

# Gluskin Sheff + Associates Inc.

Carmen Chang (130920110)

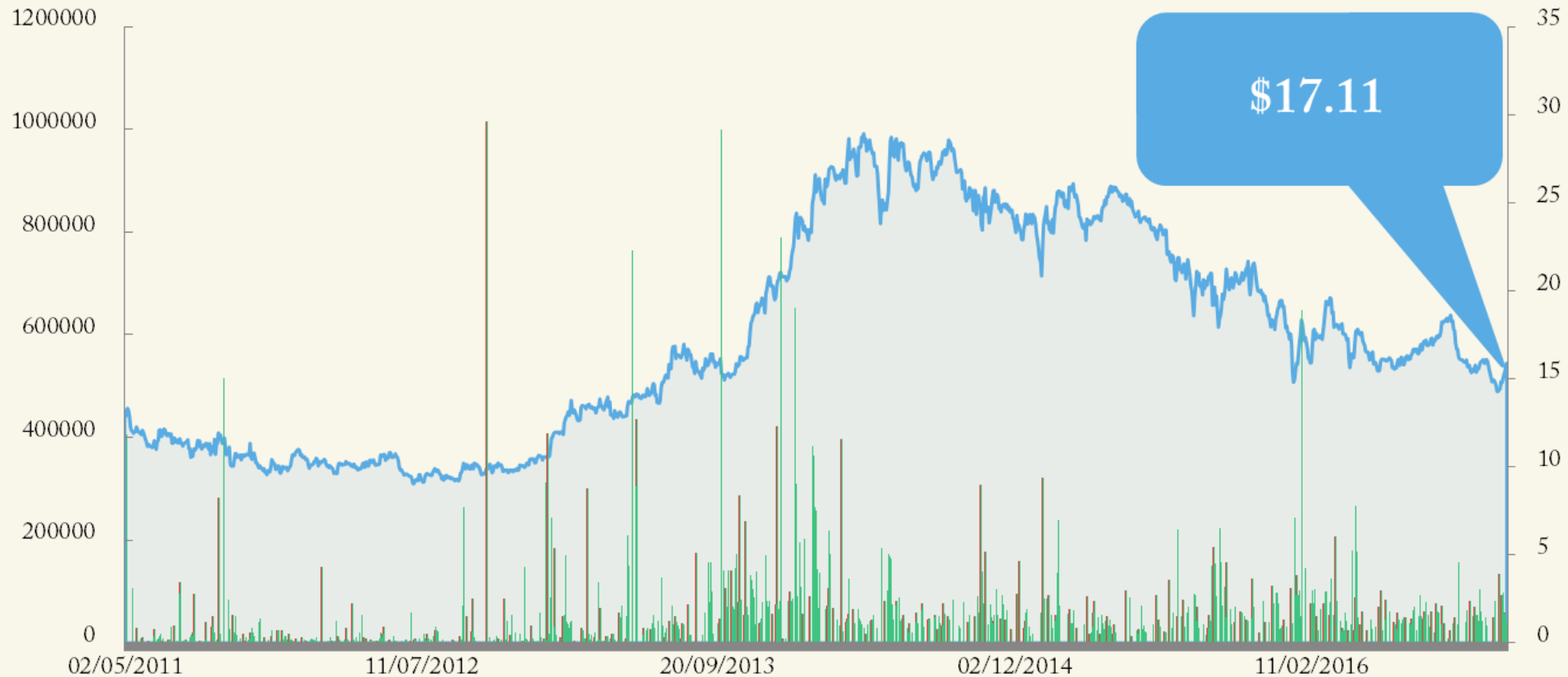
Fani Hsieh (131581470)

Varshanan Sivakumar (130633690)

Alison Xueying Xu (133069650)

Betty Zhang (130280270)

# Recommendation - Buy



# Company Overview

---

- Founded by Ira Gluskin and Gerald Sheff in 1984
- Invest in Equity, Fixed Income & Alternative Strategies
  - Base management & performance fees
- 19.7% compound annual growth rate since inception
- Acquired Blair Franklin in 2014
  - Fixed income expertise

# Management Team at a Glance

---



**Thomas C. MacMillan**  
President & Chief Executive Officer



**Jeff Moody**  
Senior Executive Vice-President, Investments  
& Client Wealth Management



# Board Committee Positions

---

Name	Title	Tenure	Independent?
Nancy H. O. Lockhart	Lead Director	3 years	Yes
Paul Beeston	Director	7 years	Yes
Ann Davis	Director	2 years	Yes
Wilfred Gobert	Director	6 years	Yes
Stephen Halperin	Director	3 years	Yes
Thomas C. MacMillan	President & CEO	2 years	No
Herbert Solway	Director	4 years	No
Pierre-Andre Themes	Director	6 years	Yes

# Economic Analysis

---

- Interest Rate
  - U.S. Feds rate expected to increase at the end of the year; currently at 0.5%
  - Long-term rate expected to grow to 2.25% in 2020
  - Canadian interest rate is currently 0.5%, expected to hold for the short-term
- Inflation Rate
  - Current U.S. inflation rate is 1.6% and expected to grow to 2.5% in 2020
  - Current Canadian inflation rate is 1.5% and expected to grow to 2.9% in 2020
- Exchange Rate
  - USD/CAD projected to increase to 1.48 in October 2018

# Financial Analysis 2014 - 2016

---

	2016	2015	2014
<b>Management Fees</b>	105.3M	106M	87.8M
<b>Performance Fees</b>	34.1M	55M	156.5M
<b>AUM</b>	8.3B	8.5B	7.5B

