

## The Rebound Trade: Why This Selloff is a Setup

The stock market doesn't go up in a straight line, and volatility, as a gauge of risk, goes hand in hand with return. That being said, the sheer number of corrections these last few years has been aggressive. Living through corrections can be stressful, but in this write-up, we are highlighting the importance of knowing what you own, following the direction of earnings growth, plus realizing when broad market sell-offs present a great opportunity.

Let's rewind to 2022. The market was selling off aggressively, mainly because interest rates were increasing rapidly. Within our segment of the market, there was nowhere to hide because stocks were declining in unison. It is frustrating as an investor when the companies you own are executing extremely well but the market isn't discerning between winners and losers.

Throughout 2022 we repeated the phrase "our companies are reporting record revenue and record earnings, but their stocks are declining with the market". Every so often, like December 3rd, stocks sell-off as a group, indiscriminately to how the companies are actually performing fundamentally. In 2022, stocks sold off and got so cheap that the bounce back for the companies that continued to execute and grow was substantial.

For example in 2022:

- VitalHub sold off **-36%**, as their revenue increased **62%** & cash earnings increased **129%**<sup>1</sup>
- GoEasy sold off **-46%**, as their revenue increased **23%** & cash earnings increased **20%**<sup>1</sup>
- Propel sold off **-55%**, as their revenue increased **76%** & cash earnings increased **89%**<sup>1</sup>
- MDA sold off **-50%**, as their revenue increased **35%** & cash earnings increased **95%**<sup>1</sup>
- Colliers sold off **-41%**, as their revenue increased **9%** & cash earnings increased **8%**<sup>1</sup>
- Kraken sold off **-41%**, as their revenue increased **60%** & cash earnings increased **170%**<sup>1</sup>

We were adamant that these stocks and others had gotten way too cheap, and the forthcoming rebound would eventually discriminate between the winners and losers and therefore these stocks would realize their true value.

Over the next 24 months:

- VitalHub would increase in value by **325%**
- GoEasy would increase in value by **58%**
- Propel would increase in value by **394%**
- MDA would increase in value by **367%**
- Colliers would increase in value by **57%**
- Kraken would increase in value by **366%**

Our Fund, the Capital Ideas Fund, would increase in value by **141%** over this same time frame.<sup>2</sup>

We will continue to repeat ourselves. Stock prices can be erratic in the short-term. They can trade off emotion and sentiment. In the long run a stock's return is correlated to its earnings.

We're bringing this up now because we see a very similar set-up today. Investor sentiment and the market's reaction is showing similarities to 2022. The sell-off has been broad ranging, companies that have been performing very well are getting hit at the same rate as everyone else.

- Vitalhub - set to report **58%** revenue growth & **47%** earnings growth<sup>1</sup> but their stock is down **40%**
- Propel - set to report **43%** revenue growth & **47%** earnings growth<sup>1</sup> but their stock is down **54%**
- MDA - set to report **49%** revenue growth & **83%** earnings growth<sup>1</sup> but their stock is down **59%**
- Kraken - set to report **34%** revenue growth & **26%** earnings growth<sup>1</sup> but their stock is down **32%**
- Zedcor - set to report **102%** revenue growth & **187%** earnings growth<sup>1</sup> but their stock is down **18%**
- Cipher - set to report **52%** revenue growth & **71%** earnings growth<sup>1</sup> but their stock is down **25%**

The below two tables list stocks with their corresponding stock declines. The first chart illustrates the correction we had in 2022. The second table illustrates the stock correction we have had this year. Don't get us wrong, some of these stocks deserve to decline, just like in 2022, but the main point being there are a good amount that have been dragged down by the overall market. The average correction of -42% with a median correction of -40% illustrates the opportunity we see to end 2025 and into 2026. We are focused on owning the companies where their business performance continues to impress and we're positioning the fund to capture what we believe to be a similar upside to the aftermath of 2022.

