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A Glittering Finale

Moving on beyond Brexit, I see increasingly a future U.K. that will savour the delights of independence, real free trade, if falling short of a touch of empire. Over here a horror show should continue in the U.S. until the queen of the emails is safely in or the Republicans have pulled a rabbit or even a Pocahontas out of the hat. And that is one of many reasons I expect the great revival in gold and silver stocks to continue through the year, touching the majors nicely but putting the medium and small cap stocks into a top gear that only the elders of the investment world have seen. The general market could stay patchy but laced with special opportunities and short-term losers. I stuck the dart in LinkedIn at my BNN TV show in June. I also encouraged buying of Napec Inc. of Quebec, Ontario and the U.S. northeast for infrastructure services revival. That one is now dialled back a little on the latest quarterly report but hope is preserved. For my BNN picks on August 19 visit the column below. ♦



PERSONAL HOLDINGS DISCLAIMER: Michael Smedley personally holds all of the Canadian stocks mentioned in this issue except for GoviEx Uranium

Intertain – Bingo to Benefit from a U.K. Upgrade

(IT-TSX)

Intertain entertains ladies who love their bingo. It will also let in the men and will become fun for investors if the new management’s plan gets the stock motivated. The new team plans to transfer the main market listing from Canada to the U.K. The ladies – and men – can carry on investing through an exchangeable share in Canada but Intertain will join the big list of gaming companies in the imminent kingdom of England and Wales (or whatever it becomes) and be rerated. It should not be a bad experience for Canadian investors when more than century old U.K. investing power comes on board. As indicated, Intertain’s main target market is female, 35 years and up, whereas European peer companies go for young

males who prefer harder forms of gaming. So, Intertain should stand out for U.K. analysts.

This bingo stock is one of the world’s leaders. In my opinion, it should be seriously rerated. At a recent presentation at Canaccord Genuity, management explained to Bay Street punters that Intertain trades at about 5x earnings vs. an average 15x in the big U.K. gaming sector. And most analysts are staying with targets around \$20 for Intertain and also seem to be moving higher. This is roughly double the depressed \$10 level where the stock has been hovering. Some holders, who looked for the sale of the company or are not

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Michael’s BNN Top Picks

As at July 29, 2016

Company	Sym	Change	BNN Pick Date
Spin Master	TOY-T	N/A	19-Aug-16
Intertain	UN-T	N/A	19-Aug-16
Nintendo	NTDOY-US	N/A	19-Aug-16
Napec	NPC-T	1.7%	09-Jun-16
LinkedIn	LNKD-US	38.6%	09-Jun-16
OTC Markets Group	OTCM-US	-0.3%	09-Jun-16
Airboss of America	BOS-T	-8.4%	28-Apr-16
First National Financial	FN-T	11.3%	28-Apr-16
Pretium Resources	PVG-T	57.8%	28-Apr-16
Colliers International Group	CIG-T	18.4%	22-Feb-16
Enghouse Systems	ESL-T	0.1%	22-Feb-16
Barkerville Gold Mines	BGM-US	40.8%	22-Feb-16
Cargojet	CJT-T	40.7%	19-Jan-16
Concordia Healthcare	CXR-T	-45.5%	19-Jan-16
Pollard Banknote	PBL-T	23.8%	19-Jan-16
McDonalds	MCD-US	4.8%	30-Oct-15
Mountain Province Diamonds	MPV-T	78.7%	30-Oct-15
Seabridge Gold	SEA-T	61.6%	30-Oct-15
Lululemon Athletica	LULU-US	45.5%	15-Sep-15
Middleby	MIDD-US	6.5%	15-Sep-15
Spin Master	TOY-T	24.9%	15-Sep-15
Airboss of America	BOS-T	-42.0%	05-Aug-15
Detour Gold	DGC-T	184.0%	05-Aug-15
Goldmoney	XAU-T	-12.7%	05-Aug-15

Intertain – Where Bingo Power Resides with the Ladies

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interested in a primarily foreign listing, will be selling the stock. My intention is to “stay calm and carry on gardening” in the British manner. I have added to the position at what I think should prove to have been half price. And the low pound should move higher if the British Isles do not sink.

