

PALOS

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Weekly Commentary

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By Charles Marleau CIM[®] and William Mitchell CIM[®]

Boyd Group Services Inc. – Steering in the Right Direction

Boyd Group Services Inc. (TSX: BYD) is a Canada based corporation that owns *The Boyd Group Inc.*, which operates a network of over 600 service centers in the automotive body repair, glass replacement, and glass repair industry. The company serves customers in Canada and the United States with the U.S. accounting for 90% of revenues. Revenue from operations includes collision repair services to insurance companies, fleet and lease, and individuals which combined accounts for a high percentage of revenues.

Boyd's business strategy is to enhance shareholder value by focusing on four key aspects: Management of expenses, streamlining of operations, same store sales growth, and future growth both organically and through responsible acquisition. With regards to the latter, the auto repair industry is highly fragmented, and this provides the opportunity to acquire good businesses at fair value. The company has a solid balance sheet and by its nature, the industry is viewed as "recession proof". As part of the recently announced "five-year strategy", the intention is to "double the size of the business" over the 2021 to 2025 period. This includes a combination of same-store sales growth, strategic acquisitions, and new locations. With a strong balance sheet Boyd has access to over \$1 billion to drive acquisitions.

Boyd held a conference call (Nov. 11) reporting results for the nine-month period ended September 30. Management noted the impact of Covid-19 on its operations as total sales for the quarter fell 10.3% to \$508 million compared to \$567 million for third quarter 2019. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) was \$84.5 million (16.6% of sales) compared with \$77.4 million (13.7% of sales) in 2019. Although not considered to be sustainable, this can be attributed to a benefit realized from the Canada Emergency Wage Subsidy (CEWS), improvements in gross margins and a reduction in operating expenses.

A dividend hike of 2.2% was also announced thus marking the 13th consecutive year of increasing dividends. On the balance sheet, Boyd was holding total debt after cash of \$672 million compared to \$708 million at the end of the last quarter, \$8949 million on March 31 and \$893 million at year end 2019. Cash flow remained positive despite the pandemic and year-to-date the company has added 30 new locations.

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We continue to view Boyd as a well-run company with a business model that is designed for growth. With a clearly defined template for success, operational excellence and a competent and experienced management team, Boyd fits the bill as an excellent growth story. The Palos Income Fund and The Palos Income Fund currently hold shares in BYD and we are maintaining our positive outlook.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.63	10.77%
Palos Equity Income Fund - RRSP	PAL101	\$6.20	10.22%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$11.64	52.08%
Palos-Mitchell Alpha Fund ³	PAL300	\$10.94	5.46%
S&P TSX Composite (Total Return with dividends reinvested)			5.05%
S&P 500 (Total Return with dividends reinvested)			14.52%
S&P TSX Venture (Total Return with dividends reinvested)			30.08%
Chart 2: Market Data ¹			Value
US Government 10-Year			0.84%
Canadian Government 10-Year			0.68%
Crude Oil Spot			US \$45.53
Gold Spot			US \$1781.90
US Gov't10-Year/Moody BAA Corp. Spread			231 bps
USD/CAD Exchange Rate Spot			US \$0.7698

¹ Period ending November 27, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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