

SupremeX Inc. (SXP:TSE)

Consumer Discretionary – Home & Office Products

“More to It than the Envelope”

Company Profile

Supremex manufactures, markets and distributes envelopes and packaging products within North America. These products are tailored to the specifications of major corporations, retailers, governments, merchants and other processors and solution providers. Supremex operates ten manufacturing facilities across Canada and three in the United States. Currently, the company employs approximately 780 people. Supremex was founded in 1977 and grew to its current size mostly inorganically.

Thesis: Promising diversification strategy

As the Canadian envelope market is contracting, investors are pessimistic about the fate of the company. However, the company's growth will come from its successful acquisitions, a capable management team, an innovative product mix with competitive value propositions, and an extensive distribution network. In mature industries, consolidating companies increase market share and re-stabilize revenue generation. Supremex is pursuing this strategy by pushing into the U.S. envelope market and simultaneously diversifying into the growing packaging market. We believe that Supremex's geographic and product diversification strategy will slow down revenue declines and potentially stabilize revenue generation.

Valuation & Recommendation

Our discounted cash flow analysis assumes only organic growth, therefore forecasted revenue is declining, although stabilization of revenues is likely to occur through an acquisition growth strategy. Nevertheless, our analysis yields a target price of \$5.70, which represents 28% upside potential to the current share price. We believe investors are overly pessimistic about the declining envelope industry and are failing to account for the effect that diversification has on slowing down revenue declines.

Please see legal disclaimer at bottom.

Analyst: Marius Schneider, BComm 19

Contact@westpeakresearch.com

Equity Research Canada

Price Target CAD\$ 5.70

Rating Buy

Current Share Price, close CAD\$ 4.45

Total Return 28%

Key Statistics

52 week H/L \$6.07 /\$3.93

Market Capitalization \$127.0M

Net Debt \$28.5M

Enterprise Value \$191.9M

Net Debt/Enterprise Value 14.9%

Diluted Shares Outstanding \$28.5M

Free Float % 79.84%

Dividend Yield 5.83%

LTM P/E 8.7x

LTM EV/EBITDA 6.0x

WestPeak's Forecast

	2017E	2018E	2019E
Revenue	\$175M	\$170M	\$165M
EBITDA	\$24M	\$29M	\$27M
EBIT	\$19M	\$24M	\$23M
Net Income	\$14M	\$18M	\$17M
P/E	14.5x	14.5x	14.5x
EV/EBITDA	7.3x	7.3x	7.3x
Price/Book	1.9x	1.7x	1.5x



Source: Bloomberg, CapIQ, WestPeak Research

Marius Schneider | Contact@westpeakresearch.com

Business Overview/Fundamentals

Business Summary

Supremex manufactures, markets and distributes a range of envelope and packaging products in Canada and the United States. The company was founded under the name Enveloppe Supreme Inc. in April 1977 and was acquired by Cenveo in 1995. After numerous acquisitions, the company had its IPO in March 2006 and became the Supremex Income Fund, which separated the company from Cenveo. Supremex's growth through acquisitions elicited significant capacity expansion, enhancing its footprint across North America. This has expanded their product offerings and allows the company to customize their products to clients' specifications. Supremex holds a 60% market share in the Canadian envelope market, but the market is declining, which prompts the company's survival strategy. This strategy entails acquiring companies in the Canadian and U.S. envelope markets, as well as the North American packaging and specialty products market. Supremex understands that, of the \$3.0 billion that constitute the North American envelope market, \$2.65 billion come from the U.S. market. Strategic acquisitions of firms in the U.S. has generated substantial revenue growth for Supremex and remains integral to their survival strategy. Important to the company's success is investing graciously in their employee benefits plan, which motivates and retains the company's 780 employees. Supremex leverages a B2B business model, which connects the company to over 8000 loyal clients, including major corporations, national resellers, governments, paper merchants, statement processors and solution providers.

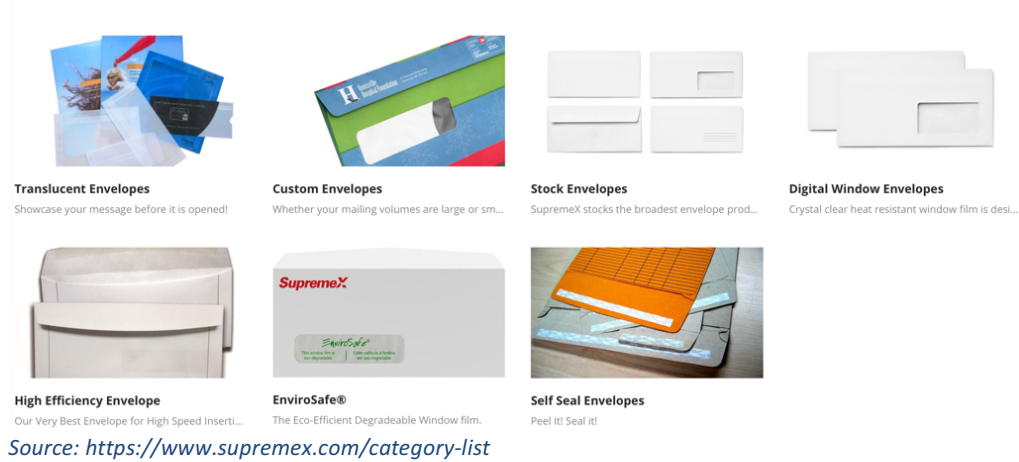
Products

Stock Envelopes

Supremex's selection of stock envelopes includes a variety of envelopes that come in a range of shapes, sizes, paper qualities and colors. The products are categorized into: generic stock envelopes, translucent envelopes, digital window envelopes, high efficiency envelopes, EnviroSafe envelopes and self-seal envelopes. Most of Supremex's envelope products are recyclable and certified by the Sustainable Forestry Initiative and the Forest Stewardship Council, which showcases the company's commitment to environmental sustainability.

Custom Envelopes

Custom envelopes are variations on the generic stock envelope, which Supremex tailors to the specifications outlined by clients. These variations include the customization of shape, size, paper quality and color, but also include options for creative windows, die cuts, perforations and repositionable notes. A client can provide over 100 specifications for their envelope product and Supremex can precisely meet all of these specifications.



Labels

Supremex sells customizable labels, including regular, repositionable and affixing labels. The regular labels have vast applications in warehouses, direct mail, retail and manufacturing. The repositionable labels are used primarily in conjunction with glass products and are frequently purchased by door, window and mirror manufacturers. Affixing labels have the purpose of being attached to envelopes, forms, folders, cards or similar objects. As with the envelope products, Supremex can tailor the labels to the precise design needs of their clients.



Custom Labels

Unlimited shapes and sizes, hundreds of subs...



Repositionable Labels

Provides increased visibility to view your prom...



Affixing

We offer Affixing Services!

Source: <https://www.supremex.com/category-list>

Packaging Products

Supremex's selection of packaging products is vast and equally as customizable as its envelope products. The selection includes poly mailers, flat mailers, conformers, board mailers, bubble mailers and auto boxes. For flat mailers and bubble mailers Supremex offers Enviro-logix variants, which are packaging products that are manufactured from 100% recycled material and can be 100% recycled after use. The conformer product line includes corrugated and heavy-duty options. In addition, the company offers presentation folders and tear-resistant mailers.

Specialty Products

Supremex's offering of specialty products complement their selection of envelope and packaging products. This offering includes repositionable notes, membership cards, photo packaging, file folders, extended envelopes and integrated envelopes. Furthermore, Supremex sells Radio Frequency Identification (RFID) protection sleeves. These can be placed on passports or credit cards to protect against unwanted RFID scanning.



Source: <https://www.supremex.com/category-list>

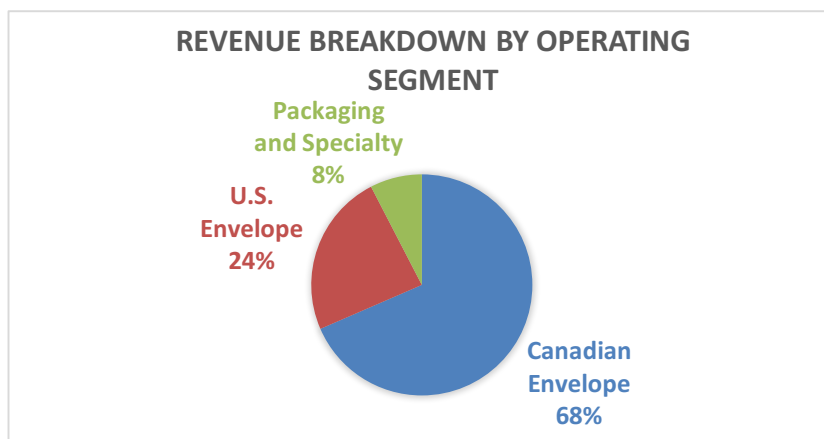
Products Conclusion

The breadth and depth of product offerings, the products' customizability, and the focus on providing environmentally sustainable solutions are three value propositions that give Supremex a market leading position in Canada. These established value propositions in conjunction with continued expansion and innovation of product offerings are factors we believe will ensure the company's success at gaining traction in the U.S. envelope and the packaging and specialty products markets.

Revenue Segmentation

While more than 92% of Supremex's revenue is generated from the selling of envelopes, the remaining 8% come from the selling of packaging and specialty products. In 2016, Supremex generated \$110.0 million from the Canadian envelope market, \$38.4 million from the U.S. envelope market and \$12.2 million from the selling of packaging and specialty products in both Canada and the United States.

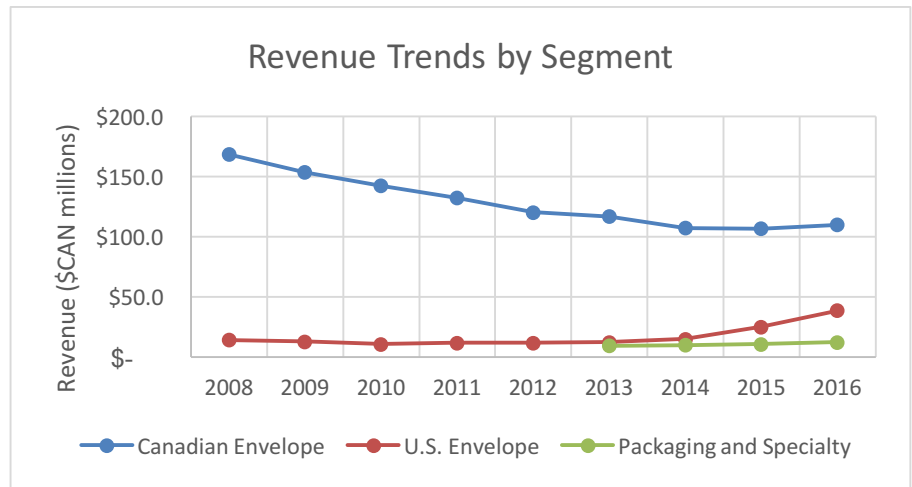
Between 2008 and 2016, annual revenue from the Canadian envelope segment fell from \$168.5 million to \$110.0 million, representing a compounded annual growth rate (CAGR) of -4.6%. This can be largely attributed to the fact that the market is declining, causing the sales volume of envelopes to fall every year.



