

EQUITY RESEARCH

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Earnings Update

GUARDIAN CAPITAL GROUP LIMITED

No Surprises On An In-line Quarter

Outperformer

GCG.A-TSX, Sector: Financials

Current Price (11/11/22): C\$26.25

Price Target (12-18 mos.): **↑C\$40.00**

Previous: C\$38.00

Our Conclusion

Guardian Capital reported an in-line quarter from an earnings standpoint. Net flows were positive in Q3, driven by an institutional reallocation towards fixed income. The company continues to invest in initiatives to support future growth, including the buildout of its retail asset management franchise (with the launch of new products in the quarter) and advancing towards a first fund close for the new infrastructure strategy in 2023. We are increasing our price target to \$40 to reflect the impact of recent market movements on our sum-of-the-parts value for shares of GCG.A.

CIBC Estimates and Valuation

(Dec. 31)	2020	2021	2022	2023
EPS diluted	2.05A	3.05A	2.81E	2.97E
Prior				2.92E

EPS diluted	Q1	Q2	Q3	Q4
2022	0.73A	0.70A	0.66A	0.72E
Prior			0.66E	0.73E
2023	0.70E	0.74E	0.72E	0.81E
Prior	0.69E	0.73E	0.71E	0.79E

Valuation	2020	2021	2022	2023
P/E	12.8x	8.6x	9.3x	8.9x

Key Points

Operating earnings in line. Operating earnings came in at \$16.0 million in Q3, directly in line with our estimate. Operating earnings declined both sequentially and year-over-year, reflecting the impact of lower market values on asset-sensitive revenue streams as well as higher expenses.

Net inflows in the investment management segment. Guardian indicated that it experienced net positive inflows in Q3 driven by institutional allocations into fixed-income strategies. The rising interest rate environment has driven some rebalancing by institutional investors who previously had low allocations to the asset class.

Earnings contribution from the MGA moderates in Q3. The Managing General Agency (“MGA”) generated EBITDA attributable to shareholders of \$5.6 million, versus \$6.3 million one year ago. Management has indicated that the prior year benefitted from some catch-up in insurance sales from the earlier pandemic-induced slowdown in 2020. Despite the slight moderation of earnings, we view the MGA as a high-quality business with a large component of the earnings profile being recurring and long-tailed in nature. The stability of this segment also counterbalances the market-sensitive earnings stream from the investment management business.

Continued investment in future growth plans. Guardian launched new retail products in Q3 focused on investors in the decumulation phase of the investment lifecycle. The launch of new products has generated greater attention and interest among financial advisors, which the company hopes will help scale its retail AUM over time. Guardian acknowledged that the buildout of its retail asset management segment continues to drag on earnings but believes that the strategy requires time and patience. The company also remains committed to the development of infrastructure investing capabilities with a first fund close targeted in 2023. In total, future growth initiatives produced a \$2.5 million drag on operating earnings in Q3.

No BMO shares sold in Q3. Total ownership of Bank of Montreal (BMO.TSX, covered by Paul Holden) shares amounted to 2.2 million, which was unchanged sequentially.

Stock Performance and Key Indicators

Avg. Dly. Vol.:	5K	Shares O/S:	26.2M
Market Cap.:	C\$689M	Float:	21.1M
52-wk Range:	C\$24.55 - C\$41.00	Div. / Yield:	C\$0.96/3.66%

TSX Composite Index vs. GCG.A-TSX



All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 3. For required regulatory disclosures please refer to "Important Disclosures" beginning on page 4.

Guardian Capital Group Limited (GCG.A-TSX) — Outperformer

Price (11/11/22) C\$26.25 12-18 mo. Price Target C\$40.00

Sector: Financials

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Peer Comparison	2020	2021	2022E	2023E
P/E - GCG.A	12.8x	8.6x	9.3x	8.9x
P/E - Canadian Peer's Average	9.2x	8.2x	7.8x	7.4x
P/E - U.S. Average	12.5x	9.8x	13.0x	14.1x
EV/EBITDA - GCG.A	1.9x	1.4x	1.5x	1.4x
EV/EBITDA - Canadian Peer's Ave	7.7x	6.6x	6.8x	6.8x
EV/EBITDA - U.S. Average	8.7x	6.8x	8.8x	9.5x
Per Share Data	2020	2021	2022E	2023E
Diluted EPS	2.05	3.05	2.81	2.97
FD Number of Shares	28.4	27.5	26.7	26.4
Income Statement	2020	2021	2022E	2023E
Revenue	216	285	296	310
SG&A	98	131	139	146
Tot Operating Exp	161	203	227	240
Adj. EBITDA	70	97	93	96
Adj EBITDA Margin	32.6%	33.9%	31.2%	30.9%
Pretax profit	54	224	(48)	71
Income Taxes	7	34	8	19
Non-Controlling Int.	4	7	5	5
Net Income	42	184	(62)	47
Asset Managers	2020	2021	2022E	2023E
Total Ending AUM	45,984	56,341	50,324	53,364
Net Sales	3,242	3,984	120	515

Company Profile

Guardian is a diversified financial services company. The asset management segment accounts for ~50% of earnings and manages a variety of strategies across Canadian equities, global equities and fixed income. The financial advisory segment generates ~34% of earnings and consists of a network of independent advisors that offer mutual funds, securities and life insurance products.