# Financial Ratios

---

	2016	2015	2014
<b>ROE</b>	0.285	0.4191	1.162
<b>ROA</b>	0.2031	0.2893	0.5499
<b>Quick Ratio</b>	1.4124	1.7123	1.7974



# Dividend Discount Model

---

Formula:

Stock Price = Next Year's Dividends / (Cost of Equity – Dividend Growth Rate)

$$= 1.125 (1 + 0.0197) / (0.0869 - 0.0197)$$

$$= \mathbf{17.08}$$

# Discounted Cash Flow

	2017	2018	2019	2020	2021
<b>Unlevered Net Income</b>	75,305	86,600	99,590	114,529	131,708
<b>Cash Flow</b>	5,529	6,358	7,312	8,409	9,670
<b>PV</b>	5,153	5,522	5,919	6,343	6,799

WACC: 7.3%

**Terminal Value: 731,511**

**PV of Terminal: 514,309**

**Total Equity Value: 551,586**

**Shares Outstanding: 32M**

**Stock Value: \$17.11**

Figures in thousands \$ CAD

# Comparable Companies

	Comparable Companies					Average Median	
	AGF/B	CIX	FSZ	GCG/A	SII		
<b>EV/EBITDA</b>	7.8	11.4	13.1	16.8	16.3	13.1	13.1
<b>EV/EBIT</b>	13.4	14.3	21.3	18.1	18.8	17.2	18.1
<b>P/E</b>	8.6	12.8	31.7	15.5	20.0	17.7	<b>15.5</b>

Valuation	Value of Equity	Share Price
GS Shares Outstanding: 32 M		
Median P/E Multiple	531M	<b>16.49</b>

# Risks

---

- Revenues can decline due to declines in:
  - Value of AUM
  - Returns on AUM
- Revenues of the firm are affected by:
  - Changes to securities markets
  - Key employees
  - Competition

# Conclusion

---

- Competitive Advantages:
  - Business Strategy
  - Management Team
  - Investment Performance
- DDM: \$17.08
- Relative Valuation: \$16.49
- DCF: \$17.11

**Recommendation: Buy**

Questions?

# Appendices

Management	PEST	Industry Forces	Financial Analysis and Ratios	Dividend Discount Model	Discounted Cash Flow	Comparables
<u>Stock Ownership</u>	<u>Canada Interest Rate</u>	<u>Competitive</u>	<u>Financial Analysis</u>	<u>Growth %</u>	<u>Beta</u>	<u>Companies</u>
<u>Executive Compensation</u>	<u>U.S. Feds Rate</u>	<u>Buyers</u>	<u>Financial Ratios</u>	<u>Valuation</u>	<u>WACC</u>	<u>Analysis</u>
		<u>Substitutes</u>	<u>Other</u>		<u>Financial Analysis</u>	<u>Valuation</u>
		<u>New Entrants</u>			<u>Projections</u>	
					<u>Long-term Growth Rate</u>	
					<u>Revenue Breakdown</u>	

# Stock Ownership Summary

Top 10 Shareholders	Shares Held	% of Total
1832 Asset Management L.P. (Institution)	3,046,669	9.74
CI Investments Inc. (Institution)	1,227,433	3.93
BlackRock Asset Management Canada Ltd (Institution)	855,853	2.76
Monstrusco Bolton Investments Inc (Institution)	654,218	2.09
AGF Investments (Institution)	598,495	1.92
Signature Global Asset Management (Institution)	569,006	1.82
Signature Global Advisors (Institution)	509,983	1.63
iShares S&P/TSX Canadian Div Aristocrats (Mutual Fund)	827,157	2.67
CI Signature Income & Growth	614,146	1.97
Dynamic Dividend Advantage Fund	234,186	1.71

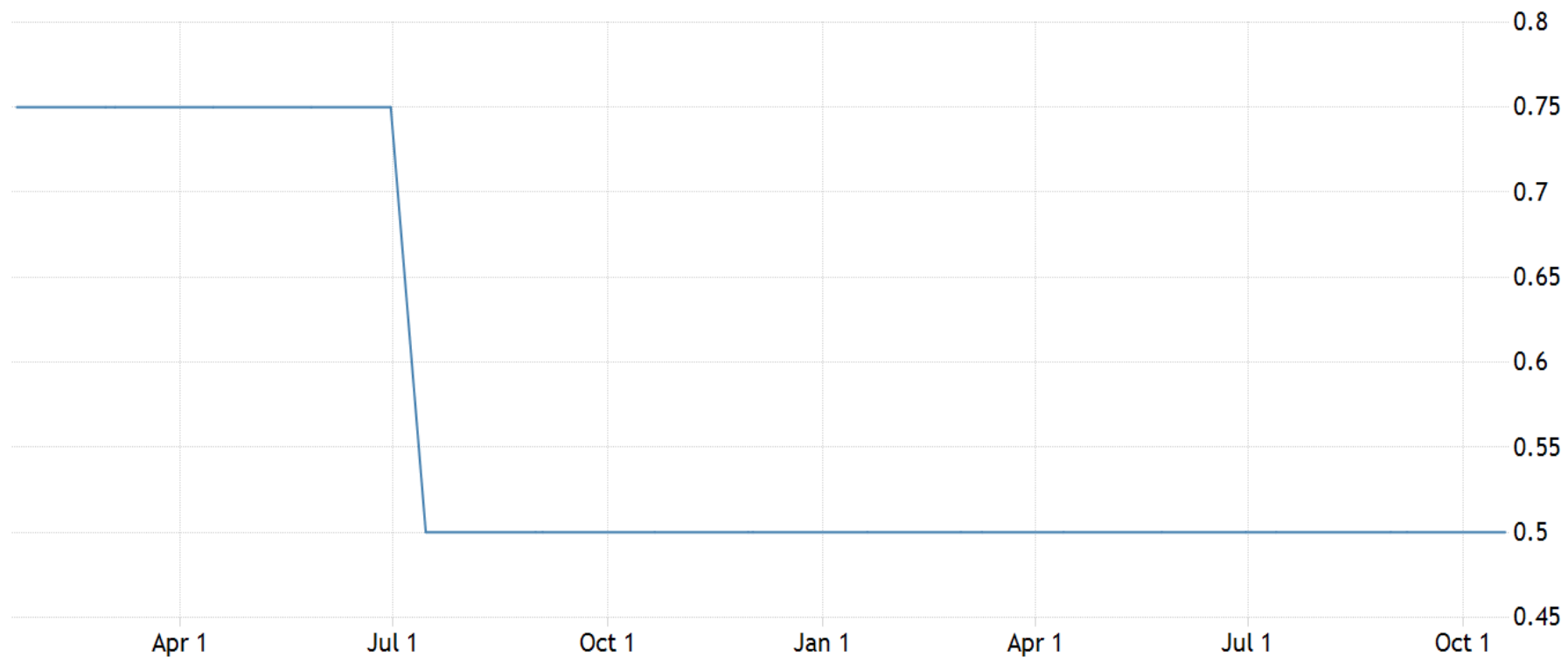
Individual Shareholders	Shares Held	% of Total
Jeremy Freedman	1,848,075	5.92
Thomas C. MacMillan	173,881	0.56
Paul Beeston	80,495	0.26



