News Highlights

Owners. Operators. And Insightful Investors.
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Established in 2007

PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. April 23, 2018

Owner Operated Companies

Danaher Corporation announced results for the first quarter 2018. For the quarter ended March 30, 2018, net earnings were $566.6 million, or $0.80 per diluted share which represents a 16.0% year/year increase. Non-GAAP adjusted diluted net EPS were $0.99. This represents a 16.5% increase over the comparable 2017 period. For the first quarter 2018, revenues increased 11.5% year/year to $4.7 billion, with non-GAAP core revenue growth of 5.5%. Operating cash flow for the first quarter 2018 was $828.9 million, representing a 48% increase over the comparable 2017 period. Non-GAAP FCF for the first quarter 2018 increased 72% year/year to $691.4 million, representing a non-GAAP FCF to net income conversion ratio for the first quarter 2018 of 122%. For the second quarter 2018, the company anticipates that diluted net EPS will be in the range of $0.88 to $0.91 and non-GAAP adjusted diluted net EPS will be in the range of $1.07 to $1.10. For the full year 2018, the company now anticipates that diluted net EPS will be in the range of $3.62 to $3.69. The company now expects its 2018 non-GAAP adjusted diluted net EPS to be in the range of $4.38 to $4.45 versus previous guidance of $4.25 to $4.35. Thomas P. Joyce, Jr., President and Chief Executive Officer, stated, "We are off to an outstanding start in 2018, with the first quarter coming in ahead of our initial expectations. We delivered 5.5% core revenue growth, mid-teens EPS growth and FCF that increased more than 70% year/year. This strong performance was broad-based, with four of our five platforms delivering mid-single digit or better core revenue growth — including 9.5% growth in Diagnostics, which was led by Cepheid."

Walgreens Boots Alliance, Inc. – Amazon.com, Inc. had reportedly dropped plans to sell drugs to hospitals, in a boost to a pharmaceutical supply chain rattled by the looming threat of competition from the online retailer. Healthcare investors expect Amazon will become a major force in the industry, fueled by recent media reports that the Seattle-based company was considering entering the pharmacy business. CNBC, which reported Amazon's plans, said the change comes partly because the e-commerce company had not been able to convince big hospitals to change their traditional purchasing process.

Energy Sector

Crescent Point Energy Corp. – Proxy advisory firm Institutional Shareholder Services (ISS) recommended Crescent shareholders vote for activist investor Cation Capital's two of the four nominations to the oil and gas producer's board. Cation Capital, a private investment firm led by the former deputy head of global oil and gas at Macquarie Group, last week disclosed its intention to nominate four candidates to Calgary-based Crescent's board at a shareholders meeting next month. ISS recommended shareholders to vote for candidates Dallas Howe and Herbert Pinder nominated by Cation, and asked to vote 'withhold' for the rest two nominations. ISS said Cation, which only owns a 0.3% stake in Crescent, has made a "reasonably compelling case" for change at the board, including to enhance profitability and to ensure proper alignment of executive compensation. "Although a number of positive developments were undertaken by the company during the last year they seemed to be overshadowed by significant underperformance that was not reflected in the CEO's total compensation," ISS said.

Financial Sector

Barclays PLC has set up a new venture capital-style unit with the aim of adding billions of pounds to its annual revenues by 2025, in an effort to find new areas of growth after years of restructuring. Barclays U.K. Ventures (BUKV) will be led by Ben Davey, formerly the bank's head of strategy. Mr Davey said he wants the unit to develop at least one "truly transformational new business line" that will add a "material contribution" to the bank's revenues over the next five to seven years. He pointed to areas such as artificial intelligence, distributed ledgers and smart contracts as examples of the technology areas BUKV is likely to explore, but added that the business has a "relatively unfettered mandate" to consider different opportunities. Established companies have taken an increasingly important role in technology investment in recent years, with corporate-led investments continuing to grow even as volumes in the wider venture capital sector fall. Corporate investors accounted for 18% of global venture capital deals in 2017, up from 8% in 2011, according to data from PitchBook Data, Inc. and Global Corporate Venturing, which monitor the sector. (Source: Financial Times)

The Goldman Sachs Group Inc. reported Q1 2018 EPS of $6.95 (consensus was $5.57). Revenues increased 25% year/year and rose 28% sequentially to $10.0 billion, the highest level in 3 years. Its ROE was 15.4%. Its CET 1 ratio was 11.1% and Tangible book increased 3.3% to $176.28 (trading at 1.5x). Similar to peers, results were aided by strong equity trading results. Still, it also benefited from stronger than expected Investing & Lending results, as well as incentive fees in Investment Management. In addition, while Fixed Income, Currencies and Commodities (FICC) improved, it appears to be modestly below heightened expectations. Importantly, it noted its investment banking transaction backlog increased from year-end.

