC 10 Year Share Price

To better understand MFC's lackluster performance over the last ten years, a period where the share price has slumped over 50%, it is very important to understand MFC's history to explain what has led to such immense value destruction for shareholders.

MFC was listed on the 29th of March 2004. They did not do a vanilla equity issuance; rather, they issued income-participating (IPS) securities. So, when investors bought one IPS, they bought both one common share and a C$5.90 aggregate principal amount of 12.5% subordinated notes. Only in May of 2011 did MFC convert to the traditional common share structure from the original IPS structure.

MFC's historical strategy has been to use debt to fund acquisitions of both ASCs and SSHs. Everything was going relatively smoothly for the company until Q1 of 2019. This is where we start to see the first issues with their strategy.

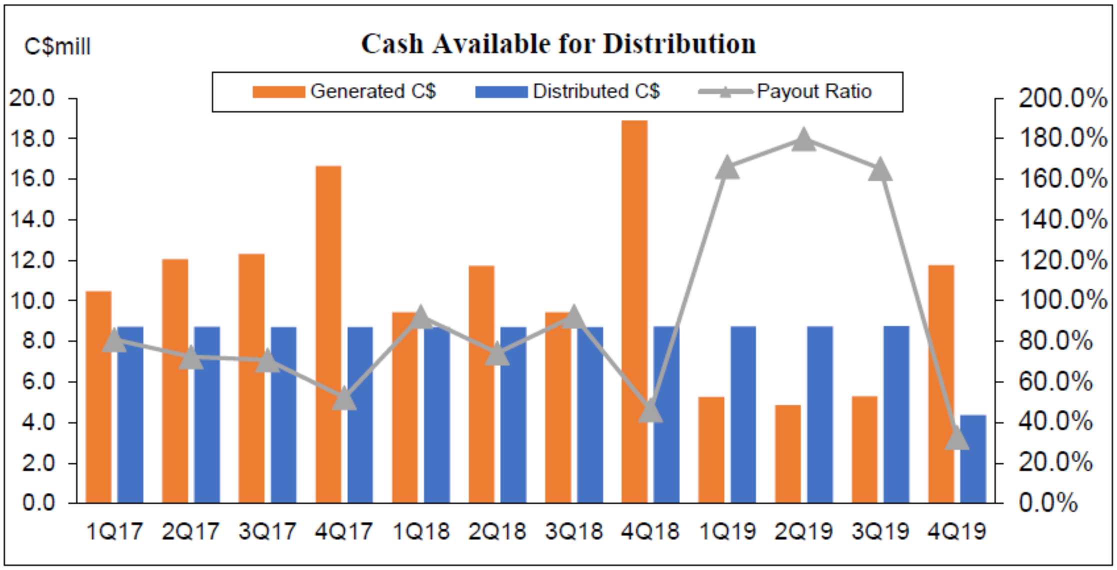


Figure 5: MFC CAFD 1Q2017 – 4Q2019 from 2020 MDA

Also, in regard to the graph above, which shows 'CAFD.' This is a non-GAAP/non-IFRS measure, and I explain this more in my section on covering MFC's financials.

In MFC's Q1 2019 call, management mentioned that income from operations was down 14.1mm from Q1 of 2018 to 10.2mm in Q1 of 2019. They associated the decrease with the lower EBITDA from a few facilities, but most notably from Unity Medical and Surgical Hospital (UMASH). They associated the lower EBITDA as being primarily a result of a payor mix with a higher proportion of governmental payors as well as an increased proportion of lower-acuity cases.

This also marked the first quarter, where MFC's cash available for distribution was less than the payout that they had made. This resulted in a payout ratio of 166.3% for 1Q2019 compared to 92.2% for 1Q2018. This can be seen in Figure 5. Management then went on to say that going back as far as 2013, the first quarter has typically been MFC's weakest quarter.

I also think it's worth highlighting some of the most poignant questions from the 1Q2019 Earnings Call that analysts asked, as it serves to provide a clearer picture of effectively what went wrong and how management was so blindsided by what was to come.

Question 1: Regarding UMASH, is there any demographic or any other sort of structural changes in UMASH's markets that might explain the increase we saw in the government pay on the quarter. Also leading on from that as you look at the payor mix that we saw in the quarter, is that indicative of what we may see in coming quarters?	**Answer 1:** We saw overall volume growth at Unity. The issue is that we had a lower acuity of those surgeries. And what we see from fourth quarter to first quarter, we generally have a higher commercial payor mix in the fourth quarter of the year so that we typically see more governmental payors in the first quarter as a result of those compressions.
Question 2: Did what we see in the quarter in terms of lower-acuity cases indicative of what we might see in additional quarters?	**Answer 2:** Well, we think it's more of an anomaly when we are talking about a higher case mix. Higher level of acute surgeries, those take a while to source, to preauthorize through insurance and so forth. So we think there has been no trend, no demographic change, nothing that would indicate that it would be a continuing issue.

Question 3: Just from everything you have been talking about, it sounds like there's really nothing to be read into the activities, the payor mix, the case volume, that would necessarily reflect any kind of changes through the rest of this year or into next year from normal patterns.	**Answer 3:** I would think that's correct. There is nothing. We are not seeing anything in any of our markets that would show a change to just kind of the normal progression. So I think, the first quarter we have a lot more Medicare patients than we do in the fourth quarter, and that trend every year in US health care continues to kind of keep going that way.
Question 4: Are there going to be any changes in the position of the dividend going forward?	**Answer 4:** We have no plans to change the dividend.