# Executive Compensation

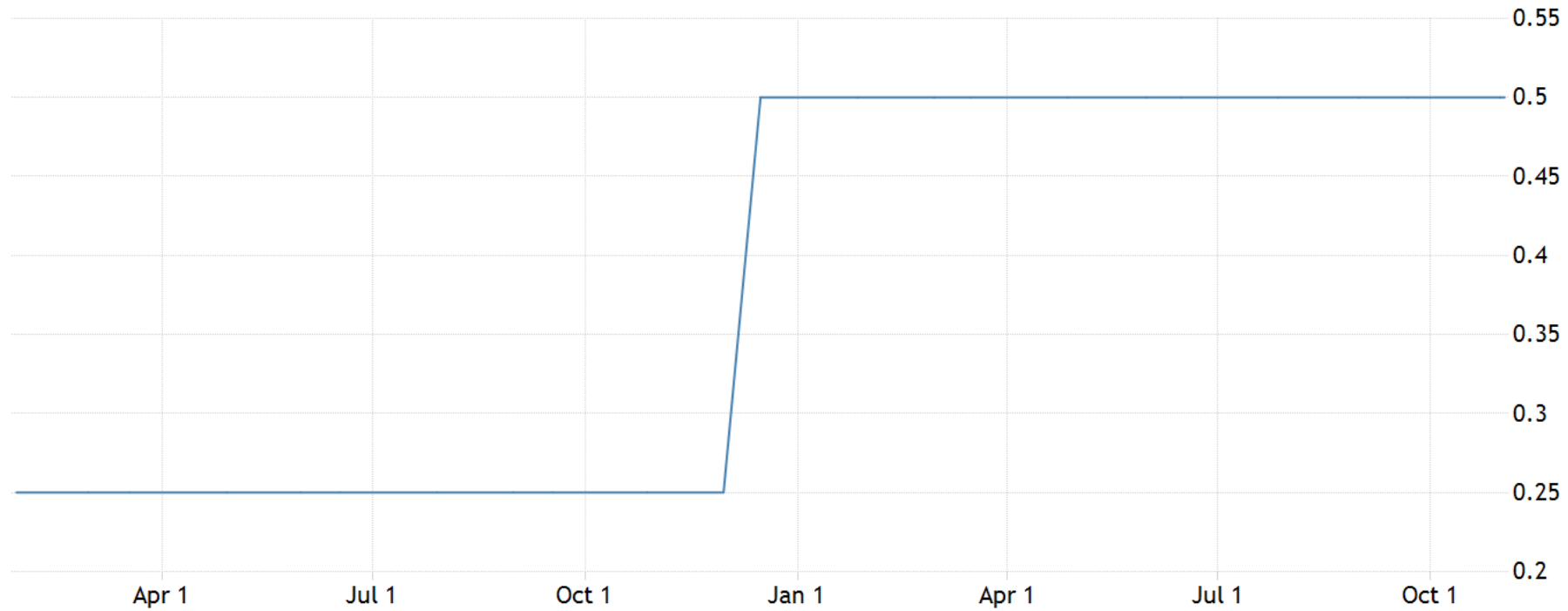
Name and Principal Position	Salary (\$)	Share- & Option-based awards	Non-equity incentive plan compensation (\$)	All other compensation (\$)	Total compensation (\$)
Jeremy Freedman President & Chief Executive Officer, Director	450,000	nil	nil	1,500,000 (retirement)	1,950,000
David Morris Chief Financial Officer	250,000	47,500	302,500	N/A	600,000
Peter Mann Executive Vice-President, Co-Chief Investment Officer & Head of Equities	350,000	660,000	1,190,000	N/A	2,200,000
David Rosenberg Chief Economist & Strategist	350,000	60,000	340,000	1,559,000 (economic research)	2,309,000
Peter Zaltz Executive Vice-President, Co-Chief Investment Officer & Head of Fixed Income	350,000	785,000	1,315,000	N/A	2,450,000