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Activist Influenced Companies

Brookfield Business Partners L.P. – GrafTech International Holdings Inc. raised $525 million in its U.S. initial public offering (IPO). GrafTech manufactures graphite electrodes used in the production of steel. The IPO pricing gives GrafTech a market value of around $4.5 billion. Brookfield bought GrafTech for around $1.3 billion, including debt in 2015, when the steel industry was struggling with a slump in prices due to record exports by China. All of the net proceeds from the IPO will go to an affiliate of Brookfield and Brookfield Business Partners, GrafTech said in its IPO prospectus. GrafTech made its New York Stock Exchange debut under the symbol "EAF".

Nomad Foods Limited has completed its previously announced acquisition of Green Isle Foods Ltd. ("Goodfella's Pizza") from a subsidiary of Boparan Holdings Ltd. for a purchase price of £200 million. As previously stated, Nomad Foods expects the acquisition to be immediately accretive to adjusted EBITDA and adjusted EPS, and within two years contribute approximately €150 million revenue, €22 to €25 million adjusted EBITDA and €0.08 to €0.09 adjusted EPS. The purchase was funded through cash on hand. Goodfella's Pizza manufactures and distributes a portfolio of leading branded and private label frozen pizzas in the U.K. and Ireland. The Goodfella's brand, which accounts for the majority of Goodfella's Pizza revenues, was founded in 1993 and holds number one and number two market share positions within the frozen pizza category in Ireland and the U.K., respectively. The acquisition also includes the San Marco brand and two frozen pizza manufacturing facilities which provide a foundation for future expansion in the category.

Dividend Payers

AT&T Inc. has withdrawn its planned IPO of Vrio Corp., its DirecTV business in Latin America, just hours before the new stock was to start trading. AT&T said in a statement on Wednesday that the decision to withdraw Vrio's IPO was made based on current market conditions, but did not elaborate. The company's stock was originally scheduled to debut on the New York Stock Exchange under the symbol "VRIO" on Thursday. Cable television service providers have been facing tough competition as the industry battles with customers cancelling accounts and moving to video streaming services such as Netflix, Inc. and Amazon.com Inc.'s Amazon Prime. AT&T's initial plan was to sell Vrio to pay down debt which will increase to about $180 billion once its acquisition of Time Warner Inc. closes. AT&T in February filed confidentially for an IPO for the unit, which includes satellite and cable television services in Brazil, Colombia, Argentina, among others, prompting analysts to say that the number 2 U.S. wireless carrier probably was not able to find a buyer.

Bunzl PLC has started the year well in our view with organic sales growth of 6%, solid margins and two more acquisitions. Organic growth should slow in the remainder of the year due to tough comparators but should still approach 3% in the full year. We think this is encouraging given 2017 saw the highest rate in 11 years. We believe recent concerns round the threat from Amazon and declining margins are overstated. The shares are trading on 17x 2018 estimated Price/Earnings, 14x Enterprise Value/EBITA, with a 6.2% FCF yield and 2.2% dividend yield.

Novartis AG announced a five-year commitment to the fight against malaria in conjunction with the 7th Multilateral Initiative on Malaria Conference and the Malaria Summit of the Commonwealth Heads of Government meeting. Further, the company releases new African research on progress and remaining challenges toward the 2030 malaria elimination targets, together with Elimination 8 and the KEMRI-Wellcome Trust program. Over the next five years, as part of its commitment, Novartis will invest more than US$100 million to advance research and development of next-generation treatments to combat emerging resistance to artemisinin and other currently used antimalarials. The company will also implement an equitable pricing strategy to maximize patient access in malaria-endemic countries when these new treatments become available. In order to contribute to the World Health Organization's (WHO) target of reducing malaria-related child mortality by at least 90% by 2030, Novartis will further help expand access to pediatric antimalarials and implement healthcare system strengthening programs in 4 sub-Saharan countries.

Novartis reported solid headline Q1 results in our view with Group sales and Core EBIT slightly ahead of consensus. Pharma sales were +2% ahead of consensus and Alcon sales were 2-3% above expectations, while sales from Sandoz were in line. Pharma EBIT was 1-3% weaker than expectations but this was offset by a strong profitability improvement at Alcon Canada, Inc., with EBIT +13-17% above consensus, boosted by Sandoz, +4% above consensus. Overall, core EPS of $1.28 was 1% above consensus, on higher income from Associates. Novartis also announced that it has commenced a cash tender offer to purchase all the outstanding shares of common stock of the gene therapy company AveXis, Inc. (NASDAQ: AVXS) for a price of US$218.00 per share (i.e. a total of US$8.7 million in cash) following its previously announced offer earlier this month. The offer will expire at the end of the day on May 14, 2018, unless extended.