In recent history, the stock got beaten up, the M&A team left, “hair” elsewhere among the Canadian gaming stocks did not help. Right now, a listing where bingo is an institution and commands more respect than the Houses of Parliament is the charge of two experienced Brits. My bet is that they can make progress. They are Andrew McIver, CEO, 14 years in the business, who was in the sale negotiations for Sportingbet Plc. for £485 million and Neil Goulden, a 27-year veteran of famous companies including Ladbrokes and Gala Coral. There are oddities. The two Brits came in without golden parachutes riveted onto their carry-on bags and not even a contract in the case of Andy McIver. Perhaps they are rich punters who see the chance of another jackpot. They are connected and well known in the business.

Also stirring up the pot in a good way is Jackpotjoy. Now inside Intertain, this is



banks (except for the National Bank) and none of the banks wanted Intertain chequing accounts. I invited the two Brits to understand that all Canadians, including those in the room, were Scottish Presbyterians and opposed to gaming – an accusation immediately denied!

Intertain has several other platforms but the recently acquired Jackpotjoy is a huge add-on for Andy McIver who was drawn to Intertain partly because he formerly tried to acquire Jackpotjoy – twice not once – as well as seeing the potential in other Intertain brands. Previous M&A minded top management achieved useful growth. New management will look for debt reduction without resorting to equity dilution. They might also look at growth

Cantor-Fitzgerald, updated me on Tangelo. It has about \$15 million in market cap, is trading around \$0.08 and No. 10 in social gaming in which Playtika of Israel, world No. 2, is a freshly announced US\$4.4 billion take-out by Alibaba. Toronto bridge financiers, Third Eye Capital are financially supportive of Tangelo. Their sights are on a balance sheet revision whereby a 12% debenture is replaced by borrowing at the 9% level. Tangelo is at the \$17 million operating EBITDA level, estimated to rise by \$2 million next year. If everything is accomplished, what is emerging is a company with Hispanic expertise in Barcelona and 13 key developers/programmers in Israel including key talent out of Playtika. Tangelo has a

Bingo is perceived as recession proof and therefore Brexit proof

claimed to be the U.K.'s No. 1 on-line bingo business with 50% of its revenues derived in the U.K. and the rest across the world. It is growing on a pro-forma basis at about 20% annually and with current revenues in the \$460 million to \$500 million range. The growth estimate was attributable to National Bank Financial prior to the Brexit shock. Bingo is perceived as recession proof and therefore Brexit proof.

Analytical coverage of the sector is much stronger in the U.K. than in Canada, or anywhere else. The suitability of a London domicile might also be indicated by a kind of cultural fact that emerged at the presentation at Canaccord Genuity. There is no coverage by analysts at the Canadian

by acquisition as well as organic. It is in the minds of some analysts that Latin America could be the direction to go. Another Canadian company is actually the largest operator there, the lesser-known **Tangelo Games** (GEL-TSX).

So, let's roll the dice again!

Tangelo was, until recently, Imperus and originally Isis – no kidding. Latin America came to Tangelo with operations also in Spain on integrating Akamon. Among the Spanish founders, Barcelona-based Vicenc Marti is now the Tangelo chairman and also runs the Spanish operations. James Lanthier is the CEO of Tangelo.

Ralph Garcea, technology analyst at

library of new games and is at work on a conversion to HTML 5 following along with the move of the almighty Google. Akamon games have potentially 500 million users, and Latin America is the fastest growth area. Also, Tangelo has announced an agreement with PokerStars, the world's largest on-line poker brand with over 100 million registered users.

The complexities of all of this might be a good reason for a low level of awareness among Canadian investors.

Intertain and Tangelo Games are held in the Smedley Special Opportunities Fund and by me personally. ♦

Certive Solutions – Should Move Out of Obscurity

(CBP-CNSX)

I am one of the few shareholding outsiders to know this name. I'm hoping that my patience will pay off as the company builds and becomes more visible by moving to an electronic exchange with greater accessibility. And in my view, steering hospitals into the rich revenues they are neglecting in the complex world of hospital claims denials works best as a listing in the U.S.