Investment Thesis

We see Guardian trading at a substantial discount to its sum-of-the-parts value, of a magnitude that can't be explained by any headwinds across its various business lines. The company has long been one of our favourite names on the small-cap end of the spectrum and has excellent stewardship.

Price Target (Base Case): C\$40.00

Our price target of \$40 represents the low end of our very conservative sum-of-the-parts value for Guardian's stock.

Upside Scenario: C\$44.00

Our upside scenario of \$44 represents the high end of our sum-of-the-parts value for Gaurdian's stock.

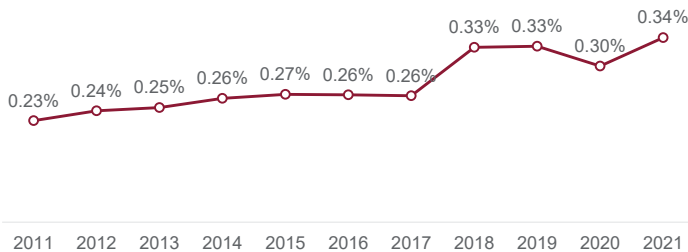
Downside Scenario: C\$19.00

Our downside scenario of \$19 assumes a drawdown in equity markets and a widening discount to the SOTP value.

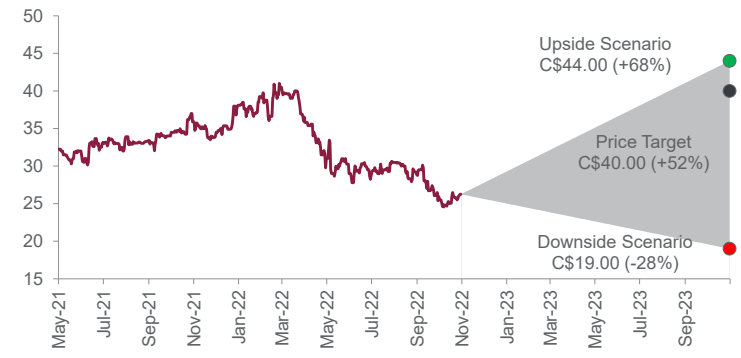
GCG.A – Sum of the Parts Analysis, November 12, 2022

Segment	Valuation Methodology	Low	High
		(\$MM)	(\$MM)
Investment Management	LTM EBITDA x 5 to 6 multiplier	\$239	\$287
Managing General Agency	\$25 million run-rate EBITDA x 10 to 12 multiplier	\$250	\$300
Dealers Business + GPI	~\$20 billion AUA x 0.4% to 0.5% P/AUA multiplier	\$77	\$96
Corporate Expenses	LTM EBITDA (excluding income earned on securities portfolio) x 7.5 to 9 multiplier	(\$100)	(\$120)
Balance Sheet	Fair market value of securities portfolio less accumulated tax liability and net debt	\$605	\$605
Total Equity Value		\$1,071	\$1,168
Shares Outstanding (millions)		26.8	26.8
Sum-of-the-Parts Value per Share (\$/sh)		\$39.94	\$43.56
Current Share Price (\$/sh)		\$26.25	\$26.25
Implied Share Price Upside		52%	66%

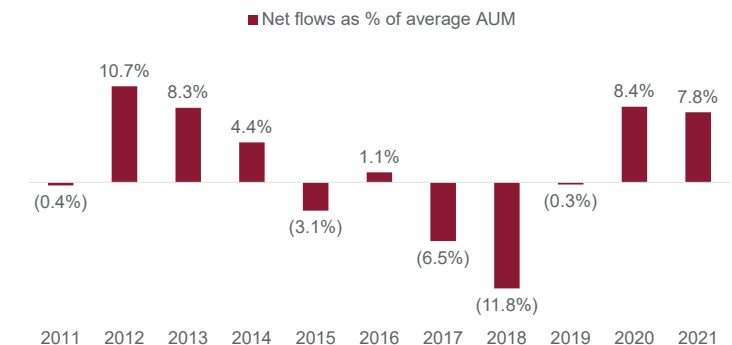
GCG.A – Net Management Fee Rate, %, 2011 – 2021



GCG.A – Price and Scenario Analysis, 2021 to Present



GCG.A – Net Flows, % of Avg. AUM, 2011 - 2021



Source: Factset, Company reports and CIBC World Markets Inc.

Price Target Calculation

Our price target of \$40 represents the low end of our sum-of-the-parts value for Guardian's stock using a 5x EBITDA multiple on the LTM EBITDA for its Investment management segment, a 10x EBITDA multiple on the run-rate for its MGA business, and a 0.4% P/AUA multiple for its Dealers Business line.

Key Risks To Price Target

Our price target for Guardian Capital Group may not be realized for a number of reasons, including: lower-than-assumed investment returns, lower-than-forecast net sales, management fees declining faster than anticipated, operating expenses increasing at a faster rate than management guidance, regulators imposing new disruptive regulation and increasing competition in retail wealth and mutual funds.

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Overweight	O	Sector is expected to outperform the broader market averages.
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Underweight	U	Sector is expected to underperform the broader market averages.
None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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