### 2022 Stock Correction

<u>Company</u>	<u>Correction</u>	<u>Company</u>	<u>Correction</u>	<u>Company</u>	<u>Correction</u>
Alithya Group Inc	-48%	HealWELL AI Inc	-69%	Real Matters Inc	-54%
AtkinsRealis Group Inc	-34%	High Liner Foods Inc	-30%	RenoWorks Software Inc	-63%
Atlas Engineered Products	-42%	Information Services	-27%	Richelieu Hardware Ltd	-35%
BlackBerry Ltd	-65%	Intermap Technologies	-51%	Sangoma Technologies	-76%
BluMetric Environmental	-60%	Jamieson Wellness Inc	-22%	Spin Master Corp	-37%
Bragg Gaming Group Inc	-59%	Kinaxis Inc	-34%	Sylogist Ltd	-67%
CGI Inc	-15%	KITS Eyecare Ltd	-33%	Tantalus Systems	-63%
Colliers International	-41%	kneat.com inc	-42%	TECSYS Inc	-53%
Constellation Software	-23%	Knight Therapeutics Inc	-17%	TELUS International	-36%
Coveo Solutions Inc	-70%	Kraken Robotics Inc	-41%	TerraVest Industries	-20%
Descartes Systems Group	-30%	Lightspeed Commerce	-68%	TFI International Inc	-34%
Docebo Inc	-64%	MDA Space Ltd	-50%	Thinkific Labs Inc	-84%
Enghouse Systems Ltd	-49%	NamSys Inc	-37%	Thunderbird Entertainment	-43%
EnWave Corp	-60%	Neo Performance Materials	-58%	Tiny Ltd	-86%
Exco Technologies Ltd	-34%	Northland Power Inc	-19%	Topicus.com Inc	-47%
Firan Technology Group	-40%	NowVertical Group Inc	-68%	Toromont Industries Ltd	-23%
FirstService Corp	-42%	Open Text Corp	-42%	Vitalhub Corp	-36%
Gatekeeper Systems Inc	-69%	Pollard Banknote Ltd	-60%	Well Health Technologies	-50%
goeasy Ltd	-46%	Premium Brands Holdings	-38%	Average	-47%
Haivision Systems Inc	-70%	Propel Holdings Inc	-55%	Median	-45%

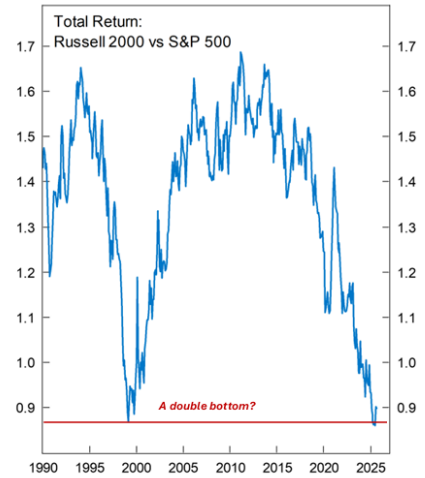
### 2025 Stock Correction

<u>Company</u>	<u>Correction</u>	<u>Company</u>	<u>Correction</u>	<u>Company</u>	<u>Correction</u>
Alithya Group Inc	-38%	Hammond Power	-29%	Pollard Banknote Ltd	-42%
AtkinsRealis Group Inc	-21%	HealWELL AI Inc	-61%	Propel Holdings Inc	-54%
Atlas Engineered Products	-54%	High Liner Foods Inc	-31%	Real Matters Inc	-25%
BlackBerry Ltd	-60%	Intermap Technologies	-37%	Sangoma Technologies	-50%
Bragg Gaming Group Inc	-68%	Kinaxis Inc	-21%	Spin Master Corp	-48%
California Nanotechnologies	-84%	KITS Eyecare Ltd	-32%	Sylogist Ltd	-55%
CGI Inc	-33%	kneat.com inc	-45%	TECSYS Inc	-31%
Cipher Pharmaceuticals Inc	-25%	Kraken Robotics Inc	-32%	TerraVest Industries Inc	-34%
Colliers International	-20%	Lightspeed Commerce	-61%	TFI International Inc	-53%
Constellation Software	-41%	Lumine Group Inc	-59%	Thinkific Labs Inc	-67%
Coveo Solutions Inc	-42%	McCoy Global Inc	-37%	Thomson Reuters Corp	-37%
Descartes Systems Group	-38%	MDA Space Ltd	-59%	Thunderbird Entertainment	-53%
Docebo Inc	-61%	MTY Food Group Inc	-38%	Tiny Ltd	-57%
Enghouse Systems Ltd	-39%	NamSys Inc	-29%	Topicus.com Inc	-44%
Enterprise Group Inc	-60%	Neo Performance Materials	-32%	Vecima Networks Inc	-52%
EnWave Corp	-39%	Northland Power Inc	-38%	Vitalhub Corp	-40%
Firan Technology Group Corp	-22%	NowVertical Group Inc	-66%	Well Health Technologies	-51%
FirstService Corp	-28%	NTG Clarity Networks Inc	-63%	Zedcor Inc	-18%
Gatekeeper Systems Inc	-35%	Open Text Corp	-18%	Average	-43%
goeasy Ltd	-46%	Pet Valu Holdings Ltd	-30%	Median	-40%

