



**ROCKLINC**

*Worth. Investing.*

**ROCKLINC Investment Partners - WEBCAST**

**“Falling Interest Rates”**

**June 13, 2019**

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# Outline of Presentation

- A. ROCKLINC Overview & Investment Philosophy
- B. Investment Challenges/Environment
- C. Falling Interest Rates
- D. Portfolio Highlights - Recent Sales
- E. Performance Summary
- F. Two Company Highlights
- G. Questions & Answers
- H. Next Webcast - September 12, 2019

## A. ROCKLINC Overview

- ▶ Private investment firm - founded in 2010 - current AUM \$137 million - approx. 120 households
- ▶ Focus - Customized portfolios
- ▶ Investing based upon:
  - ▶ Independent thinking
  - ▶ Deep understanding of investments
  - ▶ Focus on current realities rooted in understanding of past
  - ▶ Interdisciplinary approach - build a worldview

# Investment Philosophy

1. Excellent Businesses - high ROE's, strong balance sheet, free cash flow, reoccurring revenue
2. Focused Portfolios - 20-30 stocks - opposite of passive investing!
3. Long-Term Holding Period - tax deferred compounding
4. Purchase with a Margin of Safety
5. Understand Economic Backdrop

## B. Investment Challenges

1. Debt, Debt & more Debt - too large to service at “ethical interest rates”
2. Unfunded Government Promises - buying off the gullible electorate
3. Demographics - aging of populations lack of family formation & promotion of a culture of death
4. Monetary Policies - Printing money and record low interest rates - from Quantitative Easing (QE) to Quantitative Tightening back to QE! Interest rates have literally crashed in the US! WHY?? Global balance sheet is overleveraged!

# Key Implications Impacting Investment Decisions

- ▶ Virtually impossible to end money printing and reduce the balance sheets of the major central banks, without a recession
- ▶ Impossible to raise interest rates back to an “ethical normality”, that is, a level that 1) holds purchasing power after inflation and taxes, and 2) rewards investors for risk and the time value of money, without crashing the global economy.
- ▶ Favour hard tangible assets that are essential, scarce and have proven business models.
- ▶ Maintain a healthy exposure to monetary substitutes such as gold and silver.
- ▶ Have fire power to take advantage of market volatility.

# C. Falling Interest Rates - US 10yr Treasury - last 12 months (2.08% - June 7, 2019)





# Falling Interest Rates - US 5yr Treasury - last 12 months (1.85% - June 7, 2019)



# 10 Year Government Bond Yields

Country	Yield
United States	2.08%
Canada	1.46%
Germany	.181%
France	.131%
Sweden	.053%
U.K.	.813%
Switzerland	-.52%
Japan	-.11%

\*As of June 7, 2019

## D. Portfolio Highlights - Recent Sales

### ▶ **SOLD our complete position in Oracle**

- ▶ Overall growth very weak despite double digit cloud revenue growth.
  - ▶ 5 year CAGR only 1.4% in reported revenue! Core business (databases) under severe pressure! Since 2011 they have lost 7% of their market share to competitors!
  - ▶ Cloud revenue growth trailing their key competitors (losing share to AMZN and MSFT)
  - ▶ From 2012 to current the company has spent over \$92 billion in cash to repurchase over 1.5 billion shares or 30% of the company!
- 
- ▶ Cleaned up our small positions in Garrett Motion Inc. (GTX) and Resideo Technologies (REZI) - both companies spun out of Honeywell.

# E. Performance Summary

As at May 31, 2019 (after all fees)

Balanced Fund (68% equity 32% bonds and short-term cash)\*

<u>3 mos.</u>	<u>6 mos.</u>	<u>1 yr</u>	<u>2 yrs</u>	<u>3 yrs</u>	<u>5 yrs</u>
3.6%	7.8%	10.3	5.8	7.6	7.3

\* ROCKLINC Book of Business



# Performance Summary

As at May 31, 2019 (after all fees)

100% Equity ROCKLINC vs. TSX and S&P 500 \*

	<u>3 mos.</u>	<u>6 mos.</u>	<u>1 yr</u>	<u>2 yrs</u>	<u>3 yrs</u>	<u>5 yrs</u>
	4.7	10.7	14.1	8.1	11.2	11.5
TSX	0.2	5.5	-.1	2.3	4.5	1.9
S&P**	-1.2	-.3	1.7	6.8	9.5	7.4

\*ROCKLINC Book of Business

\*\* Return in USD (excluding dividends)