Between Q1 and Q2 of 2019, MFC's CFO changed from Tyler Murphy to David Watson, and MFC's poor performance continued into 2Q2019. The issues mentioned in the 1Q2019 call continued, and management had no reasonable answers other than that they were disappointed.

By 3Q2019, Management realized that the monthly dividend they had been paying out historically was no longer sustainable. So, in 3Q2019, it was announced that the dividend payment schedule had been changed from monthly to quarterly, at an annual rate of C$0.28 per share versus the prior annual rate of C$1.125 per share. Then CEO Robert Horrar said, "The challenges we have been facing this year at Unity Medical and Surgical Hospital, or UMASH, continued to affect our results in the third quarter. We are disappointed in the results over the past few quarters, resulting in a payout ratio of over 100%."

Additionally, MFC recorded a $22mm goodwill impairment charge related to the MFC Nueterra ASCs. The impairment charge was largely due to challenges at one of the larger ASCs in the group.

The monthly dividends were something that was core to MFC's shareholder base. Once the monthly dividend was gone, many retail dividend investors left, meaning MFC had no natural shareholder base.

In 2020, the COVID pandemic worsened MFC's financial situation, which led to MFC's share price hitting a low of C$2.86. In February 2020, it was announced that MFC had sold most of its interest in UMASH, and its ownership interest decreased from 87.6% to 31.7%. MFC received $1.1mm in cash consideration for its equity interests. Furthermore, UMASH's debt obligation to MFC was reduced by $3mm, with the remaining $20mm being structured on a five-year term. MFC also announced that they would sell the real estate assets underlying UMASH, consisting of land and buildings, for approximately $25mm.

What has changed?

Since the divestiture of UMASH, MFC has adopted a change in corporate strategy. This was announced in a press release shared on September 13th, 2022. They announced that they were in constructive discussions with Converium Capital, a company shareholder, and other shareholders to gather feedback on MFC's strategic direction.

As part of this change in corporate strategy, it was announced that the following would be done:

- MFC would suspend all acquisitions
- Divest all non-core assets
- Pursue overhead cost reductions
- Evaluate and implement strategies to return capital to its shareholders

As part of this change in strategy, MFC added Adina Storch and Yanick Blanchard as independent directors of the company, replacing Stephen Dineley and Lois Cormack, who resigned from the board. Alongside changes in the board, Jason Redman was appointed interim CEO and has since become the permanent CEO.

As was mentioned in the Business Overview section at the start of the report, MFC disposed of five of their ASCs throughout FY2023, which were all non-core assets.

MFC has also aggressively bought back its shares since September 2022. It did this via a modified Dutch auction for up to $34.5mm, which was announced alongside the change in corporate strategy.

QoQ Change in DSO	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
DSO	**30,196,779**	**29,554,010**	**29,366,985**	**25,702,096**	**25,345,146**	**25,066,567**
Nominal Change		(642,769)	(187,025)	(3,664,889)	(356,950)	(278,579)
%change YoY		*-2.13%*	*-0.63%*	*-12.48%*	*-1.39%*	*-1.10%*

Figure 6: MFC Common Shares Outstanding Table & YoY Change

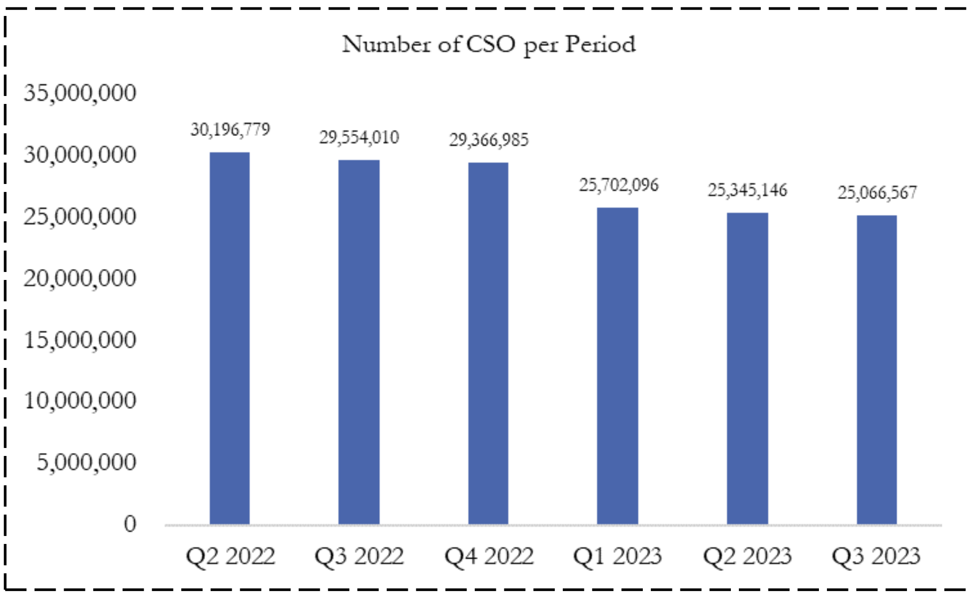


Figure 7: MFC Common Shares Outstanding Per Period

Since then, they have continued to buy back shares and pay off debt. During FY2023, $12mm of repayments were made against their corporate credit facility.