We're usually a "soft sell" firm by presenting our analysis and findings and letting investors make decisions for themselves. Considering what we're seeing today, we're leaning hard into the opportunity set of investments we have today.

The dislocation won't last and to hammer home the point, the graph comparing small caps to large caps seems to be bottoming here. For those that know us, recognize that our focus is on small-medium compounders. Small caps in general are set to have higher earnings growth than large caps for the first time in a long time. At the same time the mismatch in valuations between large caps and small caps is at historic levels.

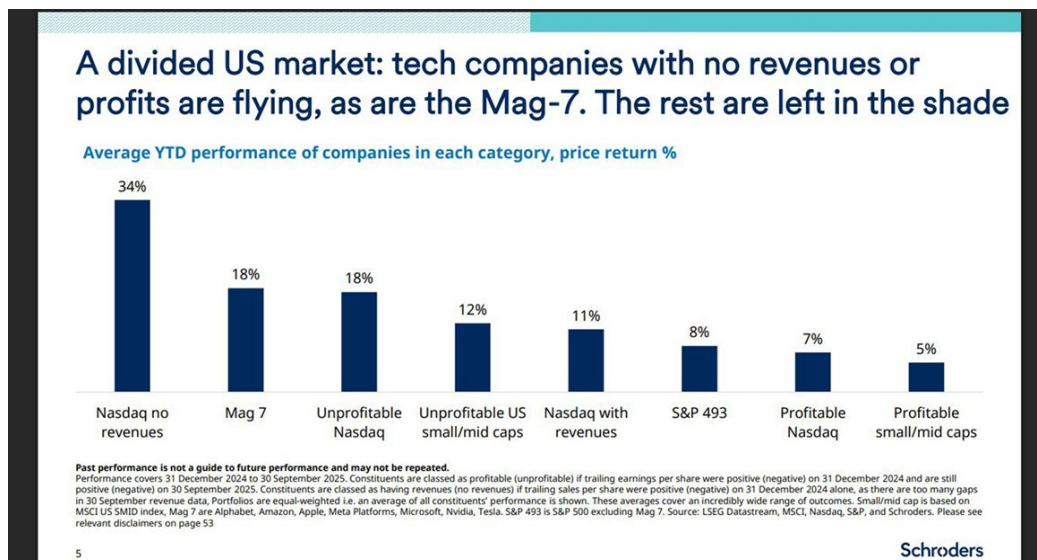
Chart 7: Small Caps Versus S&P 500: Are We Hitting A Bottom?



Source: Alpine Macro

## QUICK COMMENT ON THE OVERALL MARKET IN 2025

In our most recent webinar (click [HERE](#), password: M9o51.QC), we highlighted how it has been the unprofitable companies that have produced the returns this year. In the US, it has been the stocks with no revenues that have driven much of the stock market returns this year.



In Canada, the stock market is up as much as it is, mainly due to gold/silver stocks. These material stocks account for close to 70% of all the returns made on the exchange in 2025. The average technology stock in the index is actually

down -12% this year. With gold appreciating ~60% and silver up ~103% this year we can understand the sector's performance and reasoning behind investors keeping a certain amount of exposure in order to diversify. Obviously a lot of investors' capital flowed into that sector this year and in turn that capital had to exit other investments in order to do so. You could speculate that this is one of the reasons for the highly correlated sell-offs in the other sectors.

## OUTLOOK FOR 2026 – POST-CORRECTION PLAYBOOK

We've executed the post-correction playbook many times. The timing in this case is even more opportunistic as tax loss selling leaves even more upside from here.

We've updated our fund's forecast for 2026 revenue growth, earnings growth, and price to cash earnings. The table below compares these metrics for our fund versus the major and comparable indices. Similar to the correction in 2022, our investment companies continue to operate extremely well and each of our top 10 investments, representing ~80% of the fund is set to have a record year in 2026. Based on record fundamentals and cheap valuations, we expect significant stock returns from here.

