



# Sell – Goodfellow Inc. (TSX: GDL)

**Current Share Price: \$13.83 | Target Share Price: \$10.24 | Implied Downside: 26%**

2024 Investment Research Challenge  
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*All figures stated in \$CAD millions unless otherwise stated*



# Company Overview



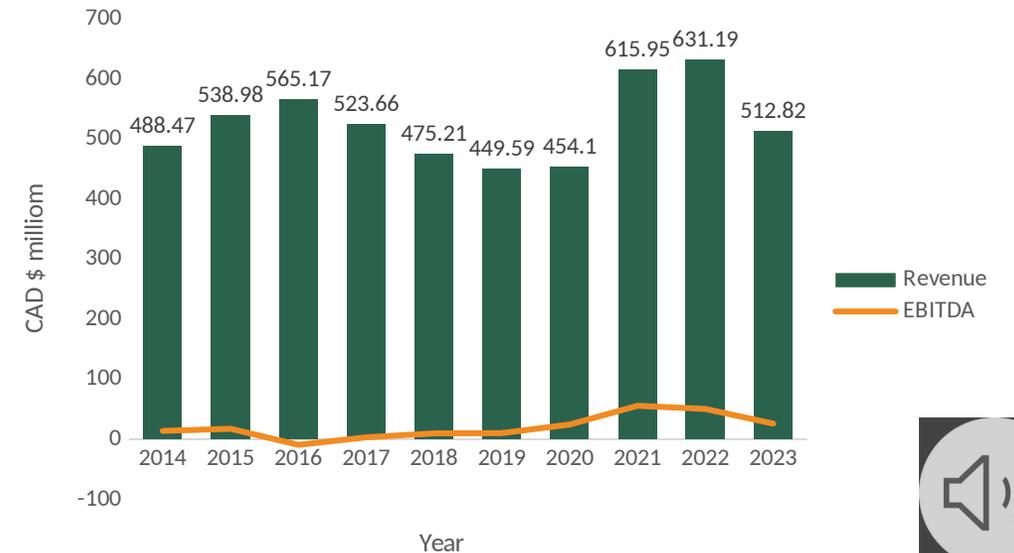
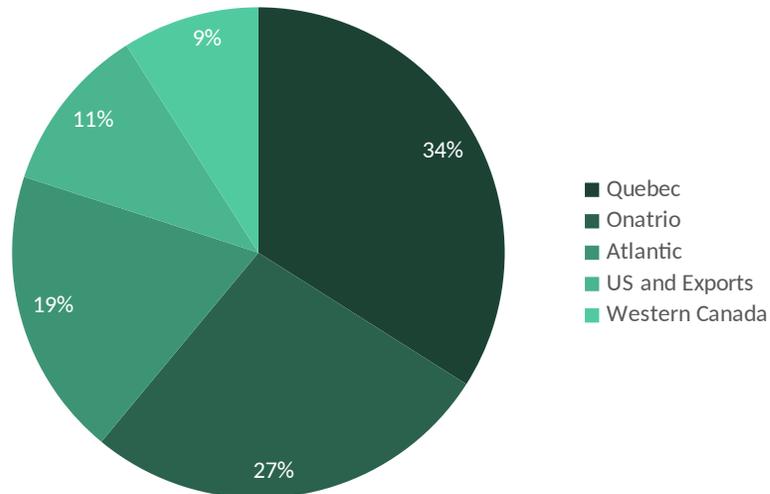
Goodfellow Inc. offers a variety of products with long-standing industry experience.

## Overall Business Structure

- Founded in **1898** with headquarters in **Montreal, QB**, IPO in 1984
- Product Offerings: Lumber, Speciality & Commodity Panel, Building Material, & Flooring
- Subsidiary Companies: Goodfellow Distribution Inc., & Quality Hardwoods Inc.
- Established in **Canada, United States**, and **Internationally**