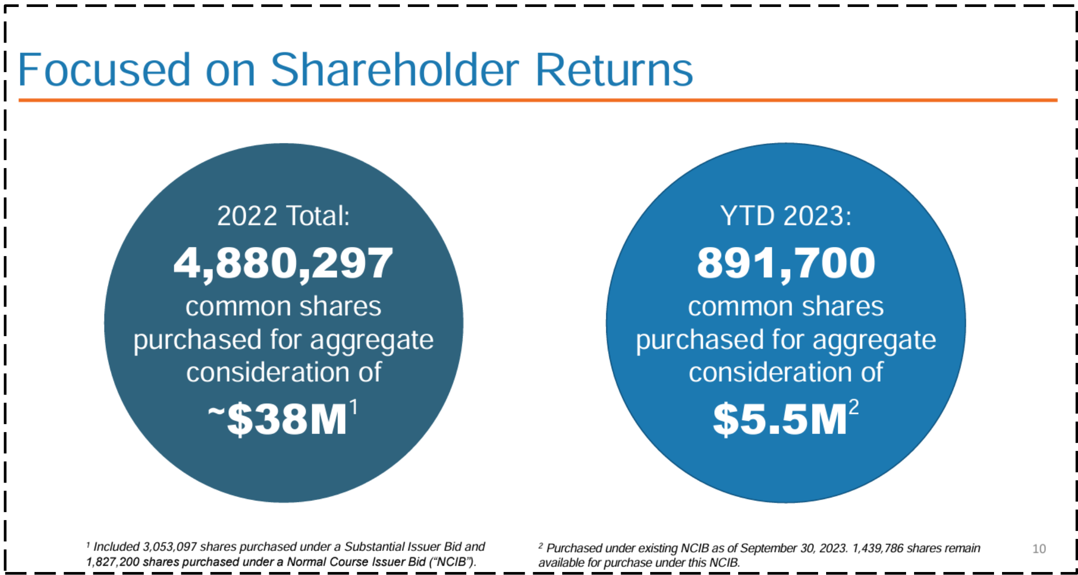


Figure 8: MFC Investor Relations Presentation from December 2023

It is also extremely important to focus on reducing corporate overheads at the MFC Canada level of the structure. Before Jason Redman's arrival, corporate costs had been on an upward trajectory for a couple of years, doubling from just under $6mm to over $12mm. In addition, prior management had granted themselves significant stock options.

$12mm in corporate expenses is somewhat unacceptable, and it looks like management was trying to line their pockets instead of having the shareholder's best interest at heart. Since Jason has come in as the CEO, management has made multiple decisions to help reduce corporate overheads. For example, last year, they replaced KPMG with Grant Thornton as their auditor, which brought significant cost savings. Management has guided that their strategy of cutting overhead costs should increase the cashflows attributable to shareholders in the range of $5mm.

Cash Available for Distribution (In thousands of U.S. dollars)	2022	2021
Cash available for distribution at Facility level	70,195	85,576
Non-controlling interest in cash available for distribution at Facility level	(33,110)	(40,489)
Corporation's share of cash available for distribution at Facility level	**37,085**	**45,087**
Corporate expenses	(12,054)	(12,021)
%of corporation's share of CAFH @ Facility level	*32.50%*	*26.66%*
Interest on corporate credit facility	(789)	(568)
Recovers of (provision for) current income taxes	(3,082)	(2,623)
Cash available for distribution	**21,160**	**29,875**

Figure 9: Cash Available for Distribution: Corporate Expenses

To further validate our thesis, we talked to Michael from Converium Capital. Michael confirmed that Converium, in September of 2022, had replaced four of six directors on the board. They also replaced the CEO and set out a strategy to a) cut down overhead costs, b) sell all the facilities, and c) use the proceeds as if it were going to be a piecemeal sale and buyback stock.

Valuation:

DCF Build

Operating Build	21A	22A	23E	24E	25E	26E	27E	28E
Facility Service Revenue	398,633.0	424,551.0	445,778.55	459,151.91	472,926.46	487,114.26	501,727.69	516,779.52
%growth YoY		*6.50%*	*5.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*
Government Stimulus Income	13,099.0	(10,162.0)	0	0	0	0	0	0
Total Revenue	**411,732.0**	**414,389.1**	**445,778.6**	**459,151.9**	**472,926.5**	**487,114.3**	**501,727.7**	**516,779.5**
EBIT	**77,358.0**	**34,939.0**	**66,866.8**	**75,760.1**	**78,032.9**	**80,373.9**	**82,785.1**	**85,268.6**
%operating margin	*19.41%*	*8.23%*	*15.00%*	*16.50%*	*16.50%*	*16.50%*	*16.50%*	*16.50%*