	2026 Growth & Valuation Metrics				
	DKCI Fund	S&P 500	TSX 60	Nasdaq 100	S&P 600
2026 Revenue Growth	40%	7%	5%	11%	4%
2026 Earnings Growth	56%	13%	10%	18%	17%
2026 Cash P/E	12.1x	22.2x	17.0x	26.4x	14.4x

## COMPANY SPECIFIC COMMENTS

We aim to own productive assets and not speculative bets. These companies have long runways to continue to reinvest back into their businesses at high rates of return.

### GoEasy (GSY)

We have been investors in GoEasy for a long time. The company continues to execute but the stock has always been sensitive to “headline risk”. There have been many occasions when investors have sold or shorted this stock simply based on GoEasy's industry and target consumer. These downturns have been great buying opportunities for a few reasons.

GoEasy has a high rate of asset backed loans as well as insured loans. Their loan

book is much more resilient than one might think.

Large Canadian banks tighten their lending standards in downturns, which shifts a relatively higher quality borrower down to GoEasy. For example, exiting Covid, GoEasy had their highest quality loan book in their history. More recently, this recent quarter showed how their average consumer's FICO score continues to improve year over year.

In their most recent quarter, they reported a 23% ROE versus an expected ROE of 25% and now the stock has corrected to its historically low-end level PE of 6x. This is the opportunity we see. Investors focus on the short term and put the stock on sale. But, even in "bad" years or "bad" quarters, they still compound at a high rate.

Similar to Propel, as discussed below, we trimmed a significant portion of GoEasy earlier in the year as its valuation approached the high end of its historical band. Due to this correction, we have significantly added back to this position.

### **Propel (PRL)**

Propel's quarter was impressive, especially considering the macro backdrop. Their story is different from GoEasy because most of the business is done in the US and the UK. They recently announced receiving their US banking license, which allows them to reach new customers and geographies they previously couldn't.

Similar to GoEasy, Propel's valuation trades in a historical pattern. Earlier this year we trimmed our position as the multiple was at the high end. With this correction, we have significantly added back to our position as the stock traded down to a historically cheap valuation.

#### **Propel reported Q3 earnings**

Revenue \$152M +30%  
Loans \$435M +31%  
Total Originations Funded \$205M +37%  
Annualized Revenue Yield 113%  
Adj. EBITDA \$32.3M +12%  
EBITDA Margin 21%  
Net Income \$15M +16%  
Net Margin 10%  
ROE 25%  
Increased dividend by 8%, now yielding 3.2%  
Debt/Equity 1.2x

## Enterprise Group (E)

Enterprise reported a great bounce back quarter. There were three headwinds outside of their control earlier this year that have now been resolved.

First, the price of Canadian natural gas was temporarily low (below \$0) for a fraction of time which slowed overall sector activity. Natural gas is now at multi-year highs and activity is ramping higher.

Second, the delays in starting LNG Canada and ramping throughput are now over.

Third, Petronas is one of Enterprise's largest clients. Petronas slowed activity as the company was working through a large asset sale rumored to be worth \$3B. Like the rest of the industry, Petronas is now back and increasing their activity levels.

Enterprise has announced several new power applications with customers which supports significant growth for 2026.

### **Enterprise Reported Q3 Earnings**

Revenue \$9.2M +35%

Gross Margin \$3.8M +52%

Adj. EBITDA \$3.1m +72%

EBITDA Margin 34%

Operating Cashflow \$1M

Net Debt/EBITDA 0.4x

In addition, Enterprise's investment cycle is complete. Their current asset base can support more than double their expected sales for 2025. We should see a significant increase in free cashflow in 2026.

The comment below from Acumen Capital does a good job illustrating the opportunity in Canada.

*The Canadian Gov't recently released its list of **nation building projects**, which leans heavily on energy-and resources-related projects. Based on approvals of **LNG Phase 1 & 2**, and more recently **Ksi Lisims**, it appears the Canadian Gov't is going "all in on LNG." Notably, **Natural Resources Minister Tim Hodgson** also told business leaders recently in Berlin - "Unlike the previous Canadian government, which closed the door to LNG exports, Prime Minister (Mark) Carney's government has opened them." This was one of many supportive comments regarding LNG. PM Carney also told Asian leaders at the ASEAN summit in late October that **Canada could export 50 M metric tons/year of LNG (~6.5 bcf/d) by 2030 (and double that again by 2040!)** which implies that **ALL of the LNG projects on the west coast would go ahead. Native bands***



*are also all on board and in some cases are the major proponent(s) of the LNG projects.*

### **VitalHub (VHI)**

VitalHub's quarter beat expectations on every metric. Profit margins have now bottomed after integrating their recent acquisitions and margins will improve from here. As stated earlier, the fact that the stock is down is not related to the fundamentals of the business and we see this stock above \$20/share much faster than one might think.

