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Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well informed of changes affecting local business decisions and our investment recommendations. We believe Knowledge Pays and we want our knowledge to help pay for you.

INTERNET KILLED THE CONFERENCE CALL STAR? CEOs QUESTION QUARTERLY CALLS

We can hear 2018's version of Sting, perhaps John Gourley of the band '*Portugal. The Man*', singing "***I want my, I want my, I want my official Investor Relations Q&A PDF for selected questions received through July 25, 2018.***" 2018 may prove to be the year that the conference call died or at least started dying in earnest.

Defenders of the conference call are few and far between

CEOs have pushed back against quarterly conference calls as well as providing quarterly guidance, questioning their value and role in promoting investor short-termism. Renowned investor Warren Buffett and renowned banker Jamie Dimon have urged companies to stop providing quarterly guidance, and Unilever has stopped providing earnings guidance in their quarterly conference calls. All noted that their stances are borne by the need for investors to adopt a long-term mindset in investing.

It seems the broader business community has responded in the past few months.

On one end of the spectrum, we saw Tesla CEO Elon Musk bash analyst questions on Tesla's Q2 conference call, calling out a question about short-term expectations as "boneheaded" and another question about finer details as "dry", refusing to answer both. Musk later apologized for his behaviour but his feelings toward the quarterly conference call and its utter banality are clear as day.

On the other end, we saw Canada's largest software company, Constellation Software, officially bail on quarterly conference calls in favour of an online Q&A portal that allows analysts/investors to ask questions throughout the year and enables management to post answers, to worthy questions only, for all to see. The choice to halt quarterly conference calls is likely due to a combination of Constellation's notoriously reclusive management team and the sheer size and complexity of Constellation's business making one-off verbal comments insufficient.

The question is whether more CEOs will follow in Musk or Constellation's footsteps.

Is halting quarterly conference calls good or bad for investors?

Less disclosure to investors is definitely bad and could enable some corporations to hide earnings or business issues for extended periods. Conversely, stocks should be valued based on decades of future earnings, not a single quarter's, so switching to a long-term investor mindset could result in lower volatility for many stocks and stocks could reflect true value more often.

Can executives halt conference calls? The Ontario Securities Commission does not require companies to host calls but recommends they hold an "open and accessible call" after material disclosures, such as earnings. Other jurisdictions have similar recommendations.

Current Rates & Data

Govt of Canada

90 day	1.45%
1 year	1.92%
2 year	2.12%
5 year	2.23%
10 year	2.31%
30 year	2.33%

U.S. Treasury

90 day	2.04%
1 year	2.41%
2 year	2.63%
5 year	2.77%
10 year	2.89%
30 year	3.05%

Canada Prime Rate

3.70%

U.S. Prime Rate

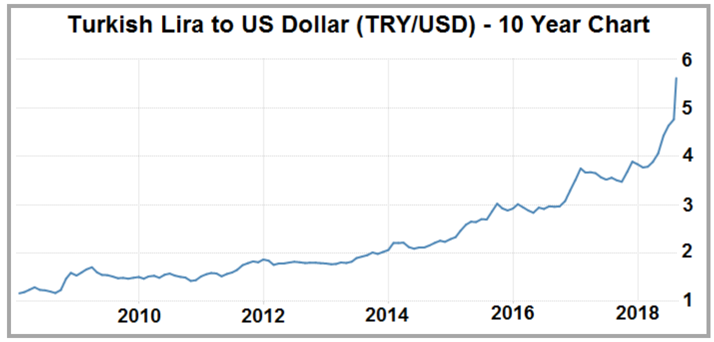
5.00%

Exchange Rates

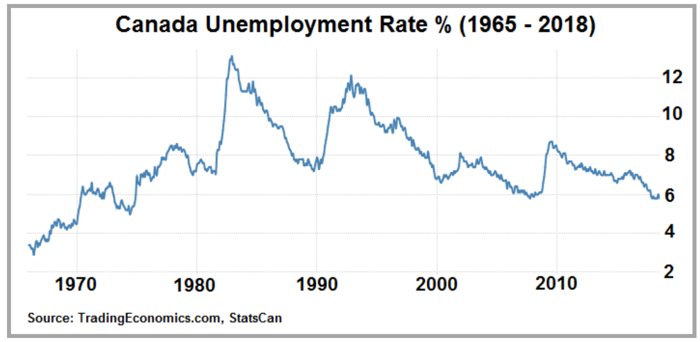
CAD/USD	0.764
USD/EUR	1.134
JPY/USD	111.2

ECONOMIC TIDBITS TURKEY IN TRUMP'S CROSSHAIRS & CANADA UNEMPLOYMENT RATE AT FOUR-DECADE LOW

• In August, US President Trump announced that the US would double the recently established metals tariffs on fellow NATO member Turkey if it did not release an American pastor who was imprisoned following the failed 2016 Turkish coup d'état. Trump's threat caused the Turkish lira and stock market to plummet. Economic crisis in Turkey could result in losses for European banks.



• The Canadian unemployment rate dropped to 5.8% in July, a four-decade low. Manufacturing heavy Ontario saw its unemployment rate drop to 5.4%, its lowest level since July 2000. While the unemployment rate has fallen from a high of 8.7% in 2009, the labour force participation rate (i.e. the percentage of able-bodied working age Canadians looking for work) has fallen from 67.7% to 65.4%.



LE JIT A "JUST-IN-TIME" RUNDOWN OF OUR CURRENT INVESTMENT THEME

Stocks Feeling Emerging Market Pain That Live the Global Lifestyle and Are Looking to Monetize

- **Embraer SA (ERJ-US)** and **SNC-Lavalin Group (SNC)** are two ideas related to this theme.
- **Embraer** is a Brazilian aerospace company that produces commercial, military, executive and agricultural aircraft. Embraer is the third largest producer of civil aircraft after Airbus and Boeing. Embraer currently trades at ~7x trailing EV/EBITDA and ~4x 2020 EV/EBITDA based on consensus estimates. Embraer is currently in the midst of a ramp up cycle that should result in above average growth over the next two years. Embraer trades at a 50%-70% discount to peers Boeing, Airbus and Bombardier. This type of discount is unusual considering Embraer is the least leveraged in the sector. Embraer recently signed a non-binding joint venture agreement with Boeing that would monetize a large part of its business at a much higher valuation while providing global reach and improving earnings consistency.
- **SNC-Lavalin** is a global engineering and construction (E&C) company and is a part owner of the 407ETR. SNC shares have been under pressure over the past month due to rising tensions between Canada and Saudi Arabia as well as a weakening outlook for commodity related projects. SNC trades at ~12x EV/EBITDA, roughly in line with historical valuations. SNC recently announced a willingness to sell part of its stake in the 407ETR, an asset that could attain a very high valuation based on comparable asset sales. We see meaningful upside potential if SNC sells its 407ETF stake and becomes a pure play E&C company.

  Key risk points: Both securities are highly cyclical and would likely come under pressure in a weak economic environment. Changes to trade policies could also negatively impact both securities.

JEANNINE'S TIP O' THE MONTH Steele Wealth Management offers cross-border wealth management solutions

Steele Wealth Management offers integrated cross-border wealth management solutions to Americans living in Canada and Canadians living in the U.S., through Raymond James (USA) Ltd. We understand the challenges that cross-border investors face and have connections with other cross-border professionals in areas like tax, trust and estate planning, insurance and immigration. If you know someone who needs a holistic wealth management solution to his or her cross-border needs, we can help. Please pass along our contact information.

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