Source: Company Filings

Although the U.S. envelope market is also experiencing a decline in envelope demand, Supremex increased its revenues in this segment over the same eight-year period at a CAGR of 11.8%. In 2008 the revenues were \$14.1 million, then bottomed out at \$10.6 million in 2010, but grew to \$38.4 million in 2016. The quadrupling of revenues between 2010 and 2016 occurred after 2014, when the company strategically acquired two U.S. envelope manufacturing companies that increased revenues 68.9% in 2015 and 53.6% in 2016 year-over-year.

A third segment that Supremex began reporting in 2013 is the selling of packaging and specialty products. Reported revenue from this segment was \$9.1 million in 2013 and \$12.2 million in 2016. This represents a CAGR of 7.6%. Much of this growth is inorganic.

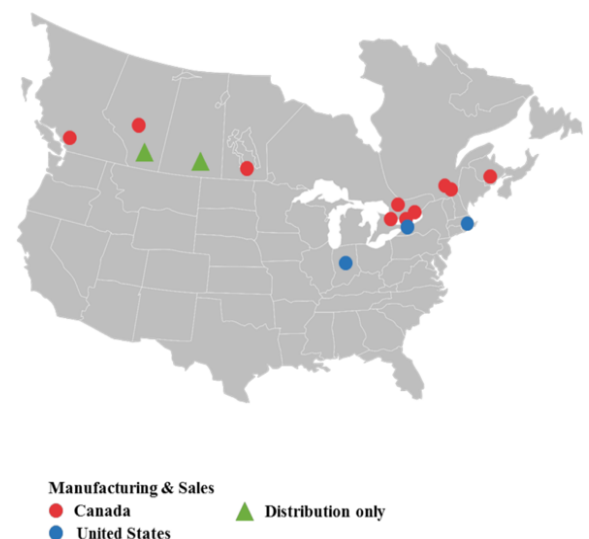


Source: Company Filings

As revenues from the Canadian envelope segment are steadily declining, revenues from both the U.S. envelope and the packaging and specialty products segments are increasing. Currently 68% of revenue is generated from the Canadian envelope segment, but this proportion was 92% in 2008 and continued growth in the other two segments will further reduce this percentage. We believe that expansion into the U.S. envelope market and the packaging and specialty products segment will reduce dependence on the Canadian envelope segment and subsequently re-stabilize revenue generation for the company.

Manufacturing

Supremex owns two manufacturing facilities and leases another eleven. The chart below shows the locations of the manufacturing facilities across Canada and the United States. For the manufacturing of its envelopes, packaging and specialty products, the company primarily relies on paper, window film, adhesives and ink. Approximately 64% of Supremex's raw material costs come from the purchase of paper. However, the company also generates revenue from the sale of waste paper, which has been subtracted from this direct material cost. Being highly dependent on paper for its manufacturing operations, Supremex is vulnerably exposed to the price volatility of paper. Moreover, Supremex imports approximately 75% of its raw materials from the U.S., which gives rise to currency exchange risk. However, Supremex claims it can pass most cost increases on to their customers, which is likely facilitated by the vertical integration of its business.



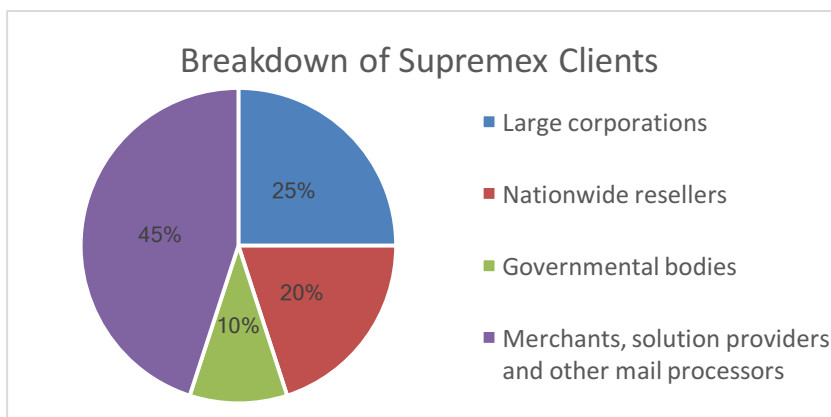
Source: Company Filings

Distribution

The fact that Supremex operates nine manufacturing facilities across seven provinces in Canada, gives the company a major distribution advantage over competitors. The company's distribution channels allow its products to be shipped efficiently within an 800-kilometer radius of its manufacturing facilities. Of less than ten competing envelope manufacturers in Canada, only two operate more than one manufacturing facility in Canada. Canada's geographic spread makes transportation costs significant. For this reason, Supremex's competitors generally market and distribute their envelopes locally, rather than nationally. This allows competitors to maximize cost efficiency, provide local warehousing and offer just-in-time delivery propositions. Localized envelope manufacturers however, lack the ability to offer an equally extensive range and customizable selection of products as Supremex. The remaining competition in Canada comes from U.S. manufacturers, who generally have fewer product offerings and market to high volume purchasers of envelopes. Geographic reach in Canada represents an economic moat that competitors cannot easily imitate, which protects Supremex's 60% market share in the Canadian envelope market. Supremex is attempting to parallel its geographic reach in the U.S. market. An example of this is the acquisition of Bowers Envelope Company in August 2016. The company is located in Indianapolis, Indiana and gives Supremex geographical access to 60% of the \$2.65 billion U.S. envelope market.

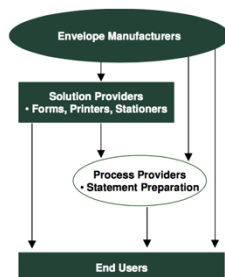
Customers

Supremex sells its envelope products to around 8000 different clients. The pie chart shows the percentage breakdown by client type, with merchants, solution providers and other mail processors representing the majority. Not a single client represents more than 5% of Supremex's revenues, which mitigates the risk related to losing major customers. Generally, customers do not enter into long-term contracts with the company, however Supremex does manage to maintain stable, long-term relationships with resellers and end-users. The company experiences low levels of bad debt, because customers tend to be large and established entities. Moreover, there are credit limits in place that prevent individual clients from exceeding 10% of Supremex's accounts receivable.



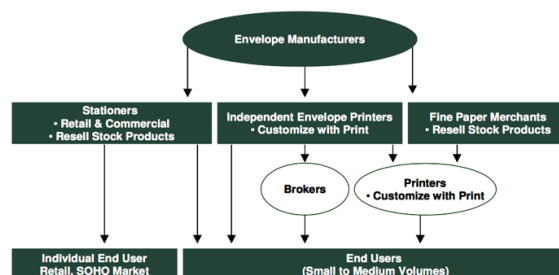
Source: Company Filings

Primary Distribution Channels for the Custom Envelope Market



Source: Company Filings

Primary Distribution Channels for the Stock Envelope Market



Source: Company Filings

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Marius Schneider | Contact@westpeakresearch.com

Strategy

Maintain Market Leading Position in Canada

Supremex holds approximately a 60% market share in the Canadian envelope market. With 10 manufacturing facilities across the nation, Supremex also has by far the widest network reach among competing envelope manufacturers. The first component of the company's survival strategy is to maintain its market leading position in the Canadian envelope market. In a mature and declining industry, Supremex is forced to carry out this strategy through acquisitions. Some of the recent steps that Supremex has taken in this direction includes the acquisitions of Premier Envelope in December 2015 and Printer Gateway in December 2016. Premier Envelope manufactures stock and custom envelopes at facilities in Richmond, British Columbia and Edmonton Alberta. Printer Gateway is based in Toronto and employs effective technology to offer Web-to-Print services for marketing, graphic arts and communications purposes. The acquisitions of both Premier Envelope and Printer Gateway occurring one year apart illustrate how Supremex utilizes its acquisition expertise to expand its footprint and product offerings.

Push into U.S. Markets

The second component of Supremex's survival strategy is to expand capacity in the U.S. envelope market. The U.S. envelope market itself is approximately \$2.65 billion in size. With a long history of successfully integrating acquisitions, Supremex feels equipped to push into the U.S. market with an aggressive acquisition strategy. To supplement the acquisition activity that Supremex carried out in Canada since 2015, the company acquired both Classic Envelope and Bowers Envelope Company in October 2015 and August 2016, respectively. Classic Envelope is a manufacturer and distributor of stock and custom envelopes based in Massachusetts. Bowers Envelope also sells stock and custom envelopes and being headquartered in Indiana gives Supremex access to 60% of the U.S. envelope market. Currently Supremex already generates 24% of its revenues from the U.S. envelope market, up from 7.7% in 2008. Continued focus on expanding operations in the U.S. can reduce dependence on the Canadian envelope market.