## Historical Performance



Sources: Company Filings



# Construction Segment Overview



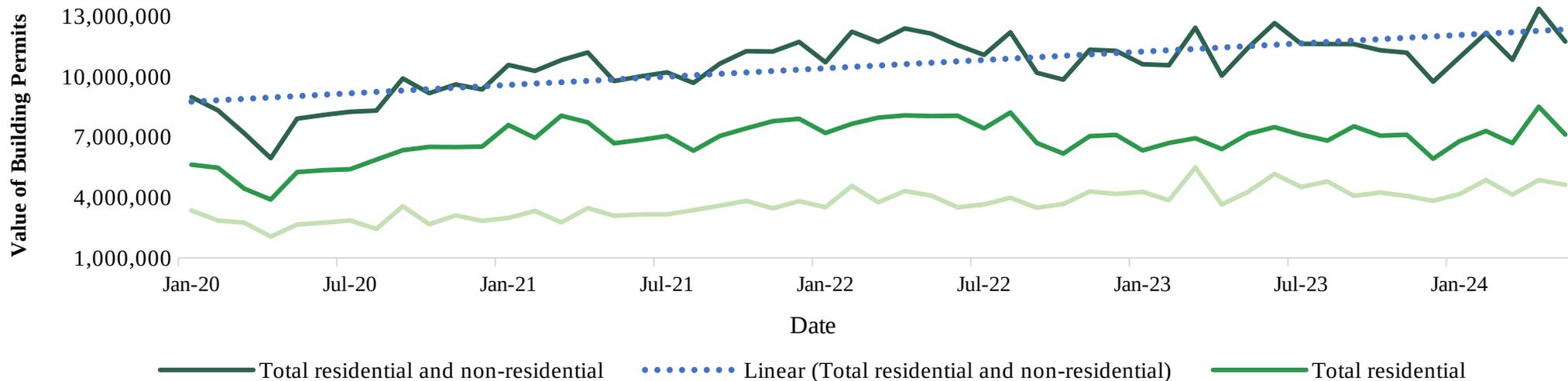
## Current Situation

- Pace of population growth has far outpaced construction, for e.g. in 2022, no. of houses constructed was 71k vs population growth of 450k against 89k houses constructed vs 97k population growth in 1972-79
- Construction costs reached its peak from 2021-2022 due to the sudden spike in the cost of building materials leading to a slowdown in the non-residential construction segment
- Estimates suggest that 1.85 million homes need to be constructed by 2030 to solve the housing crisis

## Efforts By Canadian and US government

Canada	<ul style="list-style-type: none"> <li>• Improve Zoning and Permitting by streamlining processes for quicker approvals</li> <li>• Using Government Land for public projects</li> </ul>
U.S.A.	<ul style="list-style-type: none"> <li>• The budget incentivizes local governments to reduce barriers to affordable housing development</li> <li>• The budget includes over \$258 billion in investments to build or preserve over 2 million housing units</li> </ul>

## Value of Building Permits by Type



Sources: Statistics Canada, HUB international, Fraser Institute

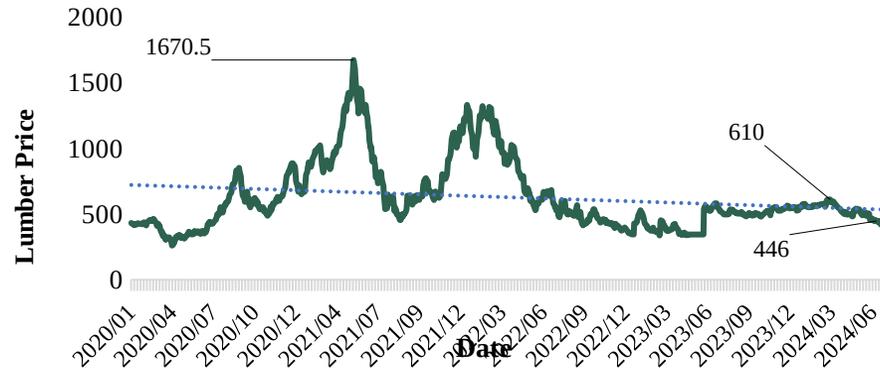


# Thesis # 1 – Excess Exposure to Volatile Lumber Prices

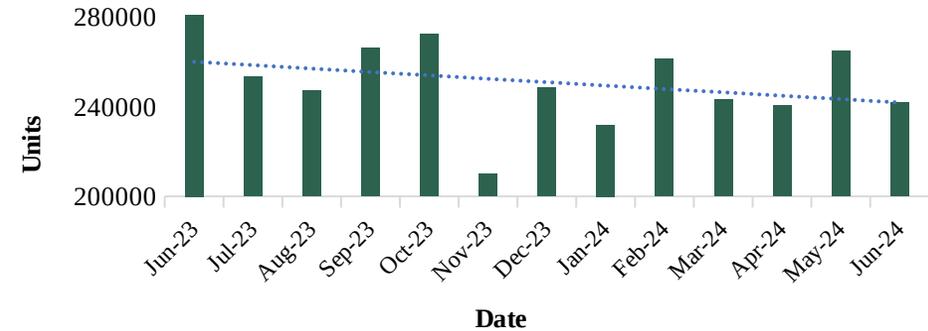


Lumber prices have been extremely volatile over the past 5 years, the sudden increase in Revenue in 2021 can also be explained by the spike in price to \$1600 and fall in 2023 can also be attributed to the same reason