DCF	21A	22A	23E	24E	25E	26E	27E	28E
Period				1	2	3	4	5
EBIT	**77,358.0**	**34,939.0**	**66,866.8**	**77,047.3**	**80,707.0**	**84,540.6**	**88,556.3**	**92,762.7**
Tax Rate	20%	20%	20%	20%	20%	20%	20%	20%
EBIAT	**61,886.40**	**27,951.20**	**53,493.43**	**60,608.06**	**62,426.30**	**64,299.09**	**66,228.06**	**68,214.90**
D&A				9,500.00	9,500.00	9,500.00	9,500.00	9,500.00
Change in Net Working Capital				350.00	344.36	354.69	365.34	376.30
%of Sales				*2.50%*	*2.50%*	*2.50%*	*2.50%*	*2.50%*
CAPEX				8,500.00	8,500.00	8,500.00	8,500.00	8,500.00
Minority Interest Deduction				29,097.58	29,963.92	30,848.59	31,759.79	32,698.34
Unlevered Free Cash Flows				**32,160.48**	**33,118.01**	**34,095.81**	**35,102.93**	**36,140.27**
Discount Rate				9.50%	9.50%	9.50%	9.50%	9.50%
PV of FCF				29,370.30	27,620.79	25,969.20	24,416.70	22,957.30
PV of Stage 1	**130,334.28**							

EV to EQ Bridge	
Final-Year FCF	36,140.27
Exit Multiple	9x
Terminal Value	325,262.41
PV of TV	**206,615.68**
Enterprise Value	336,949.96
less Debt	52,603.00
plus Cash & Cash Equivalents	26,979.00
Equity Value	311,325.96
DSO	25,066,567
Equity Value per Share (USD)	12.42
Equity Value per Share (CAD)	**16.77**
Upside	**82.45%**

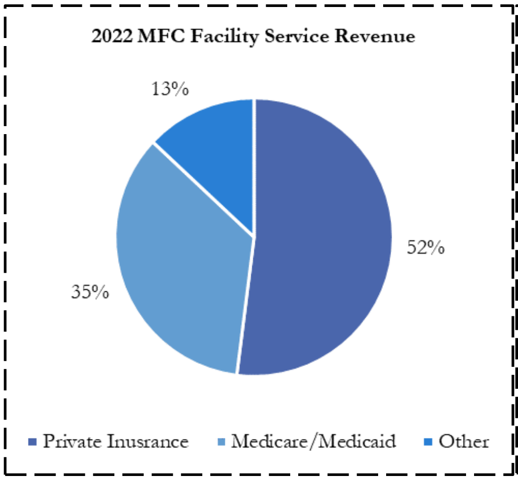
Assumptions for DCF	
Discount Rate	9.50%
Share Price	9.19
DSO	25,066,567

Multiples Valuation

Medical Facilities Corporation		Ending Period:
Multiples Valuation		9/30/2023
Hospital Asset, EBITDA		EBITDA Annualized
ASH		16,000,000
OSH		5,900,000
BHSH		18,500,000
SFSH		34,200,000
Hospital EBITDA, Total		74,600,000
Hospital EBITDA, DR's Share		39,180,602
EBITDA:FCF Conversion		52%
Corporate Expenses, Annualized		(8,700,000)
Net Debt Calculation		Amount
Cash & Equivalents		22,356,222
Debt, Current Portion		16,004,000
Debt, Non-Current Portion		36,515,000
Corporate Credit Facility		24,000,000
Lease Liabilities, Current Portion		10,127,000
Lease Liabilities, Non-Current Portion		40,625,000
Net Hospital Debt		52,519,000
Hospital Asset, Sale Multiples		EV/EBITDA Multiple
ASH		9.3x
OSH		9.3x
BHSH		11.0x
SFSH		10.5x
Hospital Asset, Sale Values		Sale EV
ASH		148,000,000
OSH		54,575,000
BHSH		203,500,000
SFSH		359,100,000
Sum		765,175,000
Valuation		
Enterprise Value		765,175,000
Less: Net Debt (Hospital Level)		(52,519,000)
Equity Value, USD, Total		712,656,000
Equity Value, USD, DR's Proportional Share		374,293,443
Less: DR Corporate Credit Facility		(24,000,000)
Years Until All Asset Sales Complete		2.00
Less: Capitalized Corporate Overhead Costs Until Wind-Down		(17,400,000)
Equity Value, USD, DR's Proportional Share		332,893,443
FX CAD/USD		1.32
Equity Value, CAD, DR's Proportional Share		439,419,345
Diluted Shares Outstanding		25,500,473
Intrinsic Value per Share	**CAD**	**17.23**
Current Price per Share	CAD	9.19
Upside		88%

Appendix:

Payor Mix



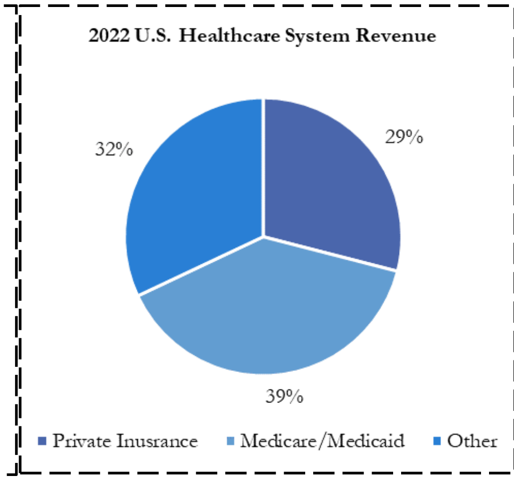


Exhibit 1: MFC vs. US Healthcare System Payor Mix

Operating Income

Operating Income								
Hospital Asset	2022, 4Q	2023, 1Q	2023, 2Q	2023, 3Q	TTM	MR TTM	DR % Own	TTM to DR
ASH	3,476,000	4,127,000	4,417,000	4,791,000	16,811,000	13,493,341	51%	8,573,610
OSH	2,143,000	1,408,000	957,000	36,000	4,544,000	5,222,452	64%	2,908,160
BHSH	4,983,000	2,955,000	4,940,000	2,701,000	15,579,000	16,177,043	54%	8,443,818
SFSH	12,756,000	7,583,000	7,417,000	6,928,000	34,684,000	29,028,330	51%	17,688,840
SCNC	(75,000)	310,000	378,000	59,000	672,000		51%	342,720
MFC Nuterra ASCs	320,000	11,000	10,000	202,000	543,000		50%	271,500
Total	**23,603,000**	**16,394,000**	**18,119,000**	**14,717,000**	**72,833,000**	**63,921,167**	52.5%	**38,228,648**