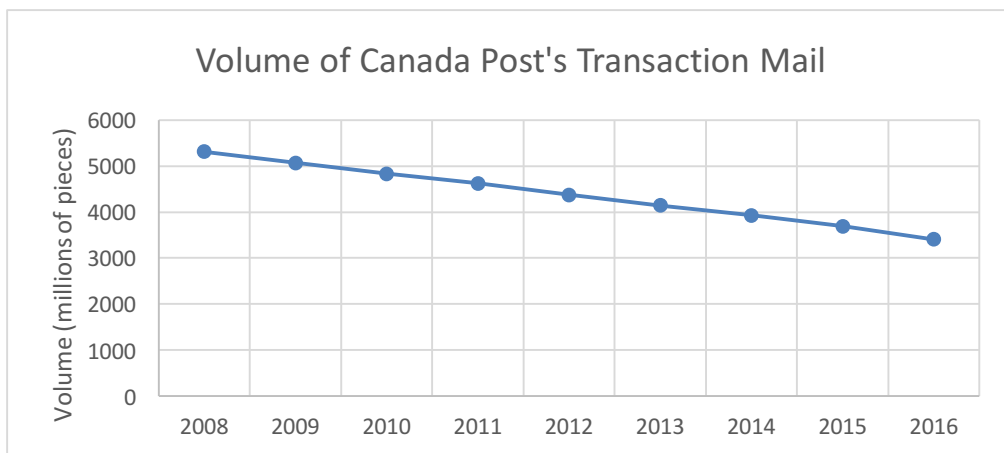
Diversify into Packaging Segment

The third, and arguably most strategic component of Supremex's survival strategy is the expansion into the packaging market. The demand for packaging products is growing rapidly with the growth of e-commerce. Moreover, there are numerous industries that rely on various types of packaging products, including food, beverage, health care, cosmetics and other consumer products. Supremex is well-equipped to use its existing manufacturing facilities to produce paper board and corrugated packaging. The company's strategy is to acquire companies that already operate in this segment and then to expand network reach organically. With the acquisitions of Durabox Paper Inc. in November 2016 and Stuart Packaging in July 2017, Supremex leverages its M&A expertise to pursue this growth strategy. Currently the company only generates 8% of its revenues from this segment, however between 2013 and 2016, revenues increased at a CAGR of 7.6%. Since both the Canadian and the U.S. envelope markets are experiencing declining demand, Supremex's expansion into the packaging market is instrumental for its long-term survival.

Macro Environment

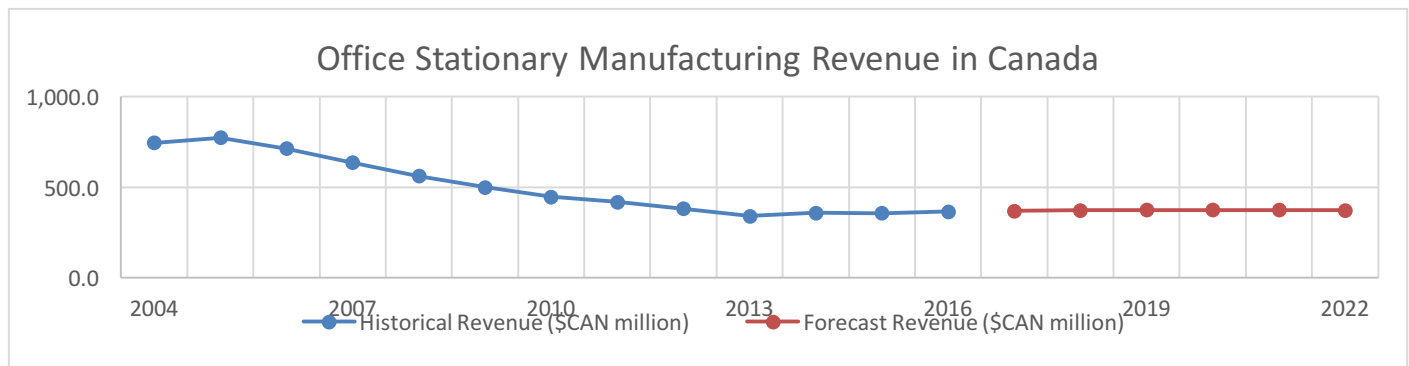
Canadian Envelope Market

To understand the macroeconomic demand for envelopes in Canada, we analyzed two data sources that give insight into the Canadian envelope market. First, we looked at volume statistics that Canada Post published for its transaction mail between 2008 and 2016. The graph shows how Canada Post's transaction mail volume has declined between 2008 and 2016 at a CAGR of -4.8%. We believe that the transaction mail volume of Canada Post adequately proxies the general trend of envelope demand, assuming there is a linear relationship between envelopes manufactured, sold and mail transacted.



Source: https://www.canadapost.ca/web/en/pages/aboutus/details.page?article=annual_report

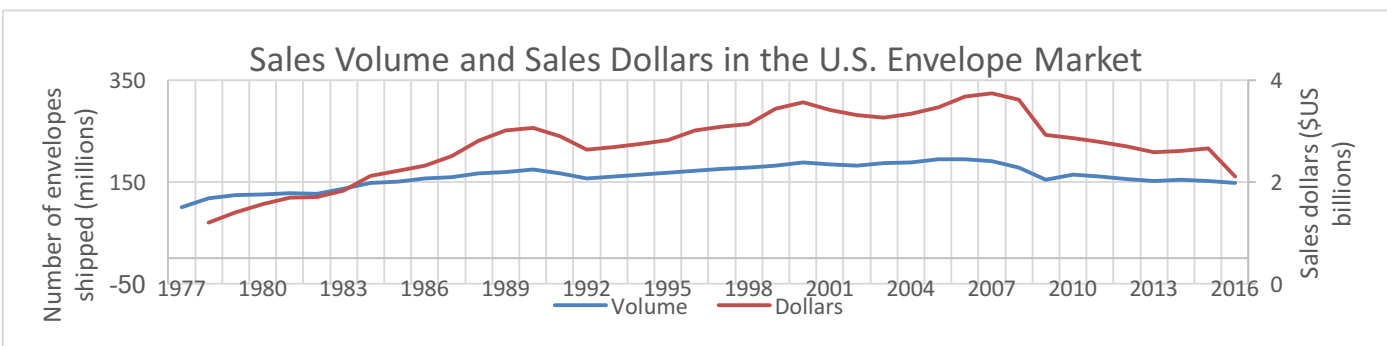
Next, we consulted data published by IBIS World on the Canadian office stationary manufacturing market. This market encompasses more than just envelopes, but approximately 42.0% of the revenue generated in the market comes from the sale of envelopes. Moreover, IBIS World estimates that Supremex holds a 28.1% market share in this market. As shown on the graph, between 2004 and 2016 revenues in this market declined at a CAGR of -5.3%, which is comparable to Canada Post's transaction mail volume CAGR of -4.8%. IBIS World attributes this long-term industry decline with increasing use of electronic substitutes, a trend that is underpinned by the increasing access to Internet and increasing smartphone usage. However, the graph illustrates that the market decline trend plateaued since 2013 and IBIS World is projecting revenues to increase at a CAGR of 0.2% through 2022. Yet, this trend shift is mostly underpinned by changes in the composition of revenues generated in the market, with increasing focus on online retail and cloud computing. Regardless of the overall market decline slowdown, IBIS World expects envelope demand to continue declining. The plateau that the office stationary market experienced since 2013 is also not reflected in Canada Post's continued transaction mail volume decline and we therefore expect the demand for Supremex's envelopes to also continue declining.



Source: <http://clients1.ibisworld.ca/reports/ca/industry/default.aspx?entid=5463>

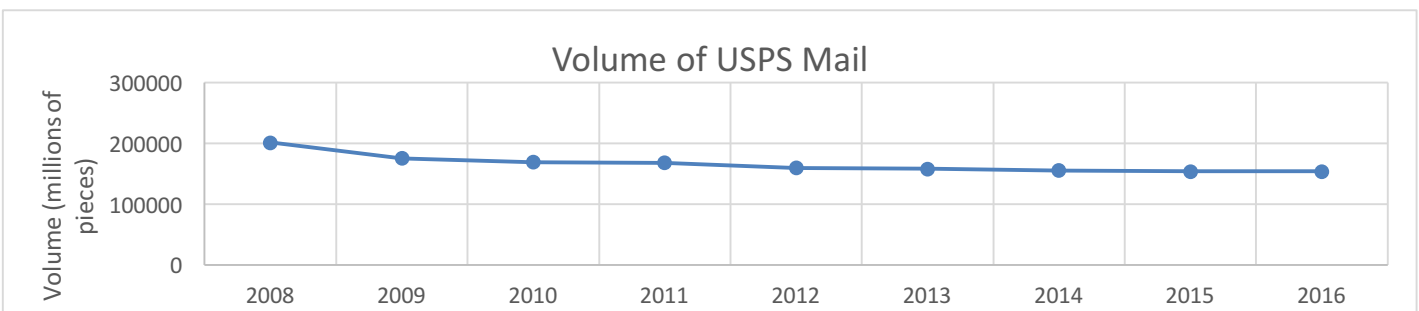
U.S. Envelope Market

To understand how the U.S. market for envelopes has behaved historically and will develop in the future, we analyzed data from three separate sources. The Envelope Manufacturer's Association (EMA) reports the number of shipments of envelopes and the amount of sales dollars generated through the sale of envelopes occurring in the U.S. between 1977 and 2016. The graph shows that historically volume and sales dollars have moved in tandem. Between 1977 and 2006 both volume and sales dollars grew significantly, respectively experiencing CAGRs of 2.2% and 4.0%. 2006 marked the peak for volume and sales dollars, which was followed by declining volume and sales dollars with respective CAGRs of -2.6% and -5.6%. Much of this trend development can be attributed to the growing use of the internet for electronic correspondence, which replaces the need for mailing via envelopes.



Source: <http://www.envelope.org/shipments>

To further follow the demand for envelopes in the U.S., we also looked at the volume statistics that the United States Postal Service (USPS) publishes for its mail segment. We believe that USPS mail volume acts as an adequate proxy for understanding the general trend of U.S. demand for envelopes. USPS mail volume declined at a CAGR of -2.9%, which is comparable to the EMA's CAGR of -2.6% since 2007.