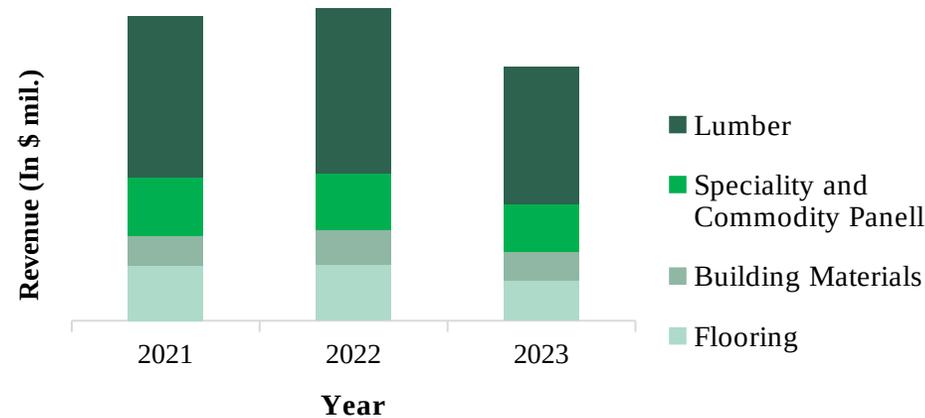
## Lumber Price



## Residential Units Constructed



## Revenue by Product



## Impact on Revenue

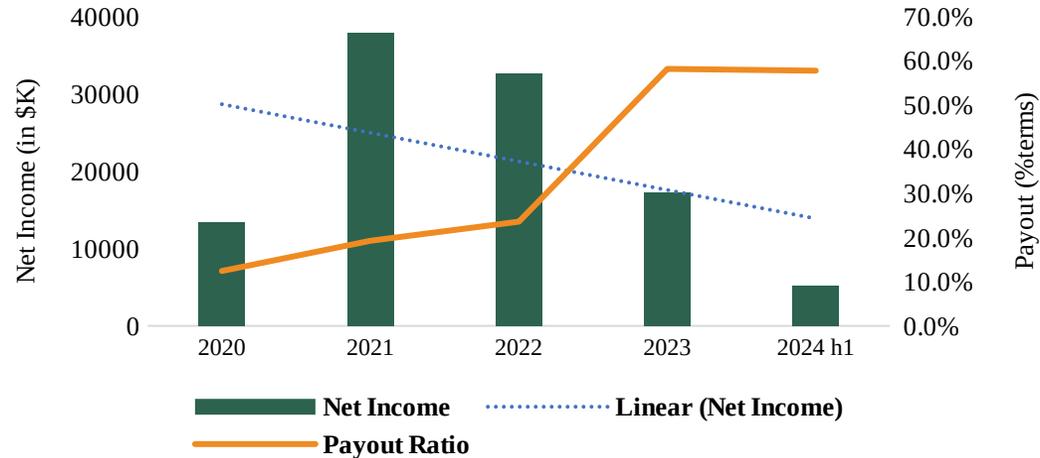
<p><b>Impact on Company</b></p>	<ul style="list-style-type: none"> <li>When the interest rate cut was announced, companies observed an opportunity and dumped the market with excess lumber</li> <li>55% exposure to Lumber in terms of revenue</li> </ul>
<p><b>Market Overview</b></p>	<ul style="list-style-type: none"> <li>Demand for housing outpaced the building permit approvals in Canada, leading to a severe shortage in housing</li> <li>In the US, people are expecting 30 yr. mortgage to reach mid or low 6 to revive the housing market</li> </ul>

Sources: Macrotrends, Stats Canada, Trading Economics, & WSJ

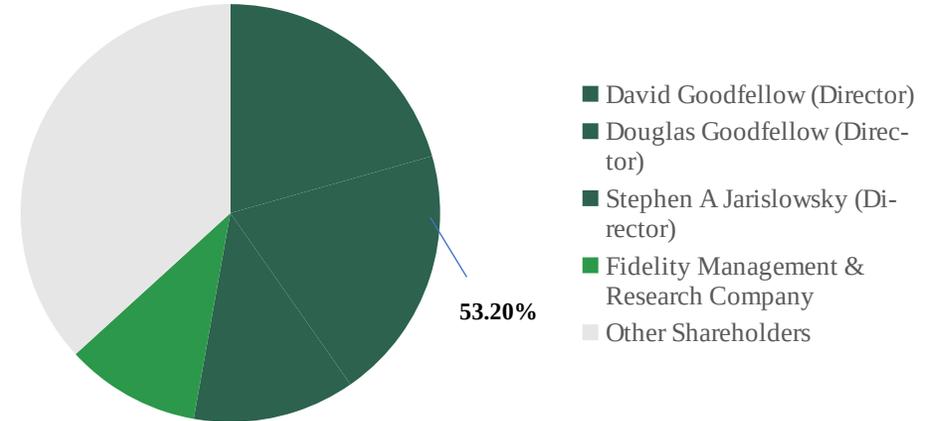
# Thesis # 2 – Management Bias



## Dividend Payout



## Company Ownership



## Agency Cost

- ~63% of total shares are held by the directors of the company
- No independent director
- At a time when Net Income has been falling at a rate of 47% YoY basis (2022-23), management announced a highest ever dividend payout of 57.7%
- 3 of the 9 B.O.D are members of the Goodfellow Family

## Net Income

- Net Profit margin has only averaged at about 2% from 2014-2024Q2
- Goodfellow's Management was not equipped to adjust their margin management, discount, and rebate schemes as quickly and as flexibly as they should. As a result, their profitability suffered from 2021-2022 despite surging demand and increasing lumber prices