Exhibit 2: Operating Income

Equity Level Cashflows

Medical Facilities Equity Level	
Operating Income	38,228,648
Interest Expense	(3,943,540)
Tax Expense	(10,130,592)
Net Income	24,154,517
Depreciation & Amortization	5,700,206
Capital Expenditures	(9,616,579)
"Maintenance" Capital Expenditures	(5,252,091)
Free Cash Flow	20,238,144
"Steady State" Free Cash Flow	24,602,632
Share Price (CAD)	8.94
Market Capitalization (USD)	166,530,000
P / FCF	**8.2x**
P / Steady State FCF	6.8x
S/O	25,500,473

Exhibit 3: Equity Level Cashflows

Black Hills Surgical Hospital Quality

BLACK HILLS SURGICAL HOSPITAL

Proudly owned by physicians

Year after year, BHSH has consistently ranked among the top 1% of hospitals in the nation for providing quality care and service out of nearly 5,000 hospitals.

Medical Excellence 2021-2022 (CareChex by Quantros)		
#1 in State	**#1 in Market**	**Top 100 in Nation**
Overall Hospital Care	Overall Hospital Care	Overall Hospital Care
Overall Surgical Care	Overall Surgical Care	Overall Surgical Care
Joint Replacement	General Surgery	Joint Replacement
Neurological Care	Joint Replacement	Major Orthopedic Surgery
Major Orthopedic Surgery	Neurological Care	Spinal Fusion
	Major Orthopedic Surgery	Spinal Surgery

Exhibit 4: CareChex Medical Excellence Ranking 2021-2022

Patient Safety 2021-2022 (CareChex by Quantros)		
#1 in State	**#1 in Market**	**Top 100 in Nation**
Overall Hospital Care	Overall Hospital Care	Overall Hospital Care
Overall Surgical Care	Overall Surgical Care	Overall Surgical Care
Joint Replacement	Joint Replacement	Joint Replacement
Major Orthopedic Surgery	Neurological Care	Major Orthopedic Surgery
	Major Orthopedic Surgery	

Exhibit 5: CareChex Patient Safety Ranking 2021-2022

BHSH also won the award from CareChex for the best hospital overall in South Dakota in 2022.

BHSH has received numerous awards from Healthgrades, another site that ranks hospitals. Their surveys found that 93% of patients would recommend BHSH, which is 23% higher than the national average. From 2017 through 2019, patients treated in hospitals receiving the America's 100 Best Hospitals for Joint Replacement Award have, an average, a 64.5 percent lower risk of experiencing a complication while in the hospital than if they were treated in hospitals that did not receive the award. Additionally, patients treated at hospitals that did not receive the award were 2.82 times more likely to experience a complication in the hospital than if they were treated at hospitals that received the award.

Exhibit 6: Healthgrades Awards for BHSH

BHSH was also ranked among the top 10 hospitals in the nation for orthopedic and spine care based on HCAHPS patient survey data. HCAHPS is the Hospital Consumer Assessment of Healthcare Providers and Systems. It is the first national, standardized, publicly reported survey of patients' perspectives of hospital care administered by the government. These results are available for patients to check at http://www.medicare.gov/care-compare and are frequently checked.

Exhibit 7: HCAHPS Survey Results for BHSH

I also think that Google Reviews are worth looking at, given that these would probably be some of the first things customers look at when considering a hospital.