Roche Holding AG announced that FDA (U.S. Food & Drug Administration) granted breakthrough Therapy Designation for the company's Hemlibra in haemophilia A without inhibitors. Following this announcement, we believe that it has become much more likely that FDA will approve Roche's Hemlibra as a potential new standard of care for treating haemophilia A, patients in view of the drug's superiority to traditional factor VIII prophylaxis. In that event, it remains to be seen, how fast doctors will also change their traditional approach to treat this disease by putting Hemlibra on top

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of their treatment guidance. Awarding this designation is based on the Phase III HAVEN 3 study demonstrating Hemlibra prophylaxis significantly reduced bleeds compared to no prophylaxis. This is the first medicine to show superior efficacy compared to prior factor VIII prophylaxis in an intra-patient comparison, while prophylaxis by administering factor VIII used to be standard of care. More specifically, this designation is based on data from the phase III HAVEN 3 study in people 12 years or older with haemophilia A without inhibitors. In the study, Hemlibra prophylaxis dosed subcutaneously every week or every two weeks showed a statistically significant and clinically meaningful reduction in treated bleeds compared to no prophylaxis. In an intra-patient comparison, once-weekly Hemlibra prophylaxis was superior to prior factor VIII prophylaxis as demonstrated by a statistically significant and clinically meaningful reduction in treated bleeds.

Roche today announced four-year update data on Ocrevus as presented at this year's American Academy of Neurology (NAA) conference in Los Angeles. The data showcase the efficacy of Ocrevus in relapsing multiple sclerosis (RMS) through several measures of underlying disease activity and disability progression, including magnetic resonance imaging (MRI), cognitive function, and spinal fluid biomarkers of inflammation and neurodegeneration. New safety data remain consistent with Ocrevus' favourable benefit-risk profile in both relapsing and primary progressive multiple sclerosis (PPMS). More specifically, four years of continuous treatment with OCREVUS showed a sustained reduction in underlying disease activity in relapsing MS (RMS) in analysis from the open-label extension period with over 40,000 patients treated with Ocrevus globally. The Ocrevus data this year presented are reassuring news for doctors prescribing the drug in our view, as they demonstrate continuous benefits in key outcomes for MS patients, i.e. slowed disease in terms of disability progression and presence of inflammation as well as delayed cognitive decline (vs. those patients who began treatment at a later point in time) combined with a maintained favourable safety profile over that prolonged treatment period. Furthermore, the data also support clinicians' opinion to begin treatment of MS as early as possible.

South32 Limited delivered a generally satisfactory Q3 production release in our view. Inevitably there was another production downgrade, with Illawarra met coal guidance reduced 12% after production was only +1% quarter/quarter, two longwall moves planned in Q4 and reflecting risk of disruption as labour negotiations begin mid-year. New guidance implies Q4 output flat quarter/quarter. As a result, operating costs are expected to remain flat at $150/tonne in second half 2018 (prior guidance $135/tonne (t), first half: $149/t). Guidance for 2019-20 was also below expectations, at more than 6 metric tonnes in 2019 and more than 8 metric tonnes per annum from second half 2020 again we suspect reflecting some risk of labour disruption. On the positive side, the company upgraded guidance for manganese production by 5-6%, and Cannington delivered a much improved performance on higher grades (silver +28% quarter/quarter) which are expected to rise further in Q4. Unit cost performance remains in line with expectations, although the company flags potential for ~5% higher costs in South Africa coal due to weak domestic demand (which is lossmaking so net accretive to margins) and higher alumina prices impacting the smelter cost bases.

Economic Conditions

U.S. housing starts disappointed with a 1.9% rise in March. The level of 1,319k was expected given the upward revisions to January and February and is the 2nd highest in 1½ years (+10.9% year/year). All of the gains were many, though, as singles fell for the first time in a few months. So, the pattern over the past five months of up/down/up/down/up continues. However, there is room for more construction activity as building permits beat expectations with a 2.5% gain to 1,354k units annualized (or 7.5% year/year).

U.S. Industrial production rose 0.5% in March, beating market expectations after a hefty (and upwardly revised) 1.0% advance in February. Overall production is up more than 4% in the past year and nearly 8% annualized in the past six months—the fastest increase in almost eight years. Manufacturing advanced slightly, throttling back from the second largest increase (1.5%) this cycle. Its six-month annual rate is at 5.8%, also near eight-year highs. The gains in March were widespread, led by high-tech gear, motor vehicles and business equipment. Mining jumped 1.0% after a 2.9% advance, taking its six-month rate to a blistering 15.3%. Oil production hit record highs above 10 million barrels per day last month and early this month, too. Meantime, colder weather increased utilities output 3.0%.

