



The Discovery Process

An Unorthodox Method for Finding Multibaggers

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Who We Are



SCD is paid newsletter dedicated to uncovering Canada's best emerging growth stocks

Paul Andreola - Editor

- 30 years Canadian microcap investing experience, 10 years as retail broker
- Co-founded three public technology companies
- Currently CEO and Director of Brisio Innovations (BZI:CSE)

Brandon Mackie - Writer / Researcher

- Chemical Engineering background
- Self-taught investor, writer of previous blog Moatology
- Now working at food technology startup, Soylent

Definition:

**A multibagger is a stock that returns 100%
or more**

**We are going to talk about our process for
finding them**

To find multi-baggers...

Most investors begin by asking questions
about the business

Questions like:

How fast is it growing?

What is the return on equity?

What is the size of market?

How good is management?

These are all important questions...

But they are not the only questions we ask

We also ask about the stock.

How “discovered” is the stock?

Key Point:

Discovery drives microcap returns

**Often more so than positive changes in the
business**

Definition:

Discovery is the process by which a company's value is recognized in its share price

Ben Graham on the Discovery Process:

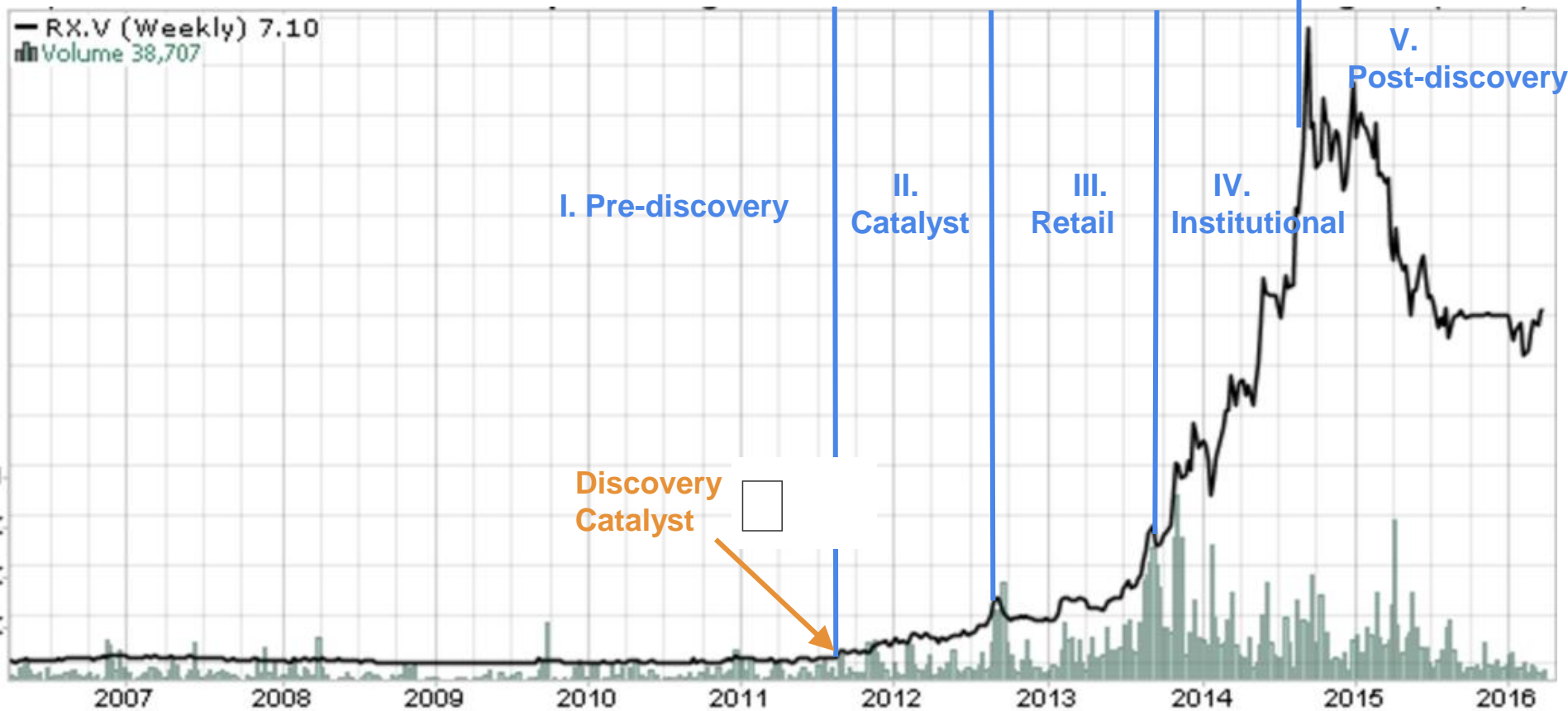
“That is one of the mysteries of this business, and it is a mystery to me as well as to everybody else. We know from experience that eventually the market catches up with value. It realizes it in one way or another.”