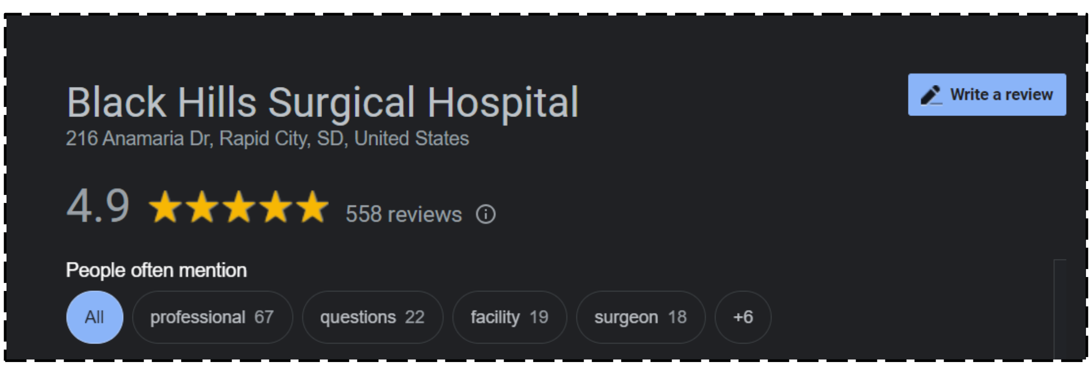


Exhibit 8: Google Reviews of BHSH

<u>Sioux Falls Specialty Hospital Quality</u>

SFSH
SIOUX FALLS
SPECIALTY HOSPITAL

Exhibit 9: Healthgrades Awards for SFSH

Exhibit 10: HCAHPS Survey Results for SFSH

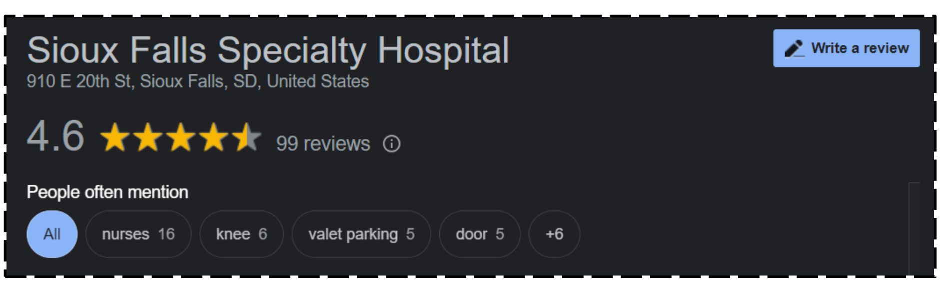


Exhibit 11: Google Reviews of SFSH

Arkansas Surgical Hospital Quality

Exhibit 12: Healthgrades Awards for ASH

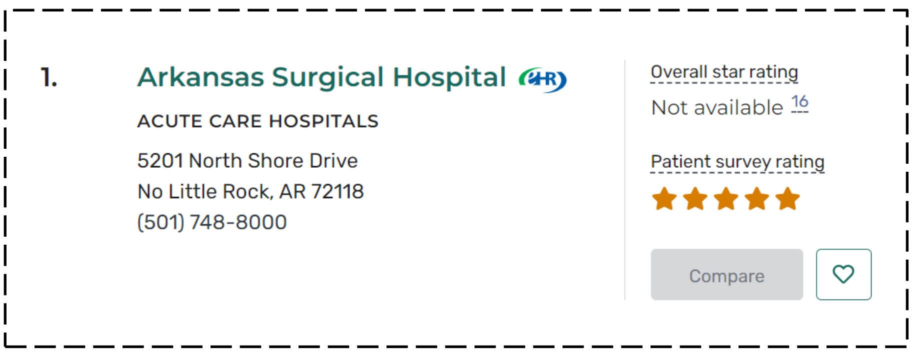


Exhibit 13: HCAHPS Survey Results for ASH

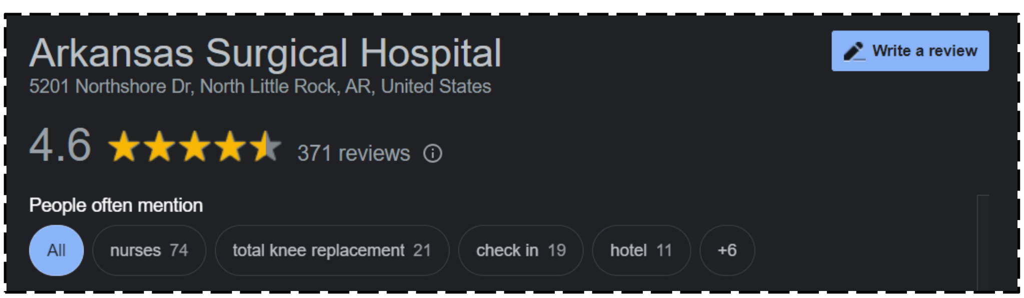


Exhibit 14: Google Reviews of ASH

Oklahoma Spine Hospital Quality

Of all the specialty surgical hospitals that MFC owns, Oklahoma Spine Hospital is of the lowest quality.