Canada's consumer price index rose 0.1% (month/month) in March in seasonally adjusted terms but due to the base effect the year/year inflation rate increased one tick to 2.3% (the strongest increase since June 2014). This was below consensus expectations calling for a 2.4% annual rate. On a month/month basis, five categories were rising with alcohol/tobacco, healthcare and recreation experiencing the strongest increases while clothing, household ops and food experienced declines. CPI excluding food and energy rose 0.2% in seasonally adjusted terms and the year-on-year inflation rate increased two ticks to 2.0%. On an annual basis, the CPI-trim stands at 2.0% (down one tick from 2.1%), CPI-Median at 2.1% (unchanged) and CPI-Common at 1.9% (unchanged).

Canadian **retail sales** expanded a consensus-matching 0.4% month/month in February. That result came after a downwardly-revised +0.1% print the prior month (initially reported as a 0.3% gain). In February sales were up in only 4 of the 11 categories surveyed, including a 1.4% gain in the motor vehicles/parts segment. Excluding autos, sales were flat, as higher outlays on building materials (+2.1%) and general merchandise (+2.0%) were offset by drawbacks at furniture (-2.0%) and clothing (-1.4%) stores as well as at gasoline stations (-0.9%). Discretionary sales, i.e. sales

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excluding gasoline, groceries and health/personal care product, advanced 0.7% in the month, the steepest gain in four months. In real terms, Canada's retail spending was up a decent 0.3% month/month in February.

Financial Conditions

Bank of Canada (BoC) – No change in interest rates in light of belief that expected transitory impact of gas and minimum wage hikes will fade and inflation will sit close to 2% for the rest of the projection horizon. The BoC also talked about escalating geopolitical and trade conflicts slowing global growth but that weak Q1 GDP will bounce back in Q2. Also the BoC expressed the view that both exports and investment are being held back by ongoing competitiveness challenges and uncertainty about trade policies (NAFTA). The Bank will continue to assess labour market data for signs of remaining slack and the Governing Council will remain cautious with respect to future policy adjustments, guided by incoming data.

The U.S. 2 year/10 year treasury spread is now .50% and the U.K.'s 2 year/10 year treasury spread is .67% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above costs of capital.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 4.47% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 3.4 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, economic recovery, job creation, and low prices are still supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now at the low end of a more normal range of 4-7 months.

The VIX (volatility index) is 16.93 (compares to a post-recession low of 9.52 achieved in early November) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

And finally ...... a hotel in British Columbia has officially lifted its ban on a former customer who caused a notorious incident 17 years ago involving a suitcase full of warm pepperoni and a flock of seagulls. Back in 2001, businessman Nick Burchill checked into the Fairmont Empress in Victoria with a suitcase stuffed with Brothers TNT Pepperoni, a delicacy from his home city of Halifax, Nova Scotia, which he intended to give as a present to some friends during his trip. He went for a walk and arrived back to around 40 seagulls in his room. The end result was a mess; curtains and lamps broken, towels and shoes out the window, and the power shorted to his room. The ban remained in place until earlier this year when Burchill decided to send a written apology and a pack of Brothers TNT pepperoni as a peace offering. (Source: CBC News)

Mutual Funds

Portland Investment Counsel Inc. currently offers 8 Mutual Funds:

- Portland Advantage Fund
- Portland Canadian Balanced Fund
- Portland Canadian Focused Fund
- Portland Global Income Fund
- Portland Global Banks Fund
- Portland Global Dividend Fund
- Portland Value Fund
- Portland 15 of 15 Fund

Private/Alternative Products

Portland also currently manages the following private/alternative products:

- Bay and Scollard Development Trust
- Portland Advantage Plus - Everest and McKinley Funds
- Portland Focused Plus Fund LP
- Portland Focused Plus Fund
- Portland Global Aristocrats Plus Fund
- Portland Global Energy Efficiency and Renewable Energy Fund LP
- Portland Global Sustainable Evergreen Fund
- Portland Global Sustainable Evergreen LP
- Portland Private Growth Fund
- Portland Private Income Fund
- Portland Special Opportunities Fund
- Portland Value Plus Fund

Individual Discretionary Managed Account Models - SMA

Net Asset Value:

The Net Asset Values (NAV) of our investment funds are published on our Portland website at http://www.portlandic.com/prices/default.aspx

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Glossary of Terms: 'boe' barrel of oil equivalent, a measurement of a unit of energy, 'boed' refers to barrel of oil equivalent per day, 'CET' core equity tier, 'EBITDA' earnings before interest, taxes, depreciation and amortization, 'EPS' earnings per share, 'FCF' free cash flow, 'ROE' return on equity, 'ROTE' return on common equity.

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