

PALOS

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Palos Weekly Commentary

Issue No. 32 | AUGUST 8, 2019

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Palos Funds

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Badger Slips on Wet Weather

Badger Daylighting Ltd. (TSX: BAD) reported a disappointing Q2. However, the miss can be blamed almost entirely on bad weather. The Great Lake, Midwest and Ohio Valley regions experienced higher than average precipitation levels. Unfortunately, it led to revenue and operating inefficiencies and scheduling issues. The good news is that this seems to be an issue isolated to Q2 as the company kept their full year EBITDA guidance intact between \$170-\$190M.

Meanwhile, the company is executing on their training program, fleet expansion, and their ERP implementation, which is on time and on budget. The growth programs also affected G&A and margin. When the training programs and ERP implementation are complete however, efficiencies should start to kick in. I'm of the opinion that the company is well positioned to execute in the back half of 2019. If the stock continues to be pressured, the Palos Funds will consider adding to their position, as I think the stock will recover in the second half of the year as investors look past Q2 numbers.

Disclaimer: Palos Funds are shareholders of BAD.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.22	9.06%
Palos Equity Income Fund - RRSP	PAL101	\$5.57	7.86%
Palos Merchant Fund L.P. (Dec 31, 2018) ²	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.37	4.17%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) ³	PAL300	\$9.21	-1.98%
S&P TSX Composite (Total Return with dividends reinvested)			15.59%
S&P 500 (Total Return with dividends reinvested)			16.39%
S&P TSX Venture (Total Return with dividends reinvested)			7.37%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.73%
Canadian Government 10-Year			1.24%
Crude Oil Spot			US \$51.09
Gold Spot			US \$1,507.30
US Gov't10-Year/Moody BAA Corp. Spread			228 bps
USD/CAD Exchange Rate Spot			US \$0.7517

¹ Period ending August 7, 2019. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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