Sources: Company Filings , McKinsey

# Valuation



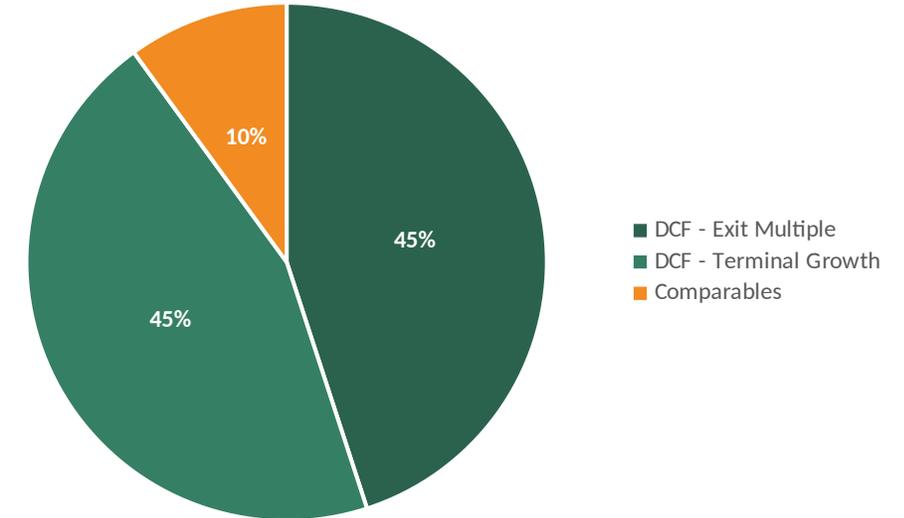
*Sell Recommendation with a downside of 26% and a target share price of \$10.24*

DCF Exit Multiple	DCF Terminal Growth	Comparables
\$6.52	\$12.42	\$17.2
\$2.93	\$5.59	\$1.72

**Current Price:**  
**\$13.83**

**12-Month Target**

**Implied Downside:**



Company Name	Ticker	Share price	Market Capitalization (millions)
Taiga	TBL	3.82	412.83
Doman	DBM	6.80	592.68
Wajax	WJX	26.53	567.39
Adentra	ADEN	39.18	980.24
GreenFirst Forest Products	GFP	0.42	73.69

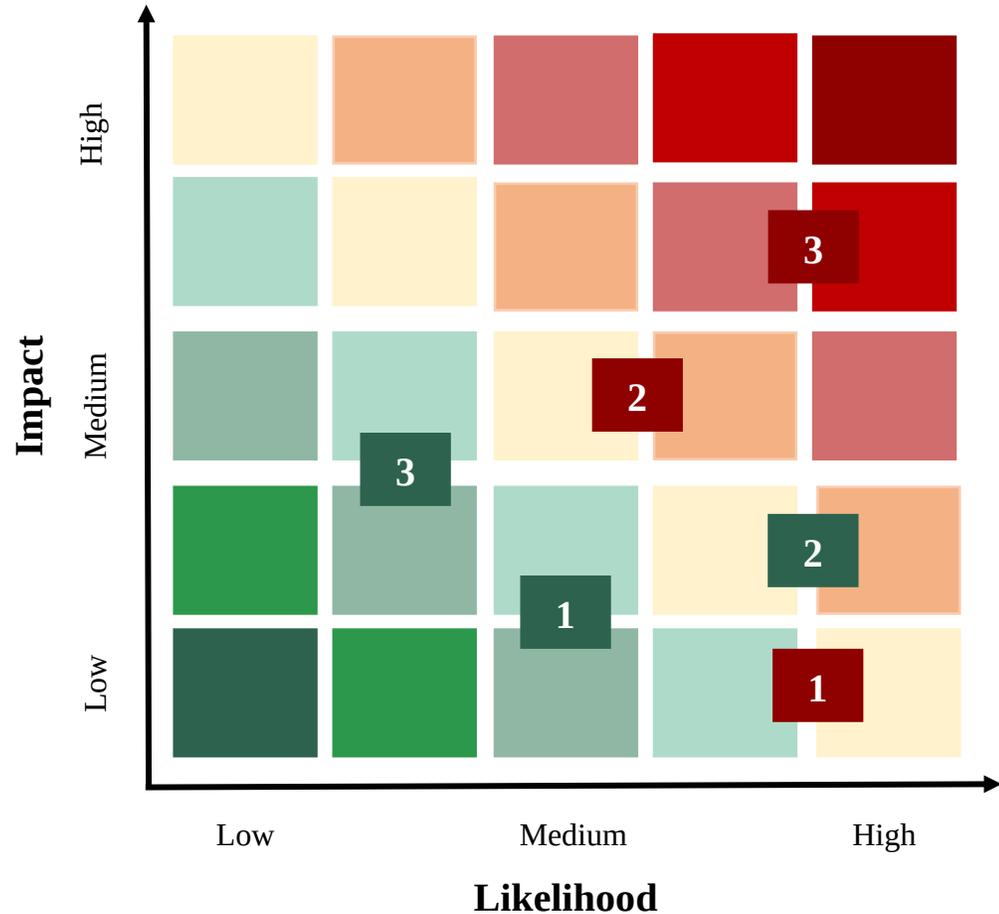
Weighted Average Cost of Capital: **8.26%**  
 Perpetuity Growth Rate: **3.38%**  
 Statuary Tax Rate: **21%**  
 # of shares outstanding: **8.5 million**