### CANADA INTEREST RATE



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | BANK OF CANADA

## US FED FUNDS RATE



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | FEDERAL RESERVE

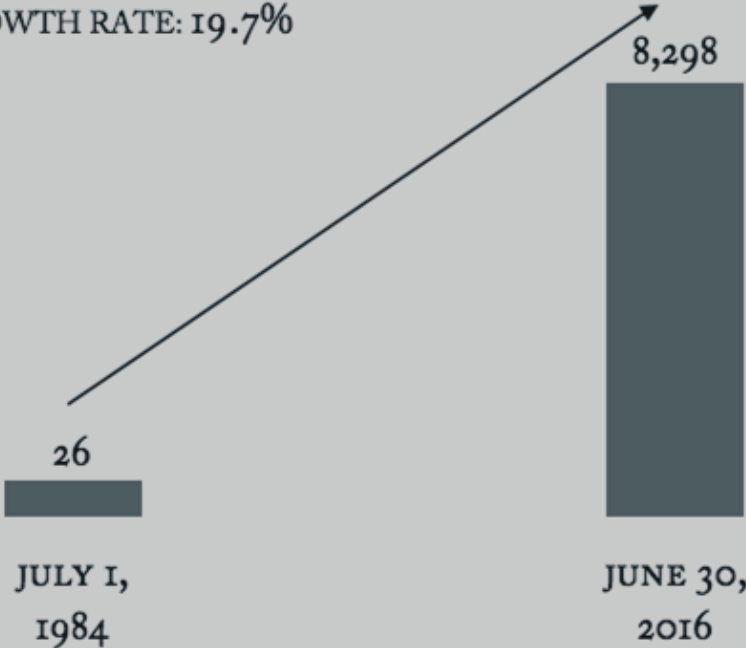
# Competitive Forces

---

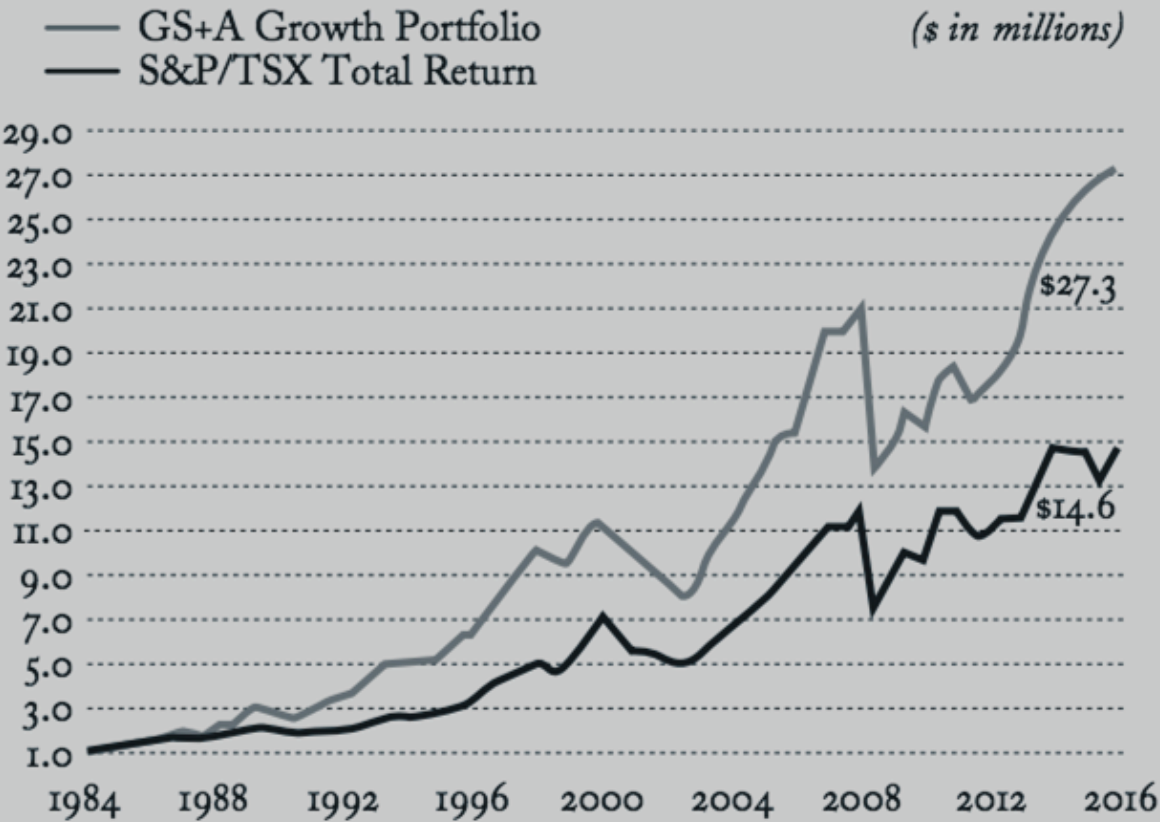
- Industry rivalry - Moderate
  - Investment strategy
    - Gluskin Sheff - A value-oriented investment strategy; focus on smaller, lesser-followed securities; and more concentrated portfolios
    - Guardian Capital- committed to adding value for shareholders over the long term to all our constituents
    - AGF investment ltd. - Follows four principles: shared intelligence, disciplined processes, innovative thinking and a people-first culture.
  - Compound annual growth rate
    - Gluskin Sheff - 19.7% since founding in 1984
    - Guardian Capital- 4.87% in the past three years
    - AGF investment ltd.- 8.5% since performance start date

ASSETS UNDER MANAGEMENT  
(\$ in millions)

