

PALOS

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Palos Weekly Commentary

Issue No. 6 | FEBRUARY 7 2019

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Palos Funds

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The StorageVault Empire Just Got Bigger

On February 6, 2019, StorageVault Canada Inc. (TSX: SVI) announced that they were acquiring Real Storage (Real), which has 38 self-storage facilities with approximately 1.6M sq. ft. of total rental space. Most of Real's assets are located in Ontario, including a premier facility in the GTA. I also believe there are significant synergies and operating leverage opportunities.

To fully capture the value of the Real acquisition, SVI will have to complete a substantial amount of integration work. However, they have a strong track record of achieving on their acquisition synergies. We see the acquisition as immediately accretive to their net asset value. In addition, I see 3% to 4% accretion to AFFO with synergies by 2020.

SVI will be funding the deal with debt and cash. We are also assuming that Wilmington Capital Management Inc (TSX:WCM/A) will swap some Real equity for SVI equity. We are assuming \$50M in equity will be issued to WCM/A. SVI debt will rise to approximately 55% of book value. However, we see the company quickly deleveraging as the cash flow ramps up.

In conclusion, I see this acquisition as transformational, strategic and accretive. We are pleased and supportive of the acquisition.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.55	8.34%
Palos Equity Income Fund - RRSP	PAL101	\$5.73	7.24%
Palos Merchant Fund L.P. (Dec 31, 2018) ²	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.75	9.61%
S&P TSX Composite (Total Return with dividends reinvested)			9.94%
S&P 500 (Total Return with dividends reinvested)			9.14%
S&P TSX Venture (Total Return with dividends reinvested)			11.39%
Chart 2: Market Data ¹			Value
US Government 10-Year			2.69%
Canadian Government 10-Year			1.93%
Crude Oil Spot			US \$54.01
Gold Spot			US \$1,309.50
US Gov't10-Year/Moody BAA Corp. Spread			228 bps
USD/CAD Exchange Rate Spot			US \$0.7568

¹ Period ending Feb 6, 2019. Data extracted from Bloomberg

² Fund is priced annually

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