Sources: CapitalIQ

# Risks & Catalysts



Increase in the demand for housing projects the highest likelihood and impact on the sell recommendation



## Risks

- 1 No or Low Debt Levels:**  
No borrowing costs allows for the return for equity holders to be maximised with lower risk, ideal for risk averse investors
- 2 Growth Exceeding Expectation:**  
GDL stock outperforms the S&P/TSX performance over the recent years indicating overall growth potential
- 3 Increase in the Demand for Housing:**  
Latest updates show the increased influx in the immigrants in Canada which has led to the demand for housing to rise

## Catalysts

- 1 Exposure to US Tariffs :**  
Company might have to pay higher taxes on their sales in the US given the higher demand for housing there
- 2 Macroeconomic Challenges:**  
Potential for high interest and inflation rates with supply chain disruptions adversely affects the company performance, especially with the lack of hedging strategies
- 3 Foreign Currency Fluctuations :**  
11% of the total sales are from US and Europe, exposing them to risks led by exchange rate fluctuations

Sources: Company Filings, & The Smith Maneouvre



Q&A

# Appendix

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**ESG**

# Company Statistics



Company Key Statistics	
Current Share Price	\$13.83
52 week high price	\$16.06
52 week low price	\$13.06
Market Capitalization	\$117.74
Enterprise Value	\$138.10
Total Revenue	\$510.20
EBITDA	\$24.10
Basic fully diluted EPS (NTM)	\$1.73
Sales/Share (NTM)	\$60.02
Book Value of Common Equity	\$190.50
Book Value/Share (LTM)	\$22.41
Shares Outstanding	8,501,554
Cash	\$4.40
Long term Debt	\$23.60
Price/Earnings (NTM)	8.1
Price/Sales (NTM)	0.2
Price/Book	0.6
EV/Revenue (NTM)	0.3
EV/EBITDA (NTM)	4.5

# WACC Calculation



## Key Company Assumptions

Tax Rate	26.90%
<b>WACC</b>	<b>8.26%</b>

## Capital Structure

Debt / Equity (D/E)	0.07
% Debt ( $w_d$ )	6.3%
% Equity ( $w_e$ )	93.7%

## Cost of Equity

Beta ( $\beta$ )	1.11
Risk-Free Rate ( $r_f$ )	3.47%
TTM Implied ERP	4.60%
<b>Cost of Equity (<math>k_e</math>)</b>	<b>8.58%</b>

## Cost of Debt

Cost of Debt ( $k_d$ )	4.95%
Tax Rate (t)	26.90%
<b>After Tax Cost of Debt (<math>ATk_d</math>)</b>	<b>3.62%</b>

<b>WACC</b>	<b>8.26%</b>
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# Free Cash Flow Projections



Projected Free Cash Flows Currency	Year 1 CAD	Year 2 CAD	Year 3 CAD	Year 4 CAD	Year 5 CAD
Traditional revenue growth estimates	515.30	520.79	529.35	541.11	556.27
Lumber	246.57	249.20	257.90	263.63	271.02
Products	215.65	217.95	216.61	221.42	227.63
<b>Total Revenue</b>	<b>462.22</b>	<b>467.14</b>	<b>474.51</b>	<b>485.05</b>	<b>498.64</b>
<b>COGS</b>	<b>373.89</b>	<b>377.88</b>	<b>383.83</b>	<b>392.36</b>	<b>403.35</b>
<b>Gross profit</b>	<b>88.33</b>	<b>89.27</b>	<b>90.67</b>	<b>92.69</b>	<b>95.29</b>
SG&A expenses	83.20	84.09	85.41	87.31	89.76
Depreciation	8.08	8.76	9.49	10.29	11.15
<b>Operating Expenses</b>	<b>91.28</b>	<b>92.85</b>	<b>94.91</b>	<b>97.60</b>	<b>100.91</b>
<b>Operating Income</b>	<b>-2.96</b>	<b>-3.58</b>	<b>-4.23</b>	<b>-4.91</b>	<b>-5.62</b>
Less income taxes	-0.80	-0.96	-1.14	-1.32	-1.51
<b>Unlevered net income</b>	<b>-2.16</b>	<b>-2.62</b>	<b>-3.09</b>	<b>-3.59</b>	<b>-4.11</b>
add depreciation	8.08	8.76	9.49	10.29	11.15
Less: capex	3.89	2.11	2.15	2.19	2.26
+/- decrease/increase in NWC	-62.09	0.89	1.33	1.91	2.46
<b>Free cash flow</b>	<b>64.12</b>	<b>3.14</b>	<b>2.92</b>	<b>2.59</b>	<b>2.32</b>