COMPOUND ANNUAL  
GROWTH RATE: 19.7%



GS+A GROWTH PORTFOLIO<sup>1</sup>  
(Growth of \$1 million – July 1, 1984 to June 30, 2016)



Gluskin Sheff

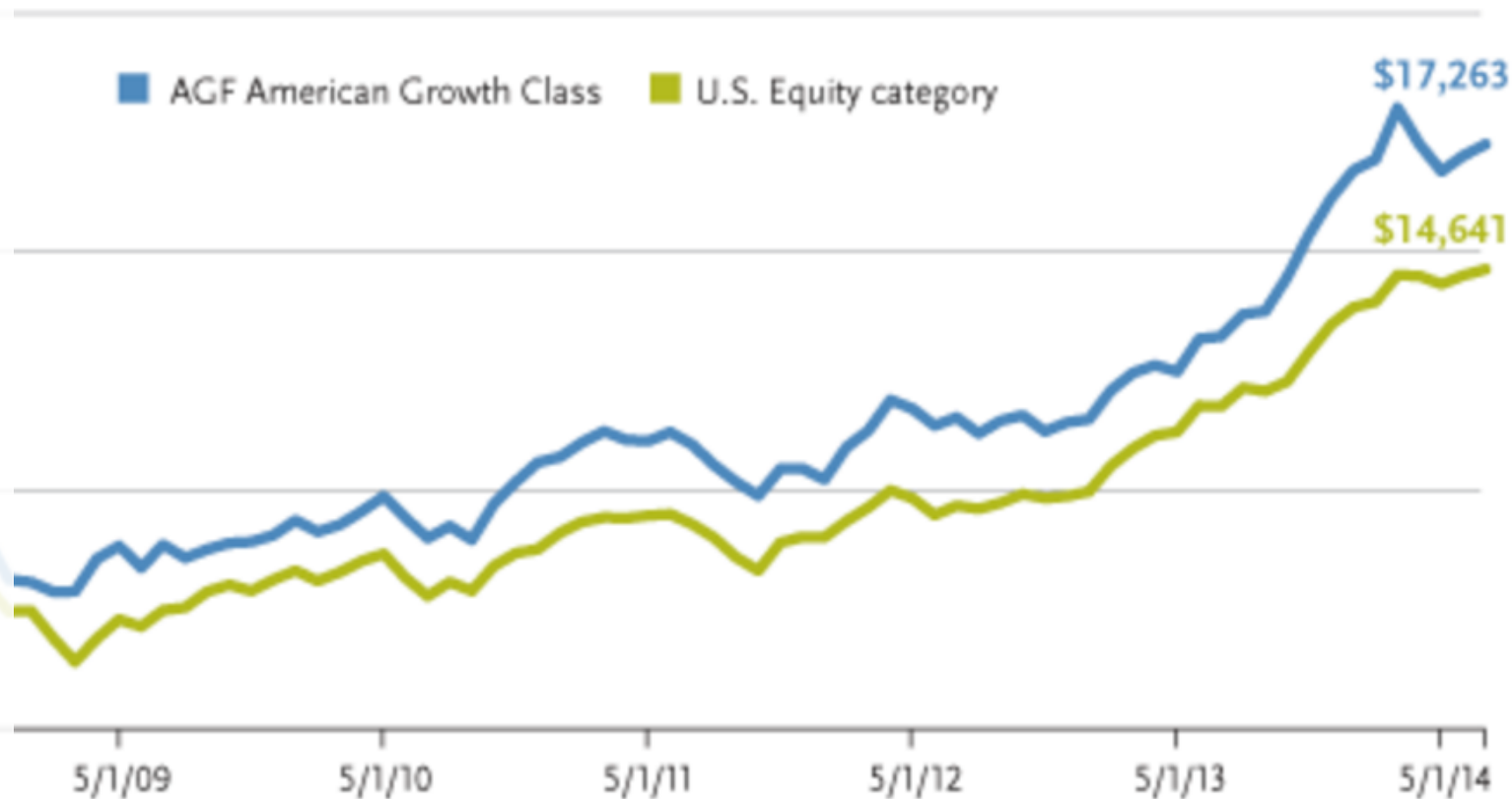
1. Investment amounts are shown to illustrate the effect of past performance on an investment of \$1 million. Past returns are not necessarily indicative of future performance, assume reinvestment of all income and distributions and are those of the composite of segregated GS+A Growth Portfolios (net of all fees and expenses, and excluding portfolios with significant client restrictions) and the S&P/TSX Total Return Index.

high conviction of Portfolio Manager Tony Genua and his growth approach has resulted in a 6.14%\* return since transitioning the portfolio on May 1, 2013, over the same period.