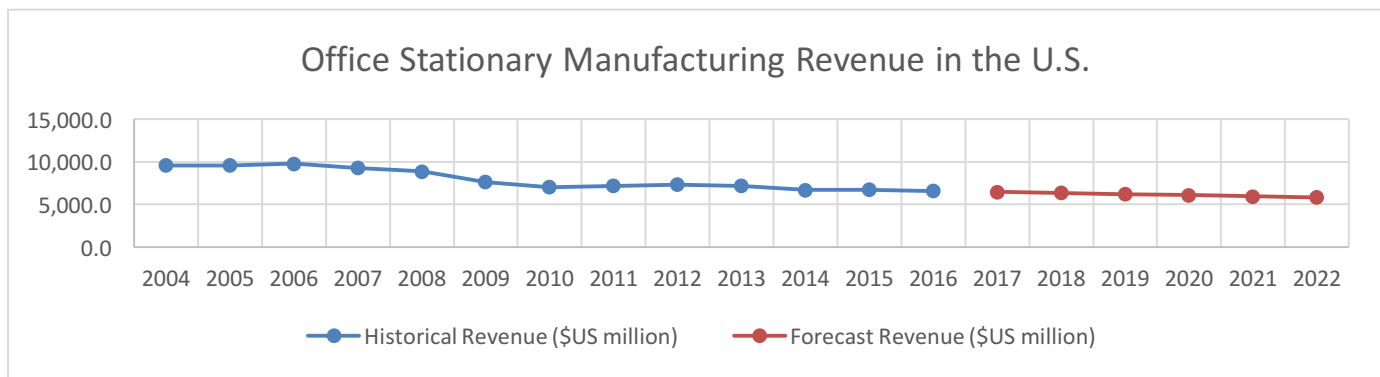


Source: <https://about.usps.com/who-we-are/postal-facts/decade-of-facts-and-figures.htm>

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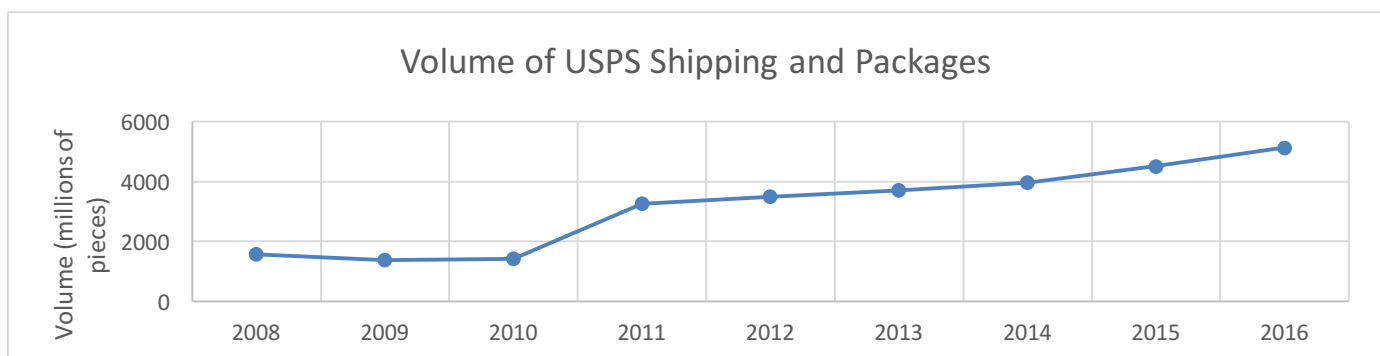
The third data source we consulted is IBIS World, who publish revenue data for the U.S. office stationary manufacturing market. IBIS World reports both historical market revenues and forecast revenues through 2022, as shown on the graph. Between 2004 and 2016, revenue in this market declined at a CAGR of -2.8% and is expected to decline at a CAGR of -1.7% until 2022. The U.S. office stationary manufacturing market, as defined by IBIS, was to 36.4% composed of envelope products in 2016. In a similar fashion to the Canadian envelope market, IBIS World explains that the market contraction in the U.S. is largely caused by increased online communication, online bill-paying, reduced direct mail advertising and greater environmental awareness. According to the USPS 2012 Household Diary Study, the proportion of bills paid online in the U.S. increased from 17% in 2002 to 56% in 2012, while bills paid by mail decreased from 75% to 40% during the same period. Advertising mail represented 60.4% of USPS mail transacted in 2012 and the direct mail advertising industry has declined at a CAGR of -3.1% since 2007 according to IBIS World. These are key trends that underpin the declining demand for envelopes in both the U.S. and Canada.



Source: <http://clients1.ibisworld.com/reports/us/industry/default.aspx?entid=424>

Packaging and Specialty Products Market

We decided to analyze three data sources to understand the packaging and specialty products demand environment. First, we looked into the revenue and volume that the United States Postal Service (USPS) generated from its own shipping and packages segment. These statistics help identify a general market trend of the demand for packaging products. As the graph illustrates, shipping and packages volume has been on a steep upwards trajectory between 2008 and 2016, experiencing a CAGR of 14.0%.



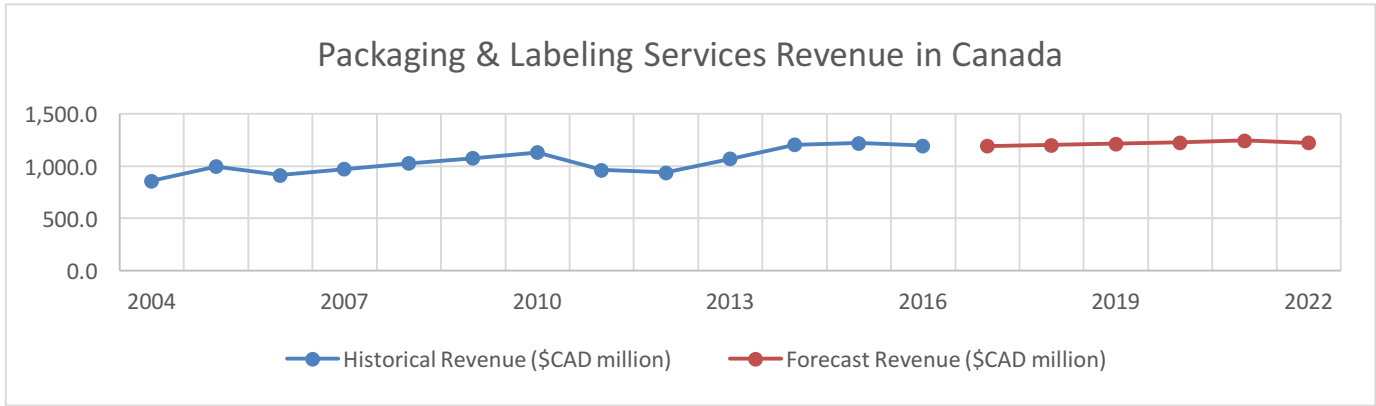
Source: <https://about.usps.com/who-we-are/postal-facts/decade-of-facts-and-figures.htm>

To gain a second perspective on this trend, we consulted data published by IBIS World on the packaging and labeling services market. Between 2004 and 2016, revenue in the Canadian packaging and labeling services market increased at a CAGR of 2.6% and is expected to grow at a CAGR of 0.4% until 2022. The U.S. packaging and labeling market grew at a CAGR of 2.8% from 2004 to 2017 and is forecasted to continue

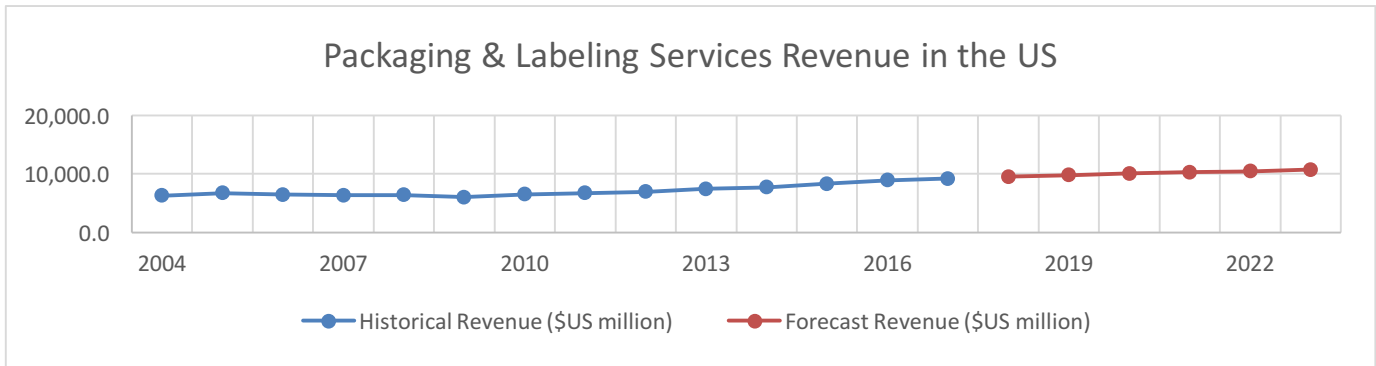
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growing at a CAGR of 2.0% through 2023. Although IBIS World deems the market mature, they expect increased disposable incomes and consumer spending to drive growth, with the increasing relevance of e-commerce playing an important role.



Source: <http://clients1.ibisworld.ca/reports/ca/industry/default.aspx?entid=1501>



Source: <http://clients1.ibisworld.com/reports/us/industry/default.aspx?entid=1501>

Finally, we decided to look into the role that e-commerce plays in driving growth in the packaging market. The U.S. Census Bureau reports data on e-commerce retail sales and we benchmarked this trend against total U.S. retail sales. The graph shows how retail sales grew at a CAGR of 2.9% between 2000 and 2016, while e-commerce retail sales grew at a CAGR of 17.0% over the same period. The proportion of retail sales that e-commerce represents as a fraction of total retail sales increased from 0.8% in 2000 to 8.3% in 2016, which highlights how much significance e-commerce has gained in this period. As e-commerce retail sales complement the demand for packaging products, this trend helps explain some of the growth experienced in the packaging market. While Supremex’s sale of packaging and labeling products will be able to translate some of the increased demand stemming from e-commerce into increased revenues, the company still competes with more established packaging companies that have entered into long-term contracts with online retailers.



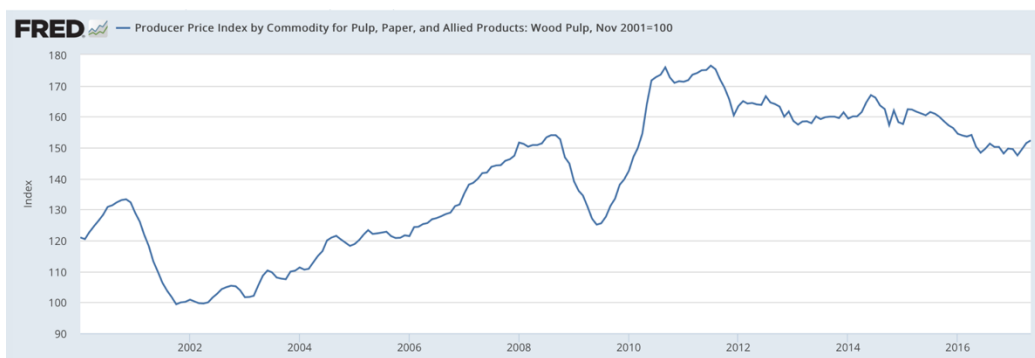
Source: <https://www.census.gov/retail/index.html>

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Marius Schneider | Contact@westpeakresearch.com

Paper Market

To complement our macroeconomic analysis of the demand for Supremex's products, we also analyzed the paper industry, which determines Supremex's input costs. Approximately 64% of Supremex's raw material input costs are the purchase of paper and the company imports roughly 75% of its raw materials from the U.S. For this reason, we consulted data by IBIS World and the Federal Reserve Bank of St. Louis on the paper industry. A producer price index for pulp, paper and allied products as provided by the Federal Reserve Bank of St. Louis is shown in the graph below. The graph shows the price trend between the years of 2000 and 2017 with November 2001 representing the base month. The index increased from 100 in November 2001 to 172.9 in May 2017. IBIS World deems both the paper product manufacturing and paper wholesaling industries in the U.S. to be declining, with revenues stagnating over the next five years. The decline is largely caused by greater environmental concerns expressed in consumers' reduced purchase of disposable paper products, and decreasing demand for print media as reinforced by digitalization. IBIS World expects the price of paper to increase by 0.3% per year through 2021.



Source: <https://fred.stlouisfed.org/series/WPU0911>

Catalysts

Announcements of Acquisitions and Earnings Releases

Integral to Supremex's strategy is to grow through acquisitions. Acquisitions allow the company to enhance its geographic reach, expand its product offering and realize synergies. The announcements of acquisitions in the past have not always elicited significant stock price movements, however in two instances they did. Supremex announced its acquisition of Classic Envelope Inc. on October 8, 2015 and this event is marked "A" on the stock chart below. On that day, the stock opened at \$4.52, closed at \$4.95 and continued to rise until \$5.44 on November 11, 2015. When Supremex announced its acquisition of Bowers Envelope Company a similarly gradual stock appreciation occurred, marked by event "C" on the chart. On August 29, 2016, the day of the announcement, the stock closed at \$5.00 and rose to a high of \$5.93 on October 6, 2016. These are the only acquisition announcement that initiated substantial and prolonged stock price appreciations for Supremex. Worth to note is that both of the acquired companies are U.S. envelope manufacturers, which suggests that the company's strategy to push into U.S. markets is aligned with investors' confidence in the company.

Marked "B" on the stock chart is an event that caused an immediate and significant stock price appreciation for Supremex. This can be attributed to the company's fourth quarter and fiscal year 2015 earnings press release on February 18, 2016. The press release reported fiscal earnings per share of \$0.55, which beat the mean consensus

estimate of \$0.41 thus causing 35.8% positive earnings surprise. On that day, the stock opened at \$4.85, closed at \$4.99 and two days later closed at \$5.49. Acquisitions and synergies realised through acquisitions can allow Supremex to report earnings that cause positive surprise for investors. Hence, the company's strategy to grow through acquisitions has catalytic potential during the announcements of acquired companies and the reporting of earnings above consensus estimates.



Management Team

Stewart Emerson – CEO

Stewart Emerson was appointed CEO on September 2nd, 2014. Emerson has been with the company since 1990 and prior to being appointed CEO he served as the company's COO and the General Manager of the Central Region. He holds a Bachelor of Business Administration with a double major in Marketing and Management from Northeastern University. Emerson holds 210,000 shares of the SXP stock, which represents 0.74% ownership of the company. Since holding office, Emerson has generated annual return on equity of 20.38% and has led the acquisitions of six companies.

Bertrand Joliceur – CFO and Corporate Secretary

Bertrand Joliceur accepted the CFO and Corporate Secretary role in April 2017. Previously he served as CFO and Vice President for Sanimax, a privately held rendering company with 1200 employees from 2008 to 2016. Joliceur holds a Bachelor of Commerce focussed on Finance and Accounting from McGill University and the CPA and CA designations.

Suzie Gaudreault – General Manager, Quebec & Maritimes, Corporate IT Manager

Suzie Gaudreault has been with Supremex since 1998. Prior to her current role, she served as the Administration Manager for the Eastern Region and the IT Manager. She holds a Bachelor's degree in Accounting from the Université du Québec à Montréal and the CPA and CA designations.

Edward Gauer – General Manager, Western Region

Edward Gauer began his career as Account Manager at Innova Envelope Inc. in 1991, which was acquired by Supremex in the same year. Since then he served as Sales Manager and General Manager of Manitoba and Saskatchewan for the company. Gauer holds a Certification in Management and Administrative Studies through the University of Manitoba.

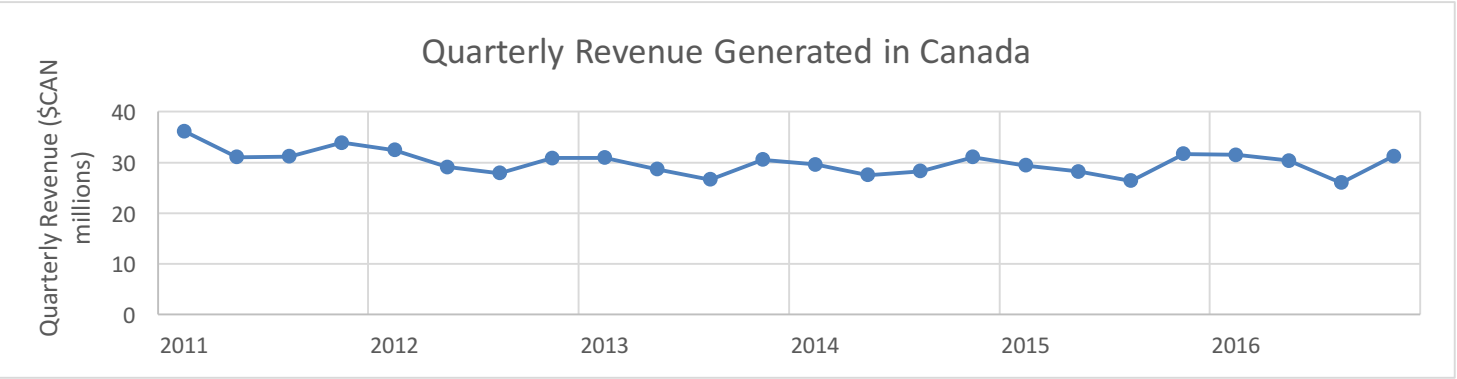
Management Conclusion

We believe that the Supremex management team is qualified for their responsibilities. Emerson, Gaudreault and Gauer have all served the company for at least two decades and are therefore acquainted with the company’s history, operations and strategy. The team’s backgrounds demonstrate relevant experience for their managerial positions and strong educational backgrounds.

Risks

Seasonality

Supremex experiences seasonal fluctuations in the revenues it generates from the sale of envelopes, as illustrated in the graph below. The graph shows that revenues tend to be highest in the first and last quarter of each year, and usually lowest in the third quarter. The company outlines that these fluctuations are caused by seasonal events, including holiday season, tax season, back-to-school season and more fundraisers occurring between the months August to February. These events spur the need for mailing letters, documents and print advertising. Seasonality creates the need to warehouse inventories of envelopes, which generates a storage cost. The inherent risk with seasonality is that if fluctuations worsen in future years, the amount of inventory to store will grow. There is a high opportunity cost related to keeping inventory, as these storage expenses could be allocated towards acquiring new companies, expanding marketing efforts or innovating the company’s product mix.



Source: Company filings

Decline in Envelope Consumption

The demand for envelope products is inevitably in decline and this continues to pose a risk for generating sufficient revenue for the company. 92% of the company’s current revenues are generated from the sale of envelopes in North America. This exposure has had a visible impact on top line revenues for the company, illustrated by a decline from \$166.2 million in 2009 to \$129 million in 2013. Since then however,

the company has demonstrated resilience to this demand-decline through aggressive consolidation, causing revenues to rebound to \$160.6 million in 2016. As previously outlined, the decline in envelope consumption is driven by the increasing use of electronic substitutes for communication. The growing use of e-mail and social media, the replacement of print periodicals and advertising with digital alternatives, the substitution of paying bills online instead of in-mail, and enhanced environmental awareness expressed by consumers are societal trends that reinforce the decline in envelope demand. Inherently these trends have the possibility to accelerate and therefore steepen the decline trend of envelopes. While consolidation provides a relief from declining envelope demand, Supremex will continue to face the consequences of operating in a declining industry.

Raw Material Price Increases

Supremex's raw material costs consist to 64% of the purchase of paper. As estimated by IBIS World, the price of paper is expected to increase by 0.3% per year through 2021. In addition, the tensions that exist between the U.S. and Canada over the Softwood Lumber Dispute represent another risk factor. If the U.S. imposes tariffs on Canadian imports of lumber, then downstream paper manufacturing costs could increase, too. Since Supremex's manufacturing costs are highly dependent on the price of paper, price increases or price volatility can reduce or destabilize Supremex's margins.

Exchange Rate

The company imports 75% of its raw materials from the United States for manufacturing in Canada. This exposes Supremex's input costs to the USD-CAD exchange rate. As the graph illustrates, the USD-CAD exchange rate has steadily climbed from around 1.00 to 1.25 between 2012 and 2017, representing a 25% appreciation in the USD strength relative to the CAD. A stronger USD makes these purchases relatively more expensive for the company, which increases Supremex's input costs. One way that Supremex mitigates this risk is by acquiring manufacturing facilities in the United States, which reduces the need to import raw materials into Canada. While the strengthening of the USD poses a risk, the recent trend of the USD weakening allows Supremex to increase profitability.

USD to CAD Chart

24 Jul 2012 00:00 UTC - 23 Jul 2017 21:28 UTC USD/CAD close:1.25432 low:0.96913 high:1.45801



Source: <http://www.xe.com/currencycharts/?from=USD&to=CAD&view=1Y>

Environment

Increased societal pressure for developing sustainable production methods pose a threat for Supremex's heavy reliance on paper for its manufacturing. This pressure is also manifested in the increased substitution towards electronic and Internet-based correspondence, which circumvents the need for envelopes that rely on paper and the manufacturing process. In response to this, Supremex markets 100% recyclable envelope and packaging products and extensively uses recycled paper for its manufacturing. However, the pressure to become

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Marius Schneider | Contact@westpeakresearch.com

increasingly sustainable in its production methods is likely to grow, which forces Supremex to strictly follow sustainable practices and develop an environmentally friendly product mix.

Comparable Companies

Supremex's production of envelopes, packaging and related products classify the company in the home & office products sector, part of the consumer discretionary industry. For the comparable company analysis, we selected paper manufacturing and packaging companies based in North America. Paper manufacturing companies operate with the same materials as Supremex and are therefore exposed to similar macro-trends that affect input costs and demand. The packaging companies are larger by market capitalization and more established in the packaging industry, but have similar product offerings and end users as Supremex's packaging segment.

Fortress Paper Ltd.

A paper and forest products company headquartered in Vancouver. They operate in two segments: dissolving pulp and producing security paper products including banknotes, passports and visas.

Tembec Inc.

This company is based in Québec and operates in the paper and forest products industry. The company produces pulp, paper products and specialty chemicals.

Resolute Forest Products

The company is headquartered in Québec and produces market pulp, wood products, tissues, newsprint and specialty papers.

Canfor Pulp Products

A leading producer of forest products headquartered in Vancouver. The company sells lumber, pulp and paper.

Clearwater Paper Corp

The company is based in Washington in the U.S. and is a pulp and paper products manufacturer. Their offering includes various tissue and paper towel products, as well as packaging and print products.

Cenveo Inc.

This company is a leading manufacturer of envelopes in North America, headquartered in Connecticut. In a similar fashion to Supremex, Cenveo also provides labels, printing and warehousing services.

WestRock

WestRock is a producer of corrugated packaging, paperboard, pulp and similar products. The company is headquartered in Norcross, Georgia.

Kapstone

This company produces paper, packaging and lumber products. The company's headquarter is located in Northbrook, Illinois.

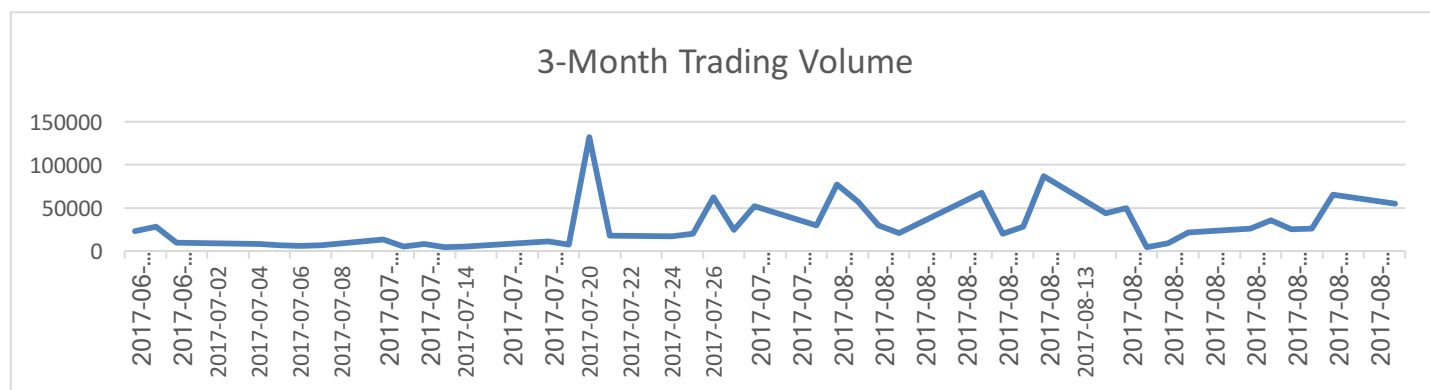
Comparable Company Analysis Summary

Our selection of comparable companies involves a variety of North American paper manufacturing, pulp and packaging companies, as outlined above. Among the comparable companies, the average EV/EBITDA multiple was 7.3x and the average P/E multiple was 14.5x. Applying these multiples, we arrived at target share prices of \$5.67 and \$7.40 using the EV/EBITDA and P/E approaches, respectively. For the P/E multiple valuation we excluded Fortress Paper Ltd and Resolute Forest Products, as their P/E ratios were negative.

Shareholder Base, Liquidity, Market Depth

During its IPO on March 31, 2006, the Supremex Income Fund issued 17,500,000 units at \$10.00 per unit. Today, Supremex has 28,480,000 shares outstanding at a price of \$4.10 per share and is listed under SXP on the Toronto Stock Exchange. 28.12% of the shares are owned by institutions, with the Jerry Zucker Revocable Trust composing 19.22%. Insiders in total own 0.88% of the company's shares.

Supremex's 3-month average trading volume was 29,900, which suggests relative illiquidity given the company's \$119 million market capitalization. The company has permission to repurchase up to 500,000 of its shares for cancellation under a normal course issuer bid. In the second quarter of 2017, Supremex repurchased 100,640 shares for cancellation. Supremex receives financing through a revolving credit facility that has a balance of \$60 million with a variable interest rate, and expires in October 2020.



Valuation

Revenue Assumptions

Canadian Envelope Segment

Supremex does not report actual volume of envelopes manufactured and sold, but does report the percentage change in volume and average selling price each period. The average change in volume and selling price between 2008 and 2016 were -5.9% and 1.8%, respectively. Canada Post's transaction mail volume experienced a CAGR of -4.8% over the same period and the office stationary manufacturing market declined at a CAGR of -5.3% between 2004 and 2016. However, office stationary manufacturing market plateaued since 2013, which is not reflected in the continued decline that Canada Post's transaction mail volume experienced since 2013. Canada Post's volume declines have also been more reflective of the volume declines that Supremex experienced in its Canadian envelope segment. Furthermore, since the composition of the office stationary manufacturing market is shifting towards online retail and cloud computing and envelope demand is expected to continue declining, we believe that Supremex's historical volume and price statistics serve as better future revenue determinants than IBIS World's revenue CAGR forecast of 0.4%. We therefore extrapolated volume and selling price CAGRs of -5.9% and 1.8% to arrive at a revenue forecast CAGR of -4.2%.

United States Envelope Segment

Between 2008 and 2016, Supremex's average growth rates for revenue, volume and price were 11.8%, 15.9% and 3.6%, respectively. However, substantially all of that growth can be attributed to acquisitions that occurred between 2014 and 2016. Therefore, the operating statistics that Supremex publishes for this segment are skewed to represent a rapidly growing segment, which may not materialize for a sustained period. The macro analysis of the U.S. envelope market from EMA, USPS and IBIS World unanimously concludes that the industry is declining. To drive Supremex's revenue from this segment we decided to apply an average of the CAGRs from EMA's historical volume of envelopes since 2007, USPS's volume of mail since 2008, and IBIS World's projection for revenue in the office stationary manufacturing market through 2023. This yields a CAGR of -2.4%, which represents a conservative rate to drive revenue for the U.S. envelope segment on an organic basis. It is likely that Supremex will achieve positive growth rates in this segment through 2022, however for the purposes of valuing the company on an organic basis, our discounted cash flow model applies a rate that is more reflective of the overall market growth rate.

Packaging and Specialty Products Segment

As with the U.S. envelope segment, Supremex experienced significant growth in the packaging and specialty products segment through acquisitions. Although it is likely that Supremex will continue inorganic growth in this segment, we decided to drive revenue on an organic basis to base our valuation on conservative assumptions. As outlined by IBIS World, the Canadian and U.S. packaging and labeling services markets are expected to grow at CAGRs of 0.4% and 2.0%, respectively. E-commerce retail sales and the volume of USPS shipping and packages are related trends that parallel IBIS World's historic trend in the packaging and labeling services market. We believe that growth in the packaging and labeling services market can adequately model the growth that Supremex can experience in its revenue from the sale of packaging products and specialty products, which

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include labels. To drive revenue for this segment, we averaged IBIS World's projected growth for the Canadian and U.S. markets and arrived at a forecast growth rate of 1.2%. As with the U.S. envelope segment, driving revenue on an organic basis yields a growth rate that is likely far lower than what Supremex can achieve through 2022. Once again, the purpose is to model a framework of market conditions to represent a base case, which Supremex is likely to exceed through inorganic expansion.

Revenue Assumptions Conclusion

When applying these segment revenue growth assumptions to our model, total revenue increases by 9.0% in 2017, and declines -2.9% in both 2018 and 2019. Revenue growth consensus estimates for these years are 12.0%, 5.5% and -0.9%. For all three years our growth rates are significantly lower than consensus estimates and this has the purpose of providing a base case valuation with conservative assumptions that drive revenue on an organic basis. However, since Emerson was appointed CEO in 2014, the completion of various acquisitions has allowed revenues to grow at a CAGR of 6.8%. Since it is difficult to account for unannounced acquisitions in forecasted revenues, we drove revenue on an organic basis that reflects demand trends derived from our macroeconomic analysis. Given the historical revenue CAGR, it is likely that Supremex will be able to offset declining demand through acquisition growth and re-stabilize revenue generation, however these effects are not reflected in our discounted cash flow analysis.

Other Assumptions

Capital Expenditure and Divestiture

Supremex has recently been undergoing numerous acquisitions and as part of its strategy will continue to do so. With a larger base of manufacturing assets owned by the company, we believe that capital expenditure to both maintain and expand capacity will increase. However, the process of realising synergies may allow the company to divest more of its assets, too. Historically, capital expenditure represented on average 1.08% of revenue and divestiture 0.11% of revenue. For our forecast period, we adjusted for slight increases as the company grows its asset base, driving capital expenditure at 1.50% and divestiture at 0.15% of revenue.

Depreciation and Amortization

Between 2014 and 2016, the company's estimated useful life of property, plant and equipment was on average 6.4 years. Going forward, we expect the estimated useful life to be 6.0 years, which forecasts depreciation and amortization similar to historic levels.

Dividends

In recent years the company has continually increased its dividend per share, from \$0.13 in 2013 to \$0.23 in 2016. Currently the company pays \$0.06 per share each quarter. We forecasted dividends to increase slightly over coming years, expecting it to reach \$0.28 by 2022.

COGS Margin

With a large fraction of Supremex's input materials coming from the U.S. the foreign exchange impact is significant on the COGS margin. However, in recent months the U.S. dollar has been depreciating against the

Canadian dollar and Supremex has acquired more companies across the border, which mitigates the unfavorable exchange rate impact. At the same time the price of paper is expected to increase in coming years. Not only can these factors can have opposing impacts on Supremex's COGS margin, but there is also uncertainty associated with both the USD-CAD exchange rate and the price of paper. For these reasons, we decided to keep margins stable through 2022.

SG&A Margin

As the company expands its operations across Canada and into the U.S., we believe that marketing and administrative costs will likely increase. We therefore forecasted slight increases in the SG&A margin through 2022.