# Discounted Cash Flow Analysis



Present Value of equity using growth in perpetuity			% of TEV	% of MVE
PV of 2023-2028 Free Cash Flows		68	67.17%	64.11%
PV of Terminal Value		33	32.83%	31.34%
Enterprise Value		101	100.00%	95.45%
Less:				
	Total Debt	24		-22.36%
	Preferred Stock	0		0.00%
	Minority Interest	0		0.00%
Plus:				
	Cash and Equivalents	28		26.91%
Equity Value		<u>106</u>		<u>100.00%</u>
Shares Outstanding		8.50		
Implied Per Share Value		12.42		
Current Price		13.83		
Premium/(Discount) to Current Price		-10.23%		

# Discounted Cash Flow Analysis



Present Value of equity using Terminal Multiple			% of TEV	% of MVE
PV of 2023-2028 Free Cash Flows		68	133.57%	122.01%
PV of Terminal Value		-17	-33.57%	-30.67%
Enterprise Value		51	100.00%	91.34%
Less:				
	Total Debt	24		-42.56%
	Preferred Stock	0		0.00%
	Minority Interest	0		0.00%
Plus:				
	Cash and Equivalents	28		51.21%
Equity Value		<u>55</u>		<u>100.00%</u>
Shares Outstanding		8.50		
Implied Per Share Value		6.52		
Current Price		13.83		
Premium/(Discount) to Current Price		-52.83%		

# Comparable Company Analysis



Comparable Company Information				Valuation Metrics							
				EV/Revenue		EV/EBITDA		Price/EPS		Price/Sale	
Company Name	Ticker	Share price	Market Capitalization (millions)	LTM	NTM	LTM	NTM	LTM	NTM	LTM	NTM
Taiga	TBL	3.82	412.83	0.16x	n.a.	2.80x	n.a.	6.21x	n.a.	0.18x	n.a.
Doman	DBM	6.80	592.68	0.53x	0.50x	7.58x	6.51x	10.37x	9.6	0.28x	n.a.
Wajax	WJX	26.53	567.39	0.51x	0.49x	6.20x	5.37x	7.53x	7.54x	0.28x	n.a.
Adentra	ADEN	39.18	980.24	0.45x	0.55x	6.26x	5.97x	9.16x	11.01	0.19x	n.a.
GreenFirst Forest Products	GFP	0.42	73.69	0.45x	0.40x	7.70x	n.a.	6.00x	n.a.	0.57x	n.a.

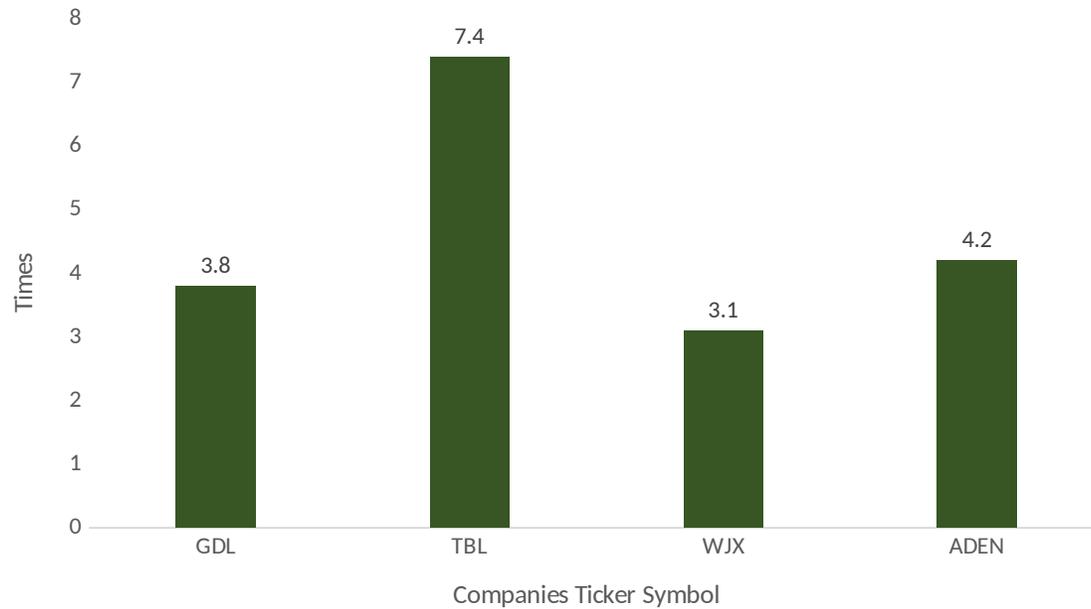
## Implied Price per Share

High					\$29.55	\$19.57	\$17.94	\$34.21	
75th Percentile					\$28.35	\$19.23	\$15.85	\$16.81	
Mean					\$22.95	\$15.06	\$13.59	\$18.01	\$17.52
Median					\$24.75	\$15.49	\$13.03	\$16.81	26.66 %
25th Percentile					\$24.75	\$15.32	\$10.74	\$11.40	
Low					\$7.34	\$5.68	\$10.38	\$10.80	