## LONG-TERM PERFORMANCE

### AGF

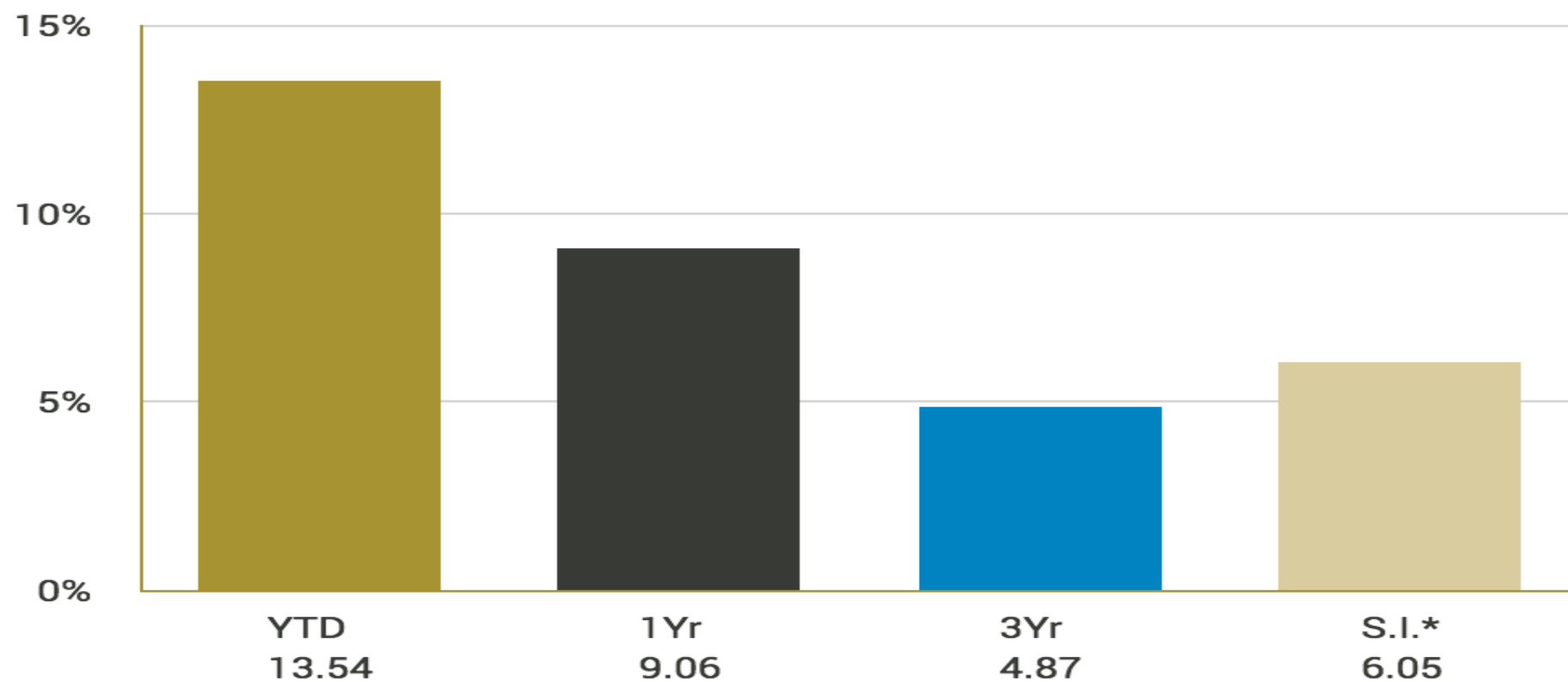
The following are the average annual net compound returns for AGF American Growth Class as at June 30, 2014: one-year 30.5%, three-year 16.3%, five-year 14.3%, 10-year 4.7% and since Performance Start Date 8.5% (June 28, 1957).



The following are the average annual net compound returns (and the number of funds) for the peer group as at June 30, 2014: one-year 30.5%, three-year 16.3%, five-year 14.3%, 10-year 4.7% and since Performance Start Date 8.5% (June 28, 1957). For greater detail see [www.morningstar.ca](http://www.morningstar.ca).

# Guardian Capital

## Annual Compound Performance as of 10/31/2016



# Industry Forces

---

- **Bargaining power of buyers – Moderate**
  - Buyer concentration to firm concentration
    - Moderate
    - Buyers are becoming increasingly institutionalized
  - Information Available
    - Moderate
    - Internet, Online Website, Morningstar and Sedar
    - Buyer Price Sensitivity
  - Differential Advantage of Products
    - Moderate -More focus on lesser-followed securities; and more concentrated portfolios



# Industry Forces

---

- **Threat of substitutes – Low**
  - Other alternatives:
    - Passive management:
      - Take less action and wait for the growth
      - Lower return
      - Less risk
    - Self-management:
      - Requires expertise knowledge
      - Lower return and higher risk
  - Target clients of Gluskin Sheff are risk neutral. To minimize the risk, choosing active management and managed by independent management firm will be ideal for them.

# Industry Forces

---

- **Threat of new entrants – Low**
  - Require high reputation
    - Ex. Proven history of large investment returns
  - Require Diversified and competitive investment products
  - Require exceptional client relationships
  - Require talented management team

# Ratios: Other

---

	2016	2015	2014
<b>Dividend Payout Ratio</b>	0.9792	1.0614	0.9711
<b>Debt to Asset Ratio</b>	0.2868	0.3096	0.5267
<b>Debt to Equity Ratio</b>	0.4033	0.4484	1.113
<b>Net Working Capital</b>	24,198	20,356	70,519

# DDM: Growth %

	AGF		CIX		FSZ		GCG		SII	
	Dividends	Growth %	Dividends	Growth %	Dividends	Growth %	Dividends	Growth %	Dividends	Growth %
<b>2011</b>	1.06		0.89		0.32		0.16		0.84	
<b>2012</b>	1.08	2%	0.95	7%	0.32	0%	0.17	6%	0.14	-83%
<b>2013</b>	1.08	0%	1.06	12%	0.38	19%	0.3	76%	0.14	0%
<b>2014</b>	1.08	0%	1.19	12%	0.46	21%	0.24	-20%	0.12	-14%
<b>2015</b>	0.59	-45%	1.3	9%	0.54	17%	0.29	21%	0.12	0%
<b>Average</b>		-11%		10%		14%		21%		-24%
	Average Dividend Growth:			1.97%						

# DDM: Valuation

---

Formula:

Stock Price = Next Year's Dividends / (Cost of Equity – Dividend Growth Rate)

$$= 1.125 (1 + 0.0197) / (0.0869 - 0.0197)$$

$$= \mathbf{17.08}$$

# DCF: Beta Calculation

Date	GS	Return	S&P TSX60	Return
2013-06-03	\$ 14.48		\$ 12,129.10	
2013-07-02	\$ 16.56	14.34%	\$ 12,486.60	2.95%
2013-08-01	\$ 15.50	-6.38%	\$ 12,653.90	1.34%
2013-09-03	\$ 15.24	-1.68%	\$ 12,787.20	1.05%
2013-10-01	\$ 16.14	5.90%	\$ 13,361.30	4.49%
↓				
2016-03-01	\$ 17.56	0.71%	\$ 13,494.40	4.93%
2016-04-01	\$ 17.03	-3.04%	\$ 13,951.50	3.39%
2016-05-02	\$ 16.11	-5.40%	\$ 14,065.80	0.82%
2016-06-01	\$ 16.14	0.18%	\$ 14,064.50	-0.01%

$$\beta = \frac{\text{cov}(\text{return on GS}, \text{return on market})}{\text{var}(\text{return on market})} = 1.8$$

$$CAGR = \left( \frac{12,129.10}{14,064.50} \right)^{1/3} - 1 = 5.06\%$$

Figures in thousands \$ CAD

# DCF: WACC Calculation

---

$$WACC = W_D \times R_D \times (1 - T) + W_E \times R_E$$
$$WACC = 0.2232 \times 0.0352 \times (1 - 0.303) + 0.7768 \times 0.0869 = 7.30\%$$

- Cost of equity calculated as 8.69% using  $R_e = R_f + \beta \times (R_f - R_m)$ 
  - Beta calculated as 1.8
  - Risk-free rate of 0.5% (3 month T-Bill)
  - Market rate of return calculated as 5.06% (compound annual growth rate)
- Cost of debt extrapolated as 3.52% from comparables
- Tax rate of 30.3% used from 2016 financial statements
- Weight of debt =  $48,541 \div (48,541 + 168,913)$
- Weight of equity =  $1 - \text{weight of debt}$

# DCF: Financial Statement Analysis

	2013	2014	2015	2016	Average
<b>Revenue</b>	125,017	247,462	164,466	142,137	
<b>YoY Growth</b>		97.94%	-33.54%	-13.58%	16.94%
<b>Expenses</b>		99,968	92,138	92,916	
<b>Depreciation</b>		7,513	2,777	6,513	
<b>Dep % of Expenses</b>		7.52%	3.01%	7.01%	5.85%
<b>Exp % of Rev</b>		40.40%	56.02%	65.37%	53.93%
<b>Investing Activities</b>		-24,637	38,394	20,697	
<b>Investing % of Rev</b>		-9.96%	23.34%	14.56%	9.32%
<b>Current Assets</b>		155,426	78,648	70,317	
<b>Current Liabilities</b>		86,767	40,946	46,119	
<b>Working Cap'l</b>		68,659	37,702	24,198	
<b>WC % of Revenue</b>		27.75%	22.92%	17.02%	22.56%
<b>AUM</b>	6,160,000	7,485,000	8,516,000	8,298,000	
<b>YoY Growth</b>		21.51%	13.77%	-2.56%	10.91%

Figures in thousands \$ CAD



# DCF: Projections

	2017	2018	2019	2020	2021
Revenue	163,458	187,976	216,173	248,599	285,888
Expenses	88,153	101,376	116,582	134,070	154,180
<b>Unlevered Net Income</b>	<b>75,305</b>	<b>86,600</b>	<b>99,590</b>	<b>114,529</b>	<b>131,708</b>
Taxes (30.3%)	22,817	26,240	30,176	34,702	39,908
Net Investment	15,229	17,513	20,140	23,161	26,635
Working Capital	36,883	42,416	48,778	56,095	64,509
Depreciation	5,154	5,927	6,816	7,838	9,014
<b>Cash Flow</b>	<b>5,529</b>	<b>6,358</b>	<b>7,312</b>	<b>8,409</b>	<b>9,670</b>
<b>PV</b>	<b>5,153</b>	<b>5,522</b>	<b>5,919</b>	<b>6,343</b>	<b>6,799</b>

**Terminal Value:** 731,511  
**PV of Terminal:** 514,309

**Total Equity Value:** 551,586  
**Shares Outstanding:** 32M

**Stock Value: \$17.11**

Figures in thousands \$ CAD

# DCF: Long-term Growth Rate

	2011	2012	2013	2014	2015	CAGR
<b>AGF</b>	675	510	485	464	450	-8%
<b>CIX</b>	1,496	1,458	1,617	1,876	1,996	5.9%
<b>FSZ</b>	41	73	154	222	258	44%
<b>GCG</b>	128	138	163	192	214	11%
<b>SII</b>	161	158	114	124	126	-5%
<b>Median CAGR</b>						<b>5.9%</b>

Figures in thousands \$ CAD

# DCF: Revenue Breakdown

	2017	2018	2019	2020	2021
AUM	9,203,148	10,207,029	11,320,414	12,555,248	13,924,777

Revenue	163,458	187,976	216,173	248,598	285,888
Management Fee	115,736	128,360	142,362	157,890	175,113
Performance Fee	47,722	59,616	73,811	90,708	110,775

Figures in thousands \$ CAD

# Comparable Companies



CI Financial



FIERACAPITAL



GUARDIAN CAPITAL  
GROUP LIMITED



Investment  
solutions for  
retail, inst. and  
HNW clients.  
Mutual funds

Market Cap:  
414M

Asset  
management:  
various funds  
Asset Admin:  
sale of funds and  
products

Market Cap: 7B

Investment,  
advisory and  
products to inst.,  
private wealth,  
and retail clients

Market Cap:  
988M

Institutional and  
private wealth  
management,  
financial  
advisory,  
securities dealer

Market Cap:  
697M

Asset  
management,  
physical bullion,  
private equity,  
debt, wealth mgt.