The company has always treated the present listing as almost irrelevant as it has customarily raised money by private placements and at startlingly big premiums agreed by angel investors in the U.S. The company is run by Van H. Potter, President/CEO, and Brian Cameron, CFO who are two of those Vancouverites who



favour a sunnier existence in Scottsdale, Arizona. Mr. Potter is a technologies veteran with early stage development focus. Brian Cameron is an accountant with extensive experience in capital formation, commercialization and who worked at one stage with the B.C. Securities Commission. He favoured the low-key start up and no doubt will be expected to lead the company to more visible market quotation. There is much more depth evident in Certive. John Shackleton, the software solutions innovator who led the Open Text Corporation to a \$1.5 billion market cap provided the business concept for Certive and is its Chairman. His main workplace today is SilkRoad, a private HR solutions provider. There are more experts within other companies acquired by Certive.

Certive typically works with mid-sized U.S. hospitals, many struggling to turn cash positive while missing out on up to 15% of gross revenues by getting dollars out of denied insurance claims. Commonly, claims just get "timed out" when a claims

procedure that a hospital has initiated reaches calendar end and goes cold. Certive specialises in such projects while big healthcare service providers cannot give full attention to the business. Along the way, Certive has made several acquisitions and should be announcing more, providing associated services. Its latest contract signing is with a major hospital concerning outpatient pharmacy accounts, a competence that leverages over 20 years of identifying missing charges in outpatient services nationwide. This competence is embedded in one of the company's new divisions.

The company's gross monthly revenues appear to be running at above the \$500,000 level. There are 41.9 million shares in issue, 34.6 million in the float and the market cap is a tiny \$8 million. The CI Financial Group appears to hold close to 10% of the shares in a small cap fund. All of the company's executives named above are shareholders. I bought into the stock last year at \$0.28 both for the Smedley Special Opportunities Fund and for myself. ♦

Spin Master – Creation of Extraordinary Toy Boys

(TOY-TSX)

The best performing toy market in the world last year was Russia, according to Gerrick L. Johnson, BMO Capital Markets analyst for the stock group. Economic, financial and political adversity bring on the need for comforts and distractions. Toy stocks are relatively defensive everywhere. Regardless, I would boldly say there is enough talent and wizardry in the Canadian spin masters to keep Spin Master on track for greatness at all times.

Spin Master is not, in Mr. Johnson's view, a take-out candidate. Among his reasons, it doesn't have brands, which is what a Mattel has gone for in take-outs like Mega Brands in 2014. Rather, it serves film and other parts of the entertainment world and turns their screen characters into toys. Another reason is that the three main men are committed corporate fanatics like no others. They issued few shares to the public in the \$18 IPO in June

last year. The float is a measly 12.2 million out of 99.3 million. For now, they have no interest in issuing more. They are very serious in Toyland although I believe one of them sometimes dresses up a bit funny.

The backdrop to this is a more than 20-year history of a company founded in university time by three young guys who, after early success, bought a 700 people company, pushed it to 47% of the business and then came close to disaster. Without resorting to private equity for rescue or issuing new capital, they struggled and survived. Product generation for names like Disney came early. They gave new life to old names like Meccano and Ninja Turtles. The Smedley Special Opportunities Fund and I bought in at the time of the highly successful Flutterbye Fairy Doll [pictured], whatever that is.

Adept and creative, they recognised the

existence of a 7-year kiddies' toy cycle. Today, they have a big internal army of developers and have always attracted top external developers who are paid exceptionally well. The company's numbers are seriously progressive and its now global strength is supported by deep relationships in all parts of the toy chain. Spin Master is busy establishing international offices, partly to take out middleman distributorships, it seems. The stock could trade at a BMO targeted 19x, a premium to the level at which the group historically trades, but at a premium BMO thinks is justified given better than expected results and a solid long term outlook. Revenues in 2014 were at \$716 million and could be \$1.102 billion in 2017. ♦



The Flutterbye Fairy Doll

First Majestic – Glittering Example of Where You Should Never Give Up

(FR-TSX)

Through the last depression cycle in precious metals stocks, First Majestic carried on slogging away, working on costs and expanding production. The Vancouver-based silver producer's future surely was never in doubt. It established itself as the No. 1 independent in Mexico after local giant Fresnillo Plc. It has completed the downturn without changing its rank, but the stock, once priced at \$50 on an annual production of 3 million pounds, is trading today just above \$22, while production has expanded to 13 million pounds. There is more to come.