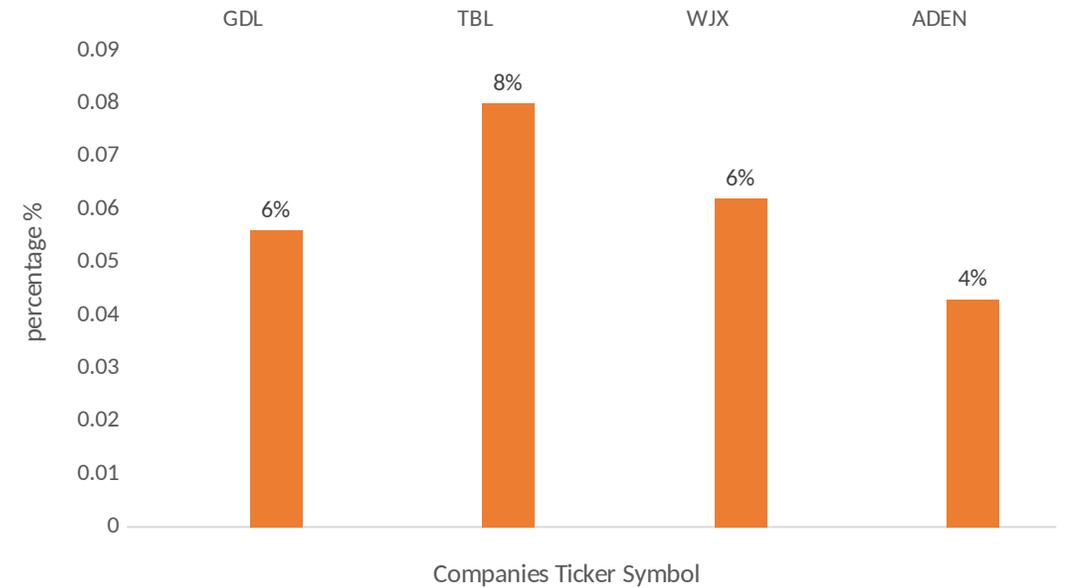
# Comparable Ratios - I



Comparison of Inventory Turnover Ratio between GDL and its competitors



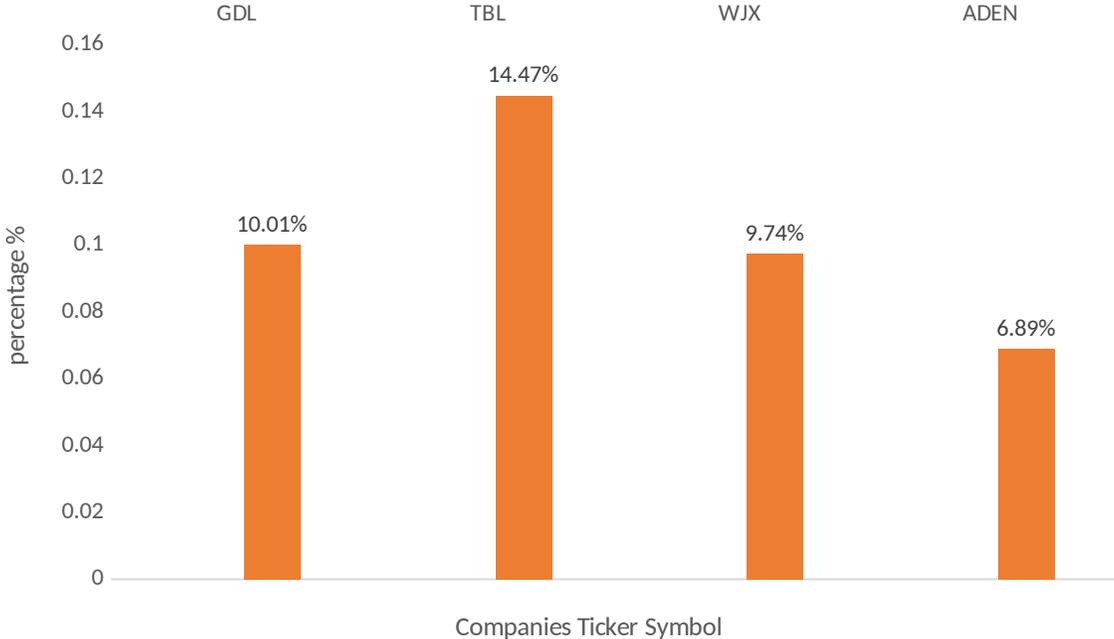
Comparison of Return on Assets between GDL and its competitors



# Comparable Ratios - II



Comparison of Return on Invested Capital between GDL and its competitors



# Dividend Discount Model Analysis



Issue Year	Dividend	Growth Rate
2014	0.65	
2015	0.35	-46.15%
2016	0.30	-14.29%
2017	0.00	-100.00%
2018	0.00	0.00%
2019	0.20	200.00%
2020	0.85	325.00%
2021	0.90	5.88%
2022	1.00	11.11%
2023	1.00	0.00%

<b>Current Stock Price</b>	\$13.83
<b>Cost of capital</b>	8.26%
<b>Growth Rate</b>	4.90%
<b>Do</b>	1.00
<b>D1</b>	1.00
<b>Current Stock Price</b>	13.83
<b>Intrinsic Value</b>	29.79
<b>Upside/ (Downside)</b>	115.38 %

DDM is not considered in the final valuation since the dividends over the year are fluctuating and this is an inaccurate representation of the expected share value



## Environment

Goodfellow Inc. focuses on minimizing their environmental footprint by recognizing provisions for environmental expenditures related to restoring environmental integrity of its properties.