Market Cap:  
614M

# Comparable Companies: Analysis

		Comparable Companies					Average	Median
	GS	AGF/B	CIX	FSZ	GCG/A	SII		
<b>EBITDA</b>	56,735	127,200	740,903	75,901	58,969	41,823	208,959	75,901
Less D&A	7,513	52,900	148,383	29,149	4,063	5,607		
<b>EBIT</b>	49,222	74,300	592,520	46,752	54,906	36,216	160,939	54,906
Less interest	-	10,400	14,078	8,852	868	-		
Profit before tax	49,222	63,900	578,442	37,900	54,038	36,216		
Less tax	14,915	15,600	24,948	6,771	9,061	5,530		
<b>Net Earnings</b>	34,307	48,300	553,494	31,129	44,977	30,686	141,717	44,977
Market Cap	To calculate	414,070	7,070,000	987,620	696,680	613,720	1,956,418	696,680
Value of Debt	48,541	581,648	1,400,402	10,153	296,072	66,336	470,922	296,072
Enterprise Value	To calculate	995,718	8,470,402	997,773	992,752	680,056	2,427,340	995,718
<b>EV/EBITDA</b>		7.8	11.4	13.1	16.8	16.3	13.1	13.1
<b>EV/EBIT</b>		13.4	14.3	21.3	18.1	18.8	17.2	18.1
<b>P/E</b>		8.6	12.8	31.7	15.5	20.0	17.7	<b>15.5</b>

Figures in thousands \$ CAD

# Comparable Companies: Valuation

	Enterprise value	Less debt	Value of equity	Share Price
GS Shares Outstanding: 32M				
<b>Average Multiples</b>				
EV/EBITDA	743,248	48,541	694,707	21.55
EV/EBIT	845,609	48,541	797,068	24.73
P/E			607,664	18.85
<b>Median Multiples</b>				
EV/EBITDA	745,822	48,541	697,281	21.63
EV/EBIT	889,980	48,541	841,439	26.11
P/E			531,405	<b>16.49</b>

Figures in thousands \$ CAD

# Works Cited

---

- <http://www.gluskinsheff.com/Home>
- <http://www.gluskinsheff.com/Assets/Documents/Reports/Gluskin%20Sheff%202016%20Annual%20Report.pdf>
- <http://www.gluskinsheff.com/Assets/Documents/Reports/Fiscal%202015/2015%20Annual%20Report.pdf>
- <http://www.gluskinsheff.com/Assets/Documents/Reports/Fiscal%202014%20Annual%20Report%20and%20MIC/Annual%20Report%202014%20SEDAR.pdf>
- <http://www.bankofcanada.ca/rates/interest-rates/t-bill-yields/>
- [http://people.stern.nyu.edu/adamodar/New\\_Home\\_Page/datafile/wacc.htm](http://people.stern.nyu.edu/adamodar/New_Home_Page/datafile/wacc.htm)
- [http://www.cifinancial.com/ci\\_reports.jsp](http://www.cifinancial.com/ci_reports.jsp)
- <http://www.agf.com/static/en/about-agf/investor-relations/annual-reports/index.html>
- [http://www.fieracapital.com/about\\_fiera\\_capital/investor\\_relations/shareholder\\_reports/](http://www.fieracapital.com/about_fiera_capital/investor_relations/shareholder_reports/)
- <https://www.guardiancapital.com/library/?tab=1>
- <http://www.sprottinc.com/investors/financial-reports-filings/>

# Works Cited

---

- <http://www.agf.com/t2scr/static/app/fundview/public/en/fund201.jsp>
- <https://www.guardiancapital.com/institutional-investment-management/prospectused-funds/fund-details?fund=GCG%20525>
- <http://www.gluskinsheff.com/Assets/Documents/Reports/Gluskin%20Sheff%202016%20Annual%20Report.pdf>
- <http://www.tradingeconomics.com/canada/interest-rate>
- <http://www.tradingeconomics.com/china/interest-rate>
- <http://www.tradingeconomics.com/united-states/interest-rate>
- <https://www.gluskinsheff.com/Assets/Documents/Management%20Information%200Circulars/Gluskin%20Sheff%20Management%20Information%20Circular%202016.pdf>
- <https://ca.finance.yahoo.com/q/hp?s=GS.TO>
- <https://ca.finance.yahoo.com/q/hp?s=%5ESPTSECP>



# Works Cited

---

- <http://www.tradingeconomics.com/forecast/inflation-rate>
- <http://www.tradingeconomics.com/canada/interest-rate/forecast>
- <http://www.tradingeconomics.com/united-states/interest-rate/forecast>
- <https://www.bloomberg.com/news/articles/2016-11-23/most-on-fed-saw-rate-hike-relatively-soon-with-less-labor-slack>
- <https://www.nbc.ca/content/dam/bnc/en/rates-and-analysis/economic-analysis/forex.pdf>
- <https://www.nbc.ca/content/dam/bnc/en/rates-and-analysis/economic-analysis/forex.pdf>
- <http://longforecast.com/fx/canadian-dollar-to-us-dollar-forecast-for-2015-2016-and-2017.html>