## F. Two Companies

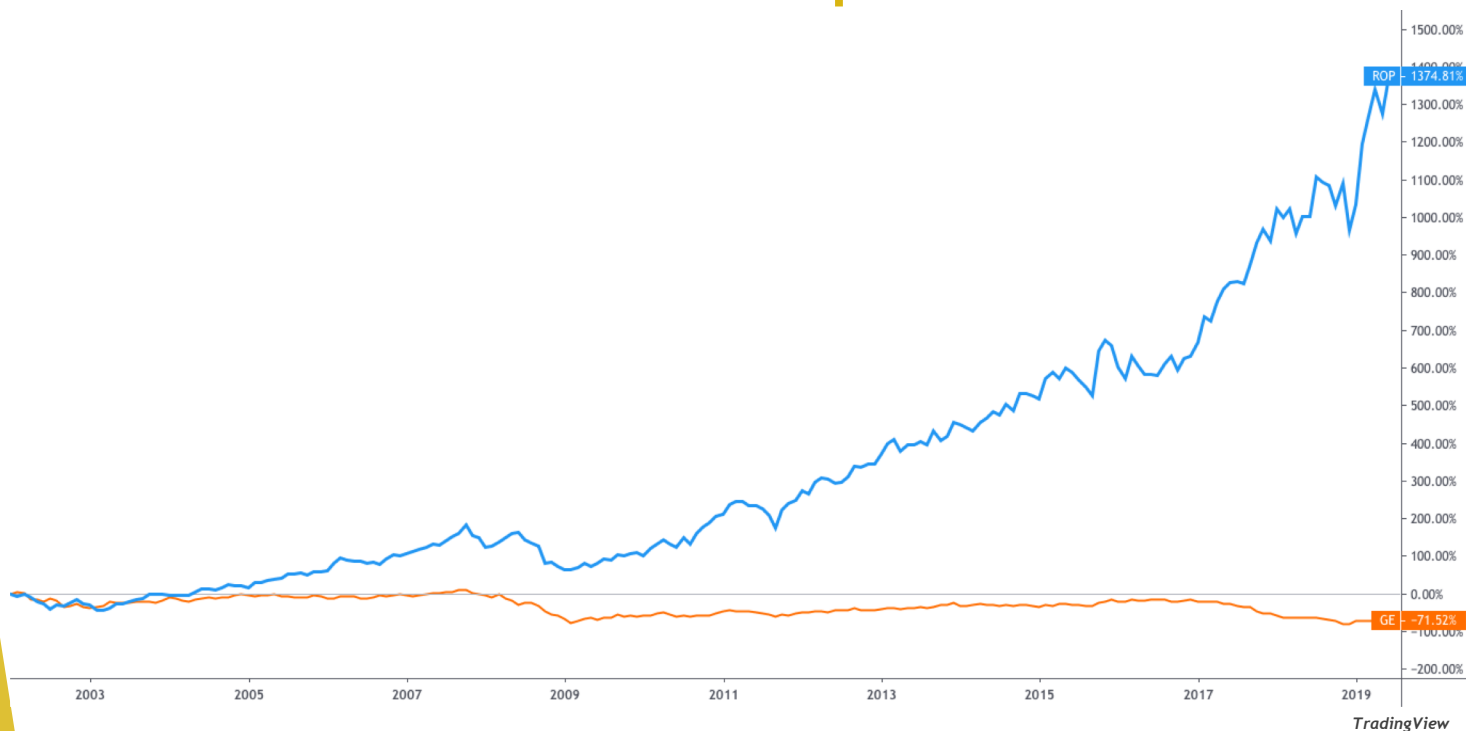
- ▶ Roper Technologies, Inc. (ROP)
- ▶ Church & Dwight Co. Inc. (CHD)

Both trade on NYSE

# Roper Technologies Inc.

- ▶ **Roper Technologies is an acquirer of niche software companies**
  - ▶ Maintains a portfolio of over 45 independent companies of various sizes
  - ▶ The software services a wide variety of sectors - healthcare, transportation, water, energy, construction, law
- ▶ **Roper has evolved from an industrial product manufacturer, such as pumps and analytical instrumentation, towards a technology and software provider**
  - ▶ Attracted by high recurring revenue, high margins, strong customer relationships, enormous operating leverage and an asset light model which aids in boosting free cash flow
  - ▶ “Software is infrastructure”
- ▶ **Capital Allocation**
  - ▶ Roper maintains strict criteria for acquisitions - seeking only the best high cash flow generative companies with high margins and defensible market positions
  - ▶ Benefits from an actively managed portfolio of high-quality businesses, unconstrained by geography, application or industry

# A Master Class in Capital Allocation



- ▶ From January 1, 2002 to June 10<sup>th</sup>, 2019
  - ▶ Roper Technologies Price Return: +1,374%
  - ▶ GE Price Return: -71.5%



# Business Segments

## ▶ I) Application Software

- ▶ This segment deals with enterprise software that specifically is designed for one application
- ▶ Aderant - business management software for 3000 legal firms, representing 77 of the top 100 Global Law Firms
- ▶ Deltek - provides software for project-based businesses such as government contracting, aerospace, engineering, and research and development
  - ▶ Helps win, manage, develop and deliver projects

## ▶ II) Network Software & Systems

- ▶ Brings together many different players together for mutual benefit, creating valuable network effects
- ▶ ConstructConnect - brings together general contractors, subcontractors, designers, architects and project owners to make the connections and confidently evaluate, choose and prepare projects before they build
- ▶ DAT Solutions - a large SaaS-based subscription network for freight spot transactions in North America (connects freight loads and drivers)