The industry is so wrung out that First Majestic is just about the last pure silver producer in existence and I have stayed nicely invested. There is always risk but it is perfect for patient portfolio investment so you never have to get out and then watch the start of the rally pass you by. In this case, it is one of the best senior Canadian stock runs this year. First Majestic guesses this rally in this world of fear and demand could have five, seven years to run. They cannot know that but First Majestic has

built up the best group of silver mines in recent times, and as long as such a scarcity of pure silver assets prevails, it likely cannot be emulated. With six producers and two new projects, the results should only improve.

First Majestic is a good citizen in Mexico. When I first bought the stock years ago, it was entirely staffed on the ground by Mexicans and still is – by 4000 of them. It attracts good talent in the country. The shares, 162.2 million in issue, are mostly held in Canada. Keith Neumeyer, who founded the company in 2002 and is CEO and President, has 3.3%. The majority are private investors and the most dominant institutional investor is Van Eck with 14.8%. Eight analysts cover the company.

I could take some money off the table, but I would be reluctant for now after staying in through the hard times.

Denison/GoviEx – A Similar Waiting Game?

You might say that is an odd thought but if you look at **Denison Mines** (DML-TSX), you can say it is in another metal that has gone wrong for years, a cluster of highly significant pure interests, and in which I seem to have been invested almost since the world began. Unlike First Majestic, Denison has been a multi-country player for years, after being one of the most acclaimed domestic producers elsewhere

in Canada. Since that time, it has swung more into the role of a developer in waiting. Recently taking quite a big step into Niger, West Africa, it would seem that Denison is bringing on another level of risk but this company is in the Lundin family empire where unusual opportunity is part of the proven style. Lundin is one of the most opportunistic names in the Canadian mining sector. Lately it has acquired the substantial Fruta del Norte gold asset in Ecuador, reactivated under **Lundin Gold** (LUN-TSX) after others gave up.

Denison's move into Niger is interesting. It has become the largest shareholder in the little known **GoviEx Uranium** (GXU-TSXV) with 25% of 265 million basic shares outstanding. Denison is in the company of several other big investors: Toshiba Corporation, Cameco Corporation and Ivanhoe Industries which is Africa-focussed today and the epicentre of Robert Friedland's mining interests. Govind Friedland, his son, is actually the second largest GoviEx shareholder with 31%, just one percent ahead of Toshiba. Collectively, all of these names hold 59% of the stock.

Uranium and associated stocks are in the pre-break out stage from which silver and First Majestic emerged so recently. They are at the stage when the most successful investments usually are made. ♦

About Michael Smedley

Mr. Smedley has been with Morgan Meighen & Associates since 1987. As CIO, Michael heads its investment team and is Director of the two closed-end funds and manages the Smedley Special Opportunities Fund exclusively. With over 30 years of investment industry experience, working in Canada, Hong Kong and London, he has an extensive background in portfolio management, stock selection and institutional and private client services. Michael was previously a journalist and public relations professional in the U.K., South Africa, Zambia, Tanzania, Kenya, Malaysia and Singapore.

Smedley Special Opportunities Fund

Founded in 2010, the Smedley Special Opportunities Fund is a long-only equity fund, which concentrates on special situations and opportunistic investing in small public companies under \$250 million market cap. The Fund is Canadian focussed with some direct international exposure and holds a targeted number of 30-40 stocks.

How To Invest With Michael

Please contact Morgan Meighen & Associates at (416) 366-2931 or email funds@mmainvestments.com. Information can also be found at www.mmainvestments.com

About Morgan Meighen & Associates

Nearly a century ago, former Prime Minister of Canada, the Right Honourable Arthur Meighen, helped create what is today North America's second oldest closed-end fund. Through the decades, Morgan Meighen & Associates has expanded its product offerings, and has grown to amass an enviable team of experienced investment professionals uniquely qualified to grow its clients' wealth. Today Morgan Meighen & Associates has more than \$1.6 billion in assets under management for, institutional clients, high net worth individuals and closed-end fund investors.

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