These provisions are based on estimates of future remediation costs, taking into account regulatory requirements, industry practices, technological advancements, and potential future uses of the sites.



## Social

The company places emphasis on the benefits it gives to its employees which include additional compensation when the company targets are met and other benefits such as pension income as well.

Goodfellow Inc. focuses greatly on helping women represents the company equally and hence ensures that there are equal number of women on the BoDs and their say is considered when making business decisions.



## Governance

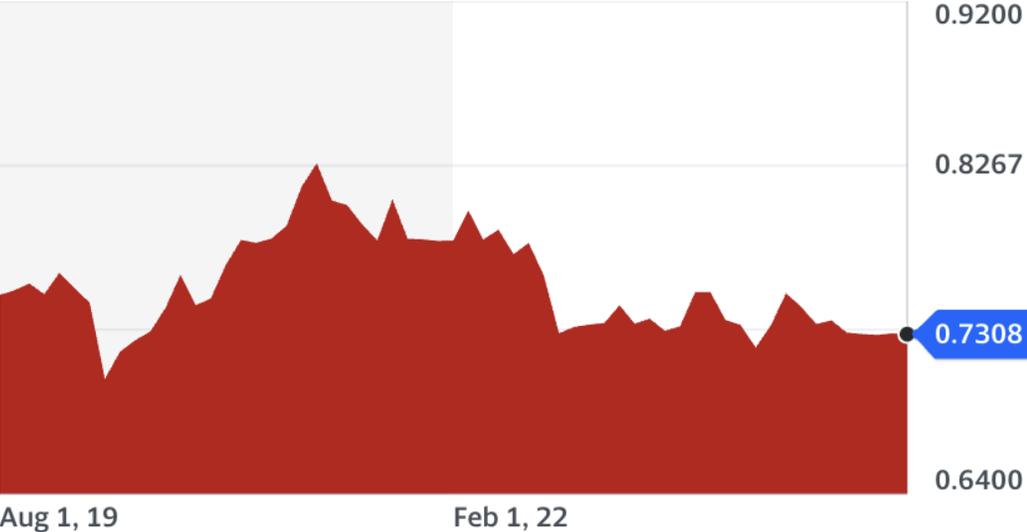
Goodfellow Inc. states their awareness regarding different corporate governance policies, which they implement through ensuring diversity amongst directors and other members of the senior management.

The company also follows codes for ethical business conduct as established by the Board of Directors, ensuring the highest standards for honesty and integrity.

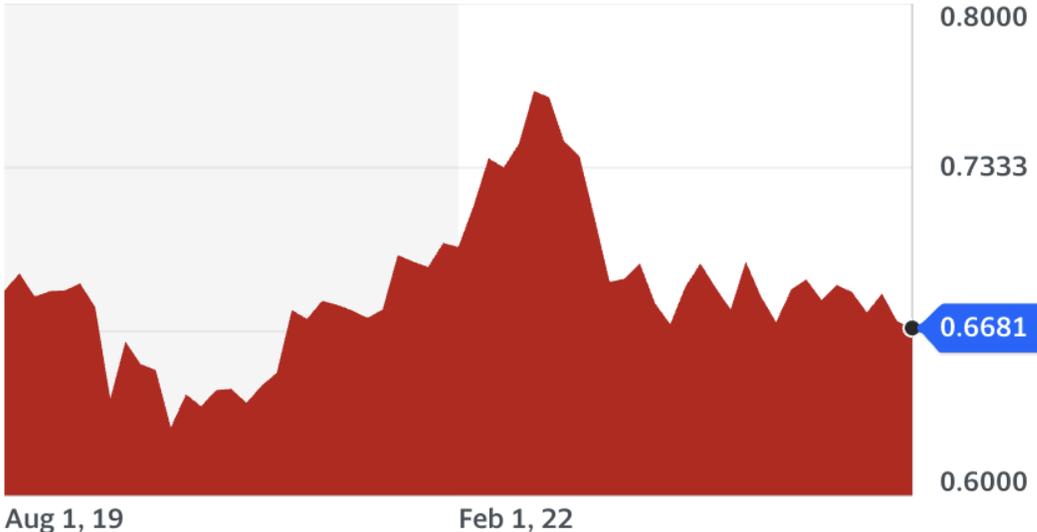
# Exchange Rate



CAD To USD



CAD To EURO



# Equity structure

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Charles Brisebois – CFO and Secretary

Alain Côte – Director and Chair of the Audit Committee

David Goodfellow – Director

Douglas Goodfellow - Director

Patrick Goodfellow – President and CEO

Robert Hall – Chair of the Board

James Hewitt – Director

Stephen Yaroslavsky – Director

Sarah Prichard – Director and Chair of the Compensation Committee