One of the issues when investors analyze this company is that they don't factor in acquisitions or they just look at Bloomberg estimates, which also don't factor in acquisitions. VitalHub is sitting on more than \$124M in cash with no debt and have spoken to how they're seeing a significant increase in M&A activity. We expect M&A announcements to increase in pace over the next 12 months. Factoring in acquisitions and improved margins, we can work backwards to a \$20/share valuation, which is more than 100% upside from here.

#### **VitalHub Reported Q3 Earnings**

Revenue \$32M +94%  
ARR \$94M +75%  
    Organic ARR Growth 15%  
Adj. EBITDA \$7.2M +58%  
    EBITDA Margin 22.5%  
Cash Earnings \$6.3M +62%  
    Cash Margin 20%  
Cash \$124M and No Debt  
Beat Revenue estimates by 14%  
Beat EBITDA estimates by 20%

### **Zedcor (ZDC)**

**What is most impressive is that their Canadian business is their most mature segment and still growing 30% year over year but most importantly has 67% EBITDA margins and 50% IFRS reported Net Income margins.**

As their US business, which is growing 363% year over year with 33% segment EBITDA margins (up from 25-27% recently), hits critical mass, their profit margins in the US should trend much higher and closer to the Canadian market. Their head office costs should remain fairly steady and as a result, the reported Net Income will disproportionally increase from here.



### **Zedcor Reported Q3 Earnings**

Revenue \$16M +75%  
Adj. EBITDA \$5.7m +68%  
EBITDA Margin 36%  
Operating Cashflow \$7.9M +108%  
Free Cashflow \$7.7M +109%  
Cash Earnings \$4.1M +64%  
Cash Margin 26%

In our mind, there is currently a misconception around Zedcor's valuation and specifically depreciation expense versus cash earnings.

Most accounting rules would make a company depreciate an asset, like a car, over 5 years. If the car costs \$50,000, has a 5-year useful life & \$10,000 residual value, then the annual depreciation expense is \$8,000.  $(\$50,000 - \$10,000) / 5$ . This is called a "non-cash expense" because the company isn't actually paying \$8,000 to anyone each year, but they are reducing the value of an asset on their balance sheet by \$8,000 which they already paid for. BUT, an investor could treat it as a real expense in this case because at the end of year 5, a company would either have to replace the vehicle or have significant repair/maintenance costs in-line with the depreciation expense. In this example, depreciation expense does its job in approximating the real cost to the business over time.

However, in almost every real-world case we've analyzed, taking depreciation at face value, meaning the reported amount is inaccurate. Also, completely ignoring the expense and adding it back to earnings is also inaccurate.

Assets are all different and not all depreciation is the same, but accounting rules need to bucket them into categories, nonetheless. For us, it is helpful to actually get your hands on the asset, see it in motion, and observe its real-world functionality.

Going back to the car example. Cars are complicated and made of thousands of different parts. Some parts like the tires, brake pads, spark plugs, hoses & belts need to be replaced faster than the overall car depreciation schedule. Car parts like the powder coated steel trailer hitch will never have to be replaced.

Why does this matter? Knowing the true useful life of an asset is extremely important in calculating the ROI of an investment. If you pay \$30,000 for an asset, does it last 5 years or 20 years? Many companies actually want to depreciate their assets quickly from an accounting standpoint because it lowers reported earnings and they have to pay less in taxes, but the actual asset doesn't change.

For Zedcor in particular, by far the largest cost of building each of their towers is the thousands of pounds of powder coated steel. Many of their other parts are

small costs relative to the overall build. Hands on experience is important here but to illustrate the point, these towers have operated through legitimate hurricanes and continued to operate normally.