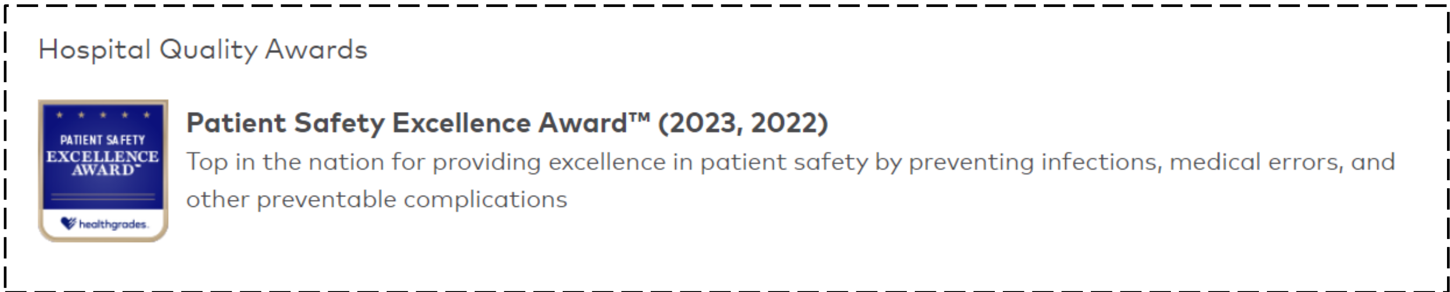


Exhibit 15: Healthgrades Awards for OSH

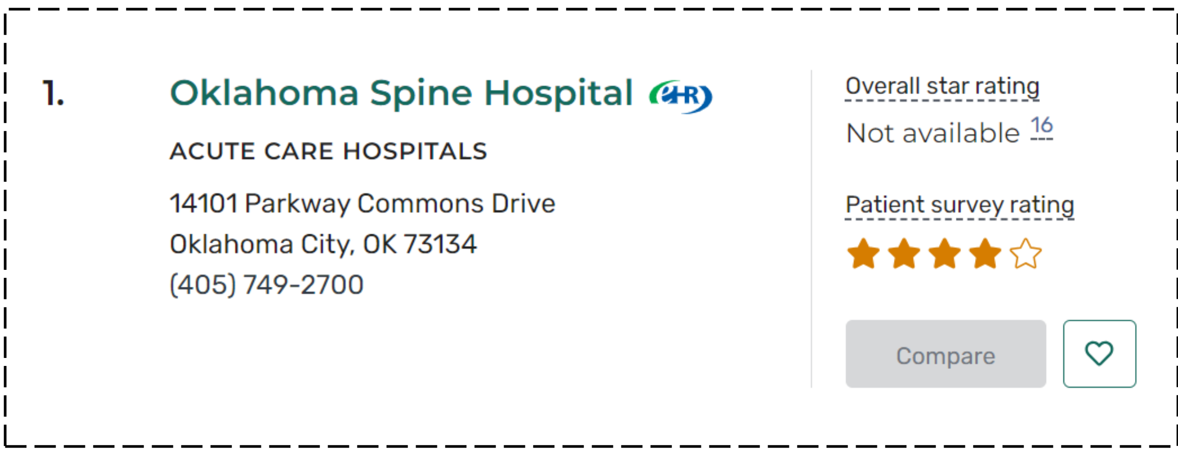


Exhibit 16: HCAHPS Survey Results for OSH

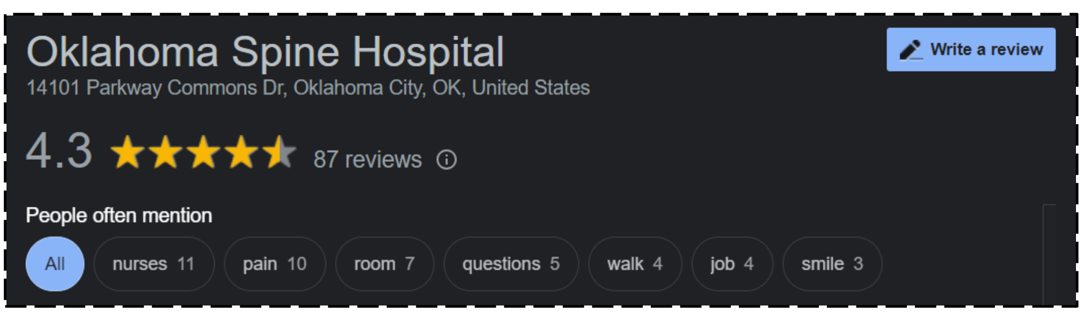


Exhibit 17: Google Reviews of OSH

MFC Topline

Understanding MFC's financials is somewhat complicated because there are so many NCIs in their operating assets. But to better understand why this opportunity exists, understanding the financials of MFC is essential. The first thing to note is that even though MFC is listed in Canada, all their earnings are reported in US Dollars. Therefore, any financials used throughout this report will be in US Dollars.

The third line item in Figure 12, 'Government Stimulus income (costs),' oscillates between positive in FY2020, then negative in FY2021, and completely disappears in FY2023. To clarify this, one must understand the litany of COVID-19 relief programs the government runs. The Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 7^{th,} 2020. The CARES Act included provisions for financial assistance to hospitals, surgery centers, and healthcare providers. These funds were made available via the Public Health and Social Services Emergency Fund (PHSSEF), the Paycheck Protection Program (PPP), and the Employee Retention Credit (ERC).

The PHSSEF was administered by the Department of Health and Human Services (HHS) to provide eligible healthcare providers with relief funds to cover non-reimbursable expenses, including lost revenue, attributable to COVID-19. Funds not utilized for eligible costs and not applied to lost revenues must be returned.

MFC recognized income for the loans received under the PPP during prior periods based on management's assumption that they had met the requirements for forgiveness. However, given the denial and additional review of certain loan forgiveness applications by the SBA in 2022, MFC management no longer had reasonable assurance of meeting the forgiveness requirements for loans of $12.34mm. This $12.34mm comprises all PPP loan balances for facilities whose forgiveness applications have been denied or are under review. Therefore, we see the reversal of $12.34mm from FY2022's revenue. Management is still trying to pursue loan forgiveness, and if this does occur in the future, income will be recognized. All these expenses and income are one-time effects due to COVID-19, and thus, as Christian from Trident Opportunities suggests, it makes more sense to deduct the positive stimulus income from 2021, and the negative income from 2022 should be added back on top of revenues. This effectively smoothens the revenue and somewhat adjusts for the impacts of COVID-19. Exhibit 18 below shows this.

