

PALOS

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Weekly Commentary

Issue No. 39 | SEPTEMBER 26, 2022

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

Introducing Magnet Forensics

Magnet Forensics Inc. (TSX: MAGT) is a Canadian company that develops digital investigation software for applications in cybersecurity. Magnet's technology is designed to investigate and analyse critical breaches including spam, phishing and ransomware threats that occurs mostly on data storing devices including cell phones, computer networks and tablets. The company, which is based in Waterloo, Ontario, was founded in 2010 and went public with its initial public offering in April 2021. Magnet has over 4,000 customers in over 100 countries and has been recognized as one of the fastest growing companies in Canada.

Magnet has three core products; **AXION Cyber** is a digital forensics solution that investigates compromised insider breaches and rapidly collects and analyses evidence from computers, mobile devices and the cloud. **Magnet AUTOMATE ENTERPRISE** is an automated solution that's designed to collect information thus enabling rapid response to security threats and **Magnet IGNITE** is a cloud-based triage tool that offers rapid and cost-effective remote scans and analyses of cyber threats. External and internal cyber threats are growing exponentially and the capacity for institutional and private enterprises to monitor, detect and respond to threats are greater than ever.

The company is led by an exceptionally strong management team. This includes the Director and CEO Adam Belsher, who possesses over 20 years' experience in technology, the Director and Chief Technology Officer (CTO) Jad Saliba, who has over 20 years' experience in digital forensic policing and Jim Balsillie, former Chairmen and CEO of Research in Motion (Blackberry) who is on the board. Insiders have a majority stake in voting shares.

During the second quarter 2022 earnings call with analysts, Magnet reported strong performance with revenue +41% compared to the same quarter in 2021. Annual Recurring Revenue (ARR) was up 49% to \$73.3 million and guidance for the full fiscal year was raised. On the call, CEO Adam Belsher commented "the digitization of society is everywhere. It's growing exponentially". In addition, Mr. Belsher remarked that "ransomware, business email compromise, and criminal use of cryptocurrency incidents are increasing". This clearly supports our conviction that demand for cyber security solutions, bolstered by regulatory requirements to increase preventative practices, disclosures and response will provide a lasting tailwind to the cybersecurity industry.

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Further, cybersecurity is somewhat “recession proof” as demand for cybersecurity solutions should increase regardless of the state of the economy. Private sector corporations, governments and police have no alternative but to keep up with criminal activity. Management confirmed that during first half of 2022, the company made key hires in sales and marketing and that the contributions to growth were strong. This bodes well moving forward into 2023 as the product pipeline and growth opportunities remain favourable. With ample cash in the coffers, management continues to look for acquisitions, targeting companies within a \$5 million to \$20 million range.

With economic numbers implying a lower growth environment, we believe Magnet Forensics is positioned well to buck this trend given the growth metrics for cybersecurity. The **Palos Equity Income Fund** and the **Palos Income Fund LP** are shareholders in MAGT.

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| Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹ | FundServ | NAVPS | YTD Returns |
|--|----------|---------|---------------|
| Palos Income Fund L.P. | PAL100 | \$7.99 | -15.09% |
| Palos Equity Income Fund - RRSP | PAL101 | \$6.16 | -14.28% |
| Palos Merchant Fund L.P. (Dec 31, 2021) ² | PAL500 | \$1.16 | 24.67% |
| Palos WP Growth Fund - RRSP | PAL213 | \$12.41 | -34.33% |
| Palos-Mitchell Alpha Fund ³ | PAL300 | \$8.36 | -18.74% |
| S&P TSX Composite (Total Return with dividends reinvested) | | | -11.01% |
| S&P 500 (Total Return with dividends reinvested) | | | -21.62% |
| S&P TSX Venture (Total Return with dividends reinvested) | | | -38.41% |
| Chart 2: Market Data ¹ | | | Value |
| US Government 10-Year | | | 3.68% |
| Canadian Government 10-Year | | | 3.07% |
| Crude Oil Spot | | | US \$78.74 |
| Gold Spot | | | US \$1,645.30 |
| US Gov't10-Year/Moody BAA Corp. Spread | | | 207 bps |
| USD/CAD Exchange Rate Spot | | | US \$0.7357 |

¹ Period ending September 23rd, 2022. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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