- Ben Graham, U.S. Senate Committee on Banking and Currency, 1955

**We believe microcaps are ideal for studying
the discovery mystery**

**Our strategy is to solve this mystery and
profit from it.**

The Discovery Lifecycle – The 5 Phases



The 5 Phases of Discovery



I. Pre-discovery

- A. Obscure, small, discovered company fallen from graces

II. Catalyst / Initial Buying

- A. Earning reports - record growth, profitability, large contract
- B. Sophisticated retail investors see value, buy as much as they can. Not afraid of illiquidity.

III. Retail

- A. Company profiled on blogs, forums, newsletters
- B. See improved liquidity from Phase II and positive price trends

IV. Institutional

- A. Sophisticated hedge funds without buying constraints
- B. Introduce idea to network of brokers, other fund managers

V. Post-discovery

- A. Stock gets media, analyst coverage
- B. Valuations get stretched, company performance now sole driver of stock performance

Key Point:

**We aim to buy stocks at the beginning of the
Catalyst / Initial Buying Phase**

Margin of safety is maximized at this point

Our Recipe for Discovery Success



★ Fundamental value

- Two consecutive quarters of double-digit revenue growth and profits

★ Undiscovered

- Very thinly traded - < \$1000 per day volume
- No Seeking Alpha pieces, no blog write-ups, few Stockhouse posts
- No I.R., Management says you're the first person to call in the last 6 months

★ Simple story

- Simple means faster, easier discovery
- “Dumb” money needs to get the story to bid shares up later in the cycle
- “Sexy” story with industry tailwinds a plus

★ Management Incentives

- Management must benefit from stock going higher, ideally insiders own 25+%
- Business must perform for discovery process to work

Key Point:

The discovery process has delivered market-beating returns since inception

Smallcap Discoveries picks have averaged 363% return from profile

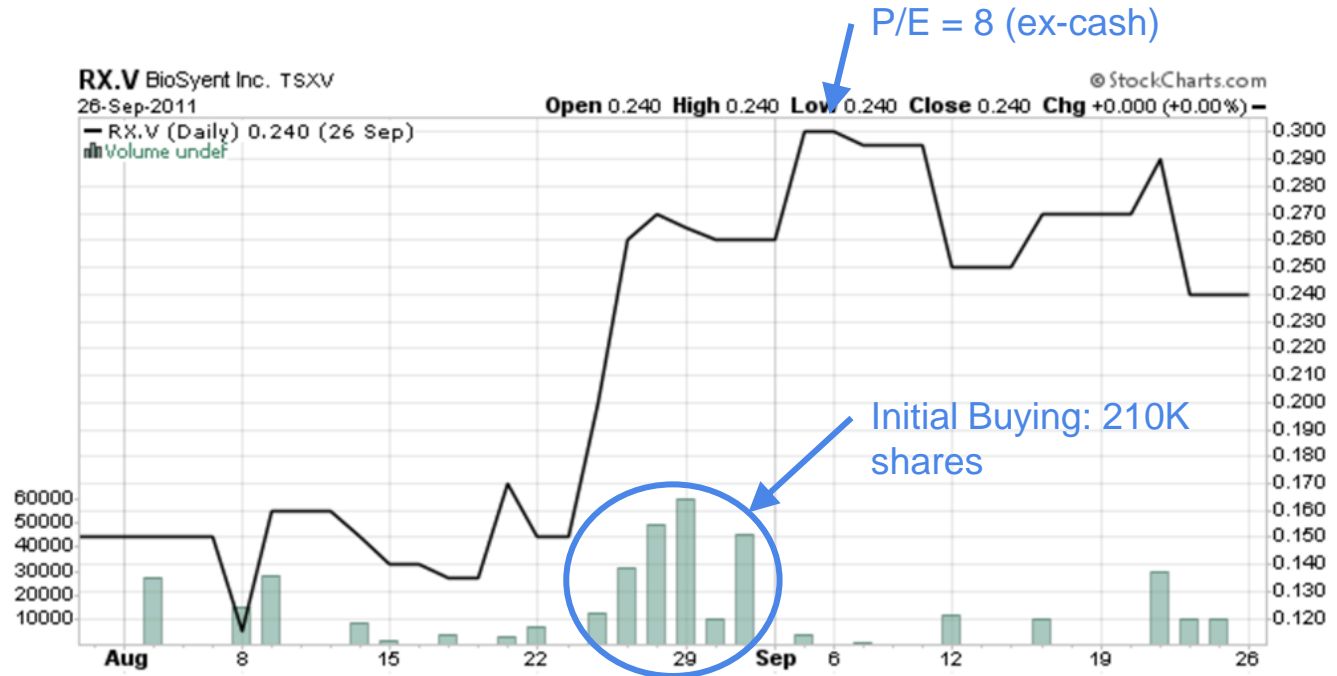


Discovery Case Study #1: Biosyent (RX.V / BIOYF)