(In thousands of U.S. dollars)	Year Ended December 31,		
	2022	2021	2020
HHS	1,434	9,724	11,514
PPP	(12,335)	1,479	12,226
ERC	608	192	-
FFCRA	-	52	1,288
Other	131	1,652	980
Government Stimulus Income (Costs)	**(10,162)**	**13,099**	**26,008**

Exhibit 18: Government Stimulus Income Impact on I/S for FY2021 - FY2022

Revenues Without Adjustment (In thousands of U.S. dollars)			
	9M 2023	2022	2021
Facility service revenue	323,317	424,551	398,633
Government stimulus income (costs)	-	(10,162)	13,099
Total Revenue	**323,317**	**414,389**	**411,732**
YoY Growth %		*0.65%*	

Revenues With Adjustment (In thousands of U.S. dollars)			
	9M 2023	2022	2021
Facility service revenue	323,317	424,551	398,633
Government stimulus income (costs)	-	10,162	(13,099)
Total Revenue	**323,317**	**434,713**	**385,534**
YoY Growth %		*12.76%*	

Exhibit 19: Revenue With & Without Adjustments for FY2021 – 9M2023

<u>MFC EBIT</u>

Perhaps somewhat more concerning is that even though we see adjusted revenue growth of 12.76% there is a 54.8% decline in EBIT. This is shown below in Figure 5. The important thing to note here is that there was a one-time noncash expense in the 'Impairment of goodwill, other intangibles and equipment' line item, which was a $16.55mm drag on EBIT. MFC recorded an impairment loss in the MFC Nueterra ASCs cash-generating unit (CGU). These were the ASCs that were divested of in FY2023. While I am always weary of adjusting as management and investors too often classify otherwise recurring expenditures as one-time expenditures, I think here it is fair to make this adjustment. Thus, we can see below in Exhibit 20 that once we make this adjustment, the actual decline in EBIT improves from 54.5% to only 4%. While a 4% decline in EBIT is not great, it is significantly better than a 54.8% decline. Furthermore, I think there is a strong case to be made that the decline in EBIT is due to transitory issues, which I do not believe will last.

EBIT			
	9M 2023	2022	2021
Facility service revenue	323,317	424,551	398,633
Government stimulus income (costs)	-	(10,162)	13,099
Total Revenue	**323,317**	**414,389**	**411,732**
EBIT	**41,599**	**34,939**	**77,358**
YoY Growth %		*-54.83%*	

Adjusted EBIT			
	9M 2023	2022	2021
Facility service revenue	323,317	424,551	398,633
Government stimulus income (costs)	-	10,162	(13,099)
Total Revenue	**323,317**	**434,713**	**385,534**
EBIT	**41,599**	**45,101**	**64,259**
+ Impairment of goodwill, other intangibles and equipment		16,549	
Adjusted EBIT	**41,599**	**61,650**	**64,259**
YoY Growth %		*-4.06%*	

Exhibit 20: Adjusted EBIT for FY2021 – 9M2023

Exchangeable Interest Liability:

On the income statement, we see that in the 'Finance costs' segment, there is this change in the value of exchangeable interest liability, which crops up somewhat randomly, either positively or negatively impacting MFC's bottom line. There is also the line item underneath, which is the interest expense on exchangeable interest liability. Both of these are shown in the exhibits below.

	9M 2023	2022	2021
Finance costs			
Change in value of exchangeable interest liability	4,010	(8,224)	11,539
Interest expense on exchangeable interest liability	5,226	7,362	8,707
Interest expense, net of interest income	4,651	5,731	6,064
Impairment loss on loan receivable	786	11,990	-
Loss on foreign currency	42	3	34
	14,715	**16,862**	**26,344**

Exhibit 21: Finance Costs on MFC Income Statement

As a result of MFC's acquisition of its interests in ASH, BHSH, SFSH, and OSH, MFC entered into exchange agreements with the owners, who initially retained a 49% non-controlling interest in these facilities. The terms that MFC agreed to allow the non-controlling interest holders in each facility the right to exchange a portion of their interest in their respective facilities for common shares of MFC. The outstanding exchangeable interest for each facility is detailed below.

Summary of Facility Information as of September 30, 2023	Arkansas Surgical Hospital (ASH)	Oklahoma Spine Hospital (OSH)	Black Hills Surgical Hospital (BHSH)	Sioux Falls Specialty Hospital (SFSH)	Surgery Center of Newport Coast (SCNC)
Exchangeable Interest	5.00%	1.00%	10.80%	14.00%	-

Exhibit 22: Exchangeable Interest by Facility

The exchangeable interests are subject to certain limitations, such as the exchange can only occur quarterly, and the NCIs are not allowed to exchange more than 3% per quarter. The exchangeable interest liability is carried at fair value. It is determined at each reporting date by multiplying the closing share price by the total number of common shares issuable under the exchangeable interest. Each facility's distributions in excess of what the company does not own but would own if the interest exchange was effective are recorded as interest expense. Each facility's distributions are treated as interest expenses but are non-cash expenses.

EIL Maths (In thousands of U.S. dollars)	September 30, 2023	June 30, 2023	Change
Shares to be issued for EIL	5,937,372	6,082,735	(145,363)
MFC's closing share price	CAD 9.46	CAD 8.29	CAD 1.17
Closing USD/CAD exchange rate	$1.3579	$1.3247	$0.0332
Exchangeable Interest Liability	**41,364**	**38,066**	**3,298**

Exhibit 23: Change in Value of EIL Exemplified

The figure above demonstrates the change in the value of the exchangeable interest liability. If MFC's share price increases in any given period, then the EIL on MFC's balance sheet increases, negatively impacting MFC's bottom line. However, since it is a non-cash expense, it is added to the cash-flow statement under finance income.