We subtract a certain amount of maintenance capex in our model below, which is our estimated amount of “true depreciation”. Based on Zedcor’s reported results year to date, we’ve updated our model to include slightly higher growth in tower count and higher margin profile overall. We don’t include any large enterprise wins in our model, but we believe they will announce contracts with large grocers and retail stores in 2026. We expect as least 87% revenue growth & 94% earnings growth in 2026. The stock is becoming more institution level quality, and we expect the uplisting to the TSX to be a catalyst in 2026.

#### Zedcor Financial Projection Summary

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025E</u>	<u>2026E</u>	<u>2027E</u>	<u>2028E</u>
# of Towers	265	506	825	1337	2700	5100	7900	11000
Growth YoY	70%	91%	63%	62%	102%	89%	55%	39%
Revenue (\$M)	14	22	25	33	63	118	180	247
Growth YoY		63%	13%	33%	91%	87%	53%	37%
Gross Profit	8	13	16	24	49	90	137	188
Gross Margin	57%	58%	63%	73%	77%	76%	76%	76%
G&A	4	6	8	12	24	44	65	86
Lease Payments	2	2	2	4	4	5	6	7
Adj. EBITDA	2	5	5	8	21	41	66	94
EBITDA Margin	17%	23%	20%	25%	33%	35%	37%	38%
Interest Expense	2	1	1	2	1	4	6	7
Tax Expense	0	0	0	0	1	1	6	8
Maint Capex	0	0	1	0	1	2	3	4
Cash Earnings	1	4	3	6	18	34	51	75
Growth Capex	6	9	13	21	52	84	97	105

*\*DKAM Estimates*

#### Zedcor Projected Valuation Metrics

<u>Valuation</u>	
Stock Price	\$6.01
Market Cap	\$635
2026 x EBITDA	15.5
2027 x EBITDA	9.6
2028 x EBITDA	6.7
2026 P/Cash Earnings	18.7
2027 P/Cash Earnings	12.5
2028 P/Cash Earnings	8.5

*\*DKAM Estimates*

## SUMMARY

Our newsletter from November 2022, the month the stock market bottomed, had the title *When History Rhymes*. This is the first paragraph from that newsletter.

*We believe this is a special and valuable edition of the ROE Reporter. This has been a difficult year in both the stock and bond market. Difficult for our investors and frustrating for us. The saving grace is that our companies continue to perform exceptionally well on an operational level. We didn't invest in the growth at all costs type companies, the unprofitable speculative companies, or any cyclical companies. That is where the froth in the market was. We invest in compounders. Companies that consistently increase their intrinsic value. This is where the frustration stems from because **all of our top investments are on pace to have record years!**<sup>1</sup> **Both record revenues and record profits.**<sup>2</sup> Their stock prices tell a different story, and this is where the opportunity lies. The market sell-off has been indiscriminate. A shoot first and ask questions later environment.*

It is one thing for a stock to sell-off because its business isn't doing as well or it was overvalued. But when all stocks across many sectors sell-off, that provides an opportunity because the market isn't being discerning. Many stocks are now at record cheap valuations while they continue to grow earnings.

We're having many of the same conversations now that we did during the massive sell-off in 2022. What is different this time is that certain sectors, precious metals in Canada and AI stocks in the US, are keeping the overall market afloat. We're positioning the fund in a similar manner to the bottom in 2022 and expect to capture a large rebound similar to 2023-2024.

If you would like to discuss any of the points raised above or delve deeper into specific investments, please feel free to reach out.

Sincerely,

Jason & Jesse  
[info@donvillekent.com](mailto:info@donvillekent.com)

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The S&P/TSX Composite Total Return Index, the S&P 500 Total Return Index, and the Russell 2000 Total Return Index ("the indexes") are similar to the DKAM Capital Ideas Fund LP ("the fund") in that all include publicly traded North American equities of various market capitalizations across several industries, and reflect both movements in the stock prices as well as reinvestment of dividend income. However, there are several differences between the fund and the indexes, as the fund can invest both long and short, can utilize leverage, can take concentrated positions in single equities, and may invest in companies that have smaller market capitalizations than those that are included in the indexes. In addition, the indexes do not include any fees or expenses whereas the fund data presented is net of all fees and expenses. The source of the indexes' data is Bloomberg.

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<sup>1</sup> DKAM estimate, taking net earnings and adding back certain non-cash income statement items such as amortization of intangible assets

<sup>2</sup> Total return for 2 years ended December 31, 2024, net of fees and expenses