Weighted-Average Cost of Capital (WACC)

To discount our projected cash flows for Supremex, we arrived at a WACC of 7.19%, which we believe realistically accounts for the risks that the company is exposed to. For the risk-free rate, we used the 5-year yield on Government of Canada bonds of 1.53%. We applied a 4.54% equity risk premium as provided by Aswath Damodaran. In addition, we added a 3.00% liquidity premium. The beta value that we used was 0.83, as reported on Bloomberg. Since Supremex does not issue corporate bonds, we used the median of the yields offered by bond-issuing comparable companies, which is 6.41%. These calculations result in a 4.52% after-tax cost of debt and a 7.79% cost of equity.

Discounted Cash Flow Summary

Applying the assumptions about revenue growth, margins, capital expenditure, depreciation and amortization and dividends have allowed us to produce a cash flow model. Our model is intently designed to exclude acquisition growth and therefore does not reflect the predicted scenario of stabilizing revenues. In spite of this, our discounted cash flow analysis yields a target share price of \$5.71, which represents 28% upside potential to the current share price. However, we believe that Supremex's continued devotion to an acquisition and diversification strategy will stabilize revenues and thus further enhance the intrinsic value of the company.

Recommendation

Supremex's main operations occur in a declining industry, which limits the potential for future cash flow generation that investors associate with the company. In declining industries, consolidation is necessary for survival and this has been integral to Supremex's business strategy for a long time. In recent years, the company has aggressively pursued growth through acquisitions and has since then benefitted from growing revenues and net income. The strategy includes pushing into the U.S. envelope market, which gives the company access to a much larger demand for envelopes than attainable in the Canadian market. With continued capacity and network expansion, Supremex can stabilize its revenues from the sale of envelopes over coming years. Furthermore, the company's entry into the packaging products market shows renewed growth potential, stemming from rising online retail demand driven by e-commerce. As Supremex gradually shifts its operations into the packaging market and diversifies its revenue generation from envelopes by pushing into the U.S., we believe that revenue

declines will slow down on an organic basis and stabilize if acquisition growth is effectively carried out through 2022.

To value Supremex we excluded the P/E multiples valuation due to differences in capital structures of the comparable companies. We arrived at a target price of \$5.70 using both the discounted cash flow and EV/EBITDA methods, which leaves 28% upside potential to the current share price.

Appendix 1: Income Statement

WESTPEAK RESEARCH		Income Statement									
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue		129.0	131.9	142.3	160.6	175.0	169.9	165.0	160.3	155.7	151.4
Cost of Goods Sold		85.3	88.7	93.9	114.4	128.3	121.1	117.6	114.2	111.0	107.9
Gross Profit		43.7	43.2	48.4	46.1	46.7	48.8	47.4	46.0	44.7	43.5
R&D						0.0	0.0	0.0	0.0	0.0	0.0
SG&A		15.7	16.9	15.3	18.7	22.6	19.8	19.8	19.2	20.2	19.7
EBITDA		28.0	26.2	33.1	27.4	24.1	29.0	27.6	26.8	24.5	23.8
D&A		3.6	3.6	4.1	4.5	4.1	4.7	4.3	4.0	3.7	3.4
Loss on disposal and write-down of PP&E		-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of intangible assets		6.2	6.2	6.2	1.9	0.8	0.0	0.0	0.0	0.0	0.0
EBIT		18.3	16.5	22.8	20.9	19.3	24.2	23.3	22.8	20.8	20.4
Interest expense		2.9	1.3	1.0	0.9	0.4	0.0	0.0	0.0	0.0	0.0
Other items						0.0					
Income Before Income Tax		15.4	15.1	21.8	20.1	18.9	24.2	23.3	22.8	20.8	20.4
Income Tax		3.9	4.1	5.9	5.5	5.1	6.5	6.3	6.2	5.6	5.5
Net Income		11.5	11.0	15.9	14.6	13.8	17.7	17.0	16.7	15.2	14.9
Shares Outstanding, Basic		29.0	28.9	28.8	28.6	28.5	28.5	28.5	28.5	28.5	28.5
Shares Outstanding, Diluted		29.0	28.9	28.8	28.6	28.5	28.5	28.5	28.5	28.5	28.5
Earnings Per Share, Basic		\$ 0.40	\$ 0.38	\$ 0.55	\$ 0.51	\$ 0.48	\$ 0.62	\$ 0.60	\$ 0.58	\$ 0.53	\$ 0.52
Earnings Per Share, Diluted		\$ 0.40	\$ 0.38	\$ 0.55	\$ 0.51	\$ 0.48	\$ 0.62	\$ 0.60	\$ 0.58	\$ 0.53	\$ 0.52

Appendix 2: Cash Flow Statement

WESTPEAK RESEARCH		Cashflow Statement									
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Income		11.5	11.0	15.9	14.6	13.8	17.7	17.0	16.7	15.2	14.9
Depreciation and Amortization		3.6	3.6	4.1	4.5	4.1	4.7	4.3	4.0	3.7	3.4
Amortization of intangible assets		6.2	6.2	6.2	1.9	0.8					
Amortization of deferred financing costs		0.2	0.4	0.2	0.1	0.0					
Gain on valuation of derivative financial instrument		-0.3	-0.4	-0.5	0.0	0.0					
Change in employee benefits		-1.8	0.4	-3.5	0.7	0.0					
Deferred income taxes		-0.8	-1.6	-0.7	-0.5	-0.1					
Loss on disposal and write-down of PP&E		-0.1	0.0	0.0	0.0	0.0					
Cash Flows before Working Capital		18.5	19.6	21.7	21.3	18.6	22.4	21.3	20.6	18.9	18.3
Accounts receivable		-2.3	-1.2	0.1	2.4	-2.3	1.1	0.6	0.6	0.6	0.6
Inventory		0.9	1.2	-1.1	1.2	-4.7	3.7	0.5	0.5	0.5	0.4
Prepaid expenses and other assets		0.1	0.0	-0.1	0.0	-0.9	1.3	0.0	0.0	0.0	0.0
Provisions		0.0	-0.1	0.0	0.0	0.0					
Income tax receivable and payable		0.9	0.3	-0.4	-1.3	-0.8					
Contributions to employee benefits plan		-1.0	-0.1	-0.1	0.0	-0.2					
Accounts payable, accrued and other liabilities		-3.7	2.0	0.0	-2.0	1.2	-0.2	-0.5	-0.5	-0.5	-0.5
Cash Provided By Operating Activities		13.3	21.8	20.1	21.6	11.1	28.4	21.9	21.2	19.4	18.8
Adjustments to consideration paid for business		0.0	0.0	0.0	0.0	0.0					
Acquisitions		0.0	0.0	-15.4	-12.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from sale of PP&E		0.1	0.0	0.4	0.1	0.0	0.3	0.3	0.2	0.2	0.2
Purchase of PP&E		-1.2	-2.0	-1.3	-1.6	-5.3	-2.5	-2.5	-2.4	-2.3	-2.3
Acquisition of intangible assets		0.0	0.0	-1.2	-0.8	-0.3					
Change in restricted cash		0.0	0.0	0.0	0.0	0.0					
Cash Used in Investing Activities		-1.1	-2.0	-17.5	-14.3	-5.6	-2.3	-2.2	-2.2	-2.1	-2.0
Repayment of secured credit facilities		-12.0	-15.4	6.4	-1.8	1.9					
Purchase of share capital for cancellation		0.0	-0.6	0.0	-0.7	-0.6					
Financing cost incurred		0.0	-0.2	-0.3	0.0	0.0					
Dividends paid		-3.8	-4.8	-5.8	-6.3	-6.9	-6.8	-7.1	-7.4	-7.7	-8.0
Cash Provided By (Used In) Financing Activities		-15.8	-21.0	0.3	-8.8	-5.6	-6.8	-7.1	-7.4	-7.7	-8.0
Foreign Exchange Impact		0.0	0.0	0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Beginning Cash Balance		5.1	1.5	0.4	3.5	2.0	1.7	20.9	33.5	45.1	54.7
Net Change in Cash		-3.6	-1.1	3.2	-1.6	-0.2	19.2	12.6	11.6	9.6	8.8
Ending Cash Balance		1.5	0.4	3.5	2.0	1.7	20.9	33.5	45.1	54.7	63.5

Appendix 3: Balance Sheet

WestPeak Research		Balance Sheet									
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
ASSETS											
Cash and Cash Equivalents		1.5	0.4	3.5	2.0	1.7	20.9	33.5	45.1	54.7	63.5
Income tax receivable					0.5	1.2	1.2	1.2	1.2	1.2	1.2
Accounts receivable		17.4	18.6	21.4	21.2	23.5	22.5	21.8	21.2	20.6	20.0
Inventory		12.1	11.0	15.6	16.0	20.7	17.0	16.5	16.0	15.6	15.1
Prepaid expenses and other current assets		0.5	0.6	0.7	0.6	1.5	0.2	0.2	0.2	0.2	0.2
Total Current Assets		31.6	30.5	41.1	40.4	48.7	61.8	73.2	83.7	92.3	100.1
Property and equipment		25.9	24.3	26.8	27.4	28.4	25.9	23.8	22.0	20.5	19.1
Intangible assets		14.3	8.1	6.5	9.4	8.8	8.8	8.8	8.8	8.8	8.8
Accrued pension benefit asset		8.2			2.3	1.0	1.0	1.0	1.0	1.0	1.0
Goodwill		46.9	46.9	50.8	53.1	52.9	52.9	52.9	52.9	52.9	52.9
Total Non-Current Assets		95.2	79.3	84.1	92.2	91.2	88.7	86.6	84.8	83.2	81.9
Total Assets		126.8	109.8	125.2	132.5	139.9	150.5	159.8	168.5	175.5	182.0
LIABILITIES											
Accounts payable		14.4	16.4	18.1	17.9	19.1	18.9	18.4	17.8	17.3	16.9
Dividend payable			1.4	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Provisions		0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Income tax payable		0.9	1.2	0.8		0.0	0.0	0.0	0.0	0.0	0.0
Current portion of secured credit facilities		4.8	5.2			0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities		20.5	24.6	20.9	19.9	21.1	20.9	20.4	19.9	19.4	18.9
Secured credit facilities		32.8	17.2	28.7	26.9	28.8	28.8	28.8	28.8	28.8	28.8
Deferred income tax liabilities		6.0	2.2	2.4	3.2	2.7	2.7	2.7	2.7	2.7	2.7
Accrued pension benefit liability			0.6	0.3		0.0	0.0	0.0	0.0	0.0	0.0
Other post-retirement benefit obligations		0.9	0.9	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Derivative financial liability		1.0	0.5			0.0	0.0	0.0	0.0	0.0	0.0
Total Non-Current Liabilities		40.7	21.4	31.6	30.3	31.7	31.7	31.7	31.7	31.7	31.7
Total Liabilities		61.1	46.0	52.5	50.2	52.8	52.6	52.1	51.6	51.1	50.6
SHAREHOLDER'S EQUITY											
Common equity		9.9	9.8	9.8	9.8	9.7	9.7	9.7	9.7	9.7	9.7
Additional paid-in capital		280.1	279.6	279.6	279.0	278.4	278.4	278.4	278.4	278.4	278.4
Foreign currency translation reserve		-0.1	0.0	0.8	0.6	0.1	0.1	0.1	0.1	0.1	0.1
Accumulated deficit		-224.3	-225.7	-217.6	-207.0	-201.2	-190.4	-180.5	-171.3	-163.8	-156.9
Total Shareholder's Equity		65.6	63.8	72.6	82.3	87.0	97.9	107.7	117.0	124.5	131.4

Appendix 4: Revenue Analysis

WESTPEAK RESEARCH		Revenue Analysis									
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Canadian Envelope Market Revenue Growth			-8.1%	-0.5%	3.0%	-9.2%	-4.2%	-4.2%	-4.2%	-4.2%	-4.2%
U.S. Envelope Market Revenue Growth			21.3%	68.9%	53.6%	23.2%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%
Packaging and Specialty Products Revenue Growth			7.7%	7.1%	16.2%	127.9%	1.2%	1.2%	1.2%	1.2%	1.2%
Revenue Growth, YoY			2.3%	7.9%	12.8%	9.0%	-2.9%	-2.9%	-2.9%	-2.8%	-2.8%
Total Revenue		129.0	131.9	142.3	160.6	175.0	169.9	165.0	160.3	155.7	151.4
Canadian Envelope Market Revenue		116.8	107.3	106.8	110.0	99.9	95.7	91.7	87.8	84.1	80.6
U.S. Envelope Market Revenue		12.2	14.8	25.0	38.4	47.3	46.0	44.8	43.6	42.4	41.3
Packaging and Specialty Products Revenue		9.1	9.8	10.5	12.2	27.8	28.1	28.5	28.8	29.2	29.6
Total revenue		138.1	131.9	142.3	160.6	175.0	169.9	165.0	160.3	155.7	151.4

Appendix 5: Discounted Cash Flow Analysis

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DCF Analysis

		2013	2014	2015	2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017	2018	2019	2020	2021	2022
WACC Calculation															
Book Value of Debt	28.5														
Market Value of Equity	127.0														
Total Capitalization	155.5														
Debt															
Pre-Tax Cost of Debt	6.41%														
Effective Tax Rate	29.5%														
After-Tax Cost of Debt	4.52%														
Capital Asset Pricing Model															
Risk-Free Rate	1.53%														
Equity Market Risk Premium	4.54%														
Liquidity Premium	3.00%														
Beta	0.83														
Cost of Equity	7.79%														
Debt Weight	18.3%														
Equity Weight	81.7%														
WACC	7.19%														
Growth Rate	-2.0%														
Free Cash Flow Analysis															
EBIT		18.3	16.5	22.8	20.9	5.7	4.2	4.1	5.3	19.3	24.2	23.3	22.8	20.8	20.4
Tax Rate		25.3%	27.1%	27.0%	27.3%	26.0%	29.5%	27.0%	27.0%	27.2%	27.0%	27.0%	27.0%	27.0%	27.0%
D&A		3.6	3.6	4.1	4.5	0.8	0.8	1.3	1.2	4.1	4.7	4.3	4.0	3.7	3.4
Change in NWC		-5.2	2.1	-1.5	0.3	-4.4	1.1	0.7	-5.0	-7.6	5.9	0.6	0.6	0.5	0.5
Capital Expenditures		-1.2	-2.0	-16.7	-13.6	-0.2	-4.5	-0.3	-0.3	-5.3	-2.5	-2.5	-2.4	-2.3	-2.3
Free Cash Flow		21.3	11.5	5.6	5.8	9.3	-1.8	3.2	9.8	20.4	14.0	18.2	17.7	16.0	15.5
Discount Period								0.25	0.25		1.5	2.5	3.5	4.5	5.5
Discounted Free Cash Flow								3.1	9.6		12.6	15.3	13.9	11.7	10.6
Share Price Calculation															
Free Cash Flow Sum	76.8														
Terminal Value	115.2														
Enterprise Value	191.9														
Less: Debt	28.8														
Less: Cash	0.6														
Equity	162.5														
Shares Outstanding	28.5														
Implied Share Value	\$ 5.71														

		WACC					
		6.2%	6.7%	7.2%	7.7%	8.2%	
GROWTH	-2.4%	\$ 6.30	\$ 5.90	\$ 5.54	\$ 5.22	\$ 4.93	
	-2.2%	\$ 6.40	\$ 5.99	\$ 5.62	\$ 5.29	\$ 4.99	
	-2.0%	\$ 6.52	\$ 6.09	\$ 5.71	\$ 5.37	\$ 5.06	
	-1.8%	\$ 6.64	\$ 6.19	\$ 5.80	\$ 5.45	\$ 5.13	
	-1.6%	\$ 6.76	\$ 6.30	\$ 5.89	\$ 5.53	\$ 5.20	

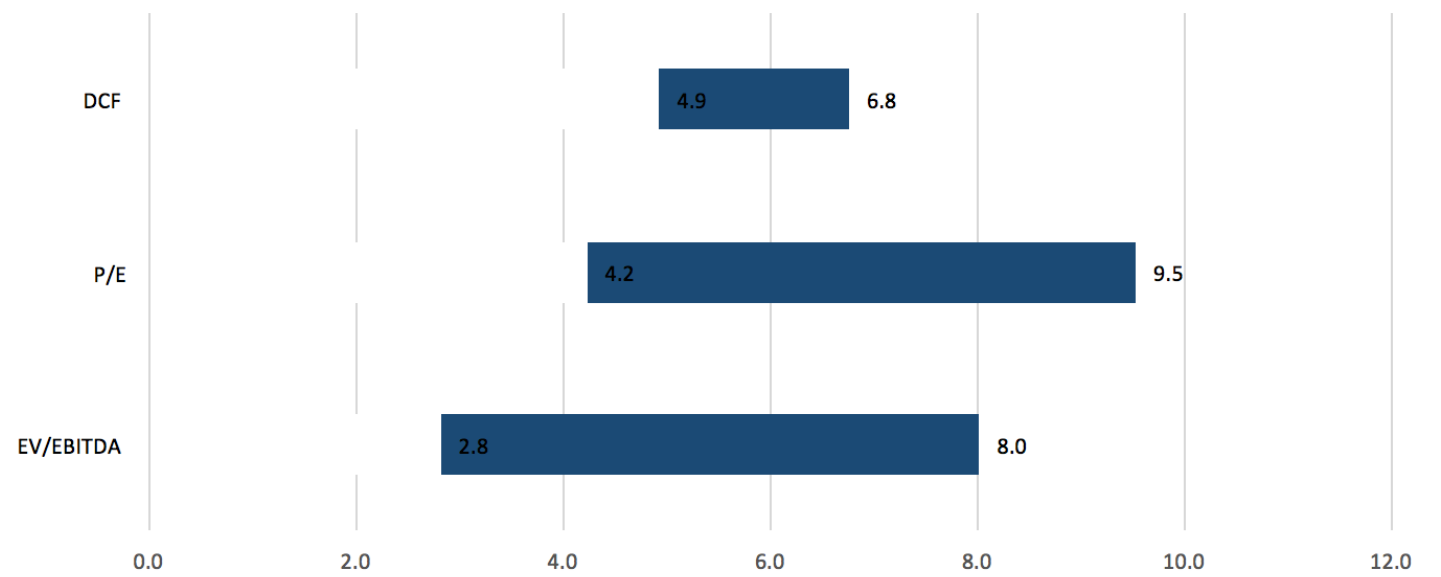
Appendix 6: Comparable Companies Analysis

WestPeak Research											
Comparables Analysis											
	Cash	Debt	Market Capitalization	EV	TTM EBITDA	Share Price	TTM EPS		EV/EBITDA	P/E	
Fortress Paper Ltd	45.4	211.9	77.6	244.2	24.7	\$5.15	-\$0.82		9.9 x	n/a	
Tembec Inc.	68.0	694.0	457.0	1083.0	193.0	\$4.57	\$0.43		5.6 x	10.6 x	
Resolute Forest Products	57.2	1090.0	556.5	1589.3	367.6	\$6.18	-\$0.55		4.3 x	n/a	
Canfor Pulp Products Inc.	91.5	50.0	862.0	820.5	196.1	\$21.68	\$1.16		4.2 x	18.7 x	
Clearwater Paper Corp	11.1	881.0	957.2	1827.1	246.3	\$45.25	\$2.95		7.4 x	15.3 x	
Cenveo Inc.	9.2	1350.0	40.6	1381.4	169.5	\$3.90	\$0.47		8.2 x	8.3 x	
WestRock	292.6	8470.0	18110.0	26287.4	2870.0	\$56.14	\$3.28		9.2 x	17.1 x	
KapStone Paper and Packaging Corp.	9.7	2060.0	2720.0	4770.3	489.9	\$21.98	\$1.29		9.7 x	17.0 x	
Supremex Inc.	0.6	28.8	126.5	154.6	25.9	\$4.45	\$0.51		6.0 x	8.7 x	

	HIGH	AVERAGE	LOW	IMPLIED TARGET EV	IMPLIED TARGET SHARE PRICE
EV/EBITDA	9.9 x	7.3 x	4.2 x	189.54	\$ 5.67
				256.54	HIGH \$ 8.02
				108.50	LOW \$ 2.82
	HIGH	AVERAGE	LOW	IMPLIED P/E	IMPLIED TARGET SHARE PRICE
P/E	18.7 x	14.5 x	8.3 x	14.5 x	\$ 7.40
				18.7 x	HIGH \$ 9.53
				8.3 x	LOW \$ 4.23

Appendix 7: Valuation Summary

Share Price Analysis



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Marius Schneider

Analyst

WestPeak Research Association

contact@westpeakresearch.com