# Business Segments

## ▶ III) Measurement & Analytical Solutions

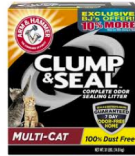
- ▶ Represents a portion of Roper's legacy business, offering products and services in highly desirable long-term growth markets (such as healthcare and water)
- ▶ Neptune - a pioneer in the development of Automatic Meter Reading (AMR) technologies
- ▶ NDI - provides optical and electromagnetic measurement systems for medical and industrial applications

## ▶ IV) Process Technologies

- ▶ The second portion of Roper's legacy business which still enjoys high returns on capital due to a strong installed base and high-margin recurring revenue through the sale of parts & services of industrial products
- ▶ Cornell - manufactures highly engineered pumps across many essential industries: food processing, agriculture, water and waste water processing
- ▶ AMOT - provides control, safety and solutions for engines compressors and turbines by manufacturing pneumatic instrumentation, valves and control systems

# Church and Dwight Co., Inc (NYSE:CHD)

- ▶ Founded in 1846, Church and Dwight has a rich history of developing many market leading consumer products.
- ▶ Household products (45% of 2018 revenue)

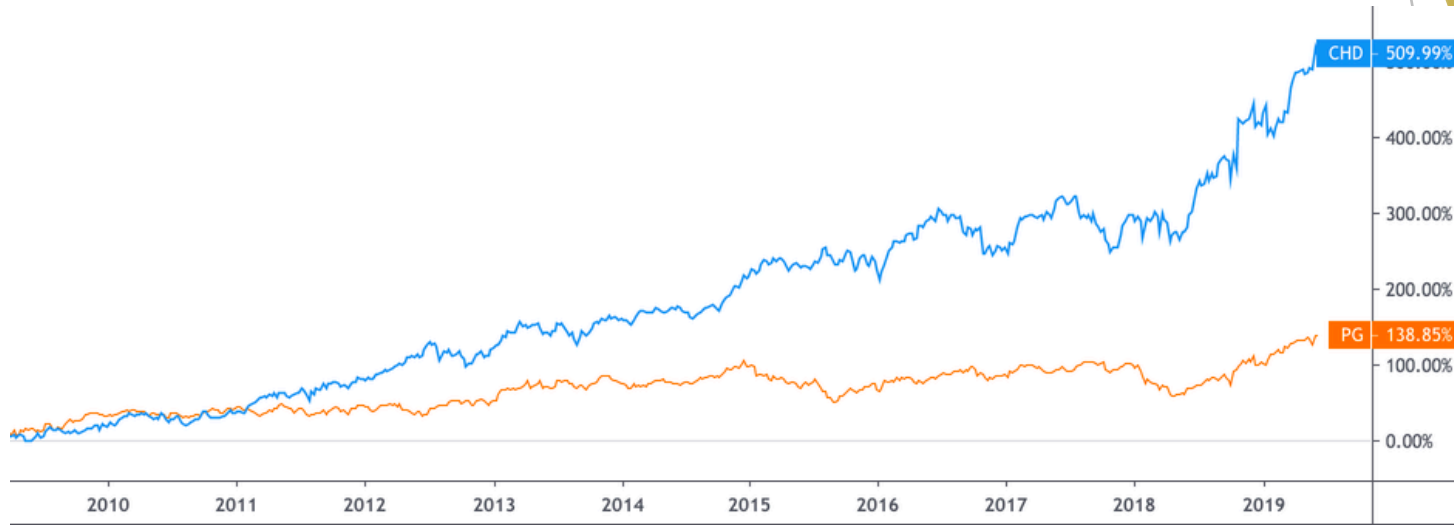


- ▶ Personal Care (48% of 2018 revenue)



- ▶ Specialty Products (7% of 2018 revenue)

# A Master Class in Capital Allocation



Trading View

- From January 1, 2009 to June 10, 2019
  - Church and Dwight Price Return: +509.99%
  - Proctor and Gamble Price Return: +138.85%

# Investment Rationale

- ▶ **Nimble organizational structure**
  - ▶ Able to make faster decisions and quickly adapt with changes in consumer preferences
- ▶ **Proven track record of maintaining or expanding its market share through innovation**
  - ▶ 11 of its brands have #1 market share in their respective category
- ▶ **Growth opportunities from international markets**
  - ▶ Still much room to grow and capitalize on fast growing international markets (7.8% organic growth from international markets in 2018)
- ▶ **Successful record of integrating acquired brands**
  - ▶ 10 of the company's 11 power brands were acquired over a 17 year period
- ▶ **Strong financial results**
  - ▶ Free cash flow growth (2012- 2018): 10.2%
  - ▶ Low debt to equity ratio: <1.0
  - ▶ Dividend growth (2012-2018): 9%

# G. Questions & Answers

**H. Next Webcast**

**Thursday September 12<sup>th</sup>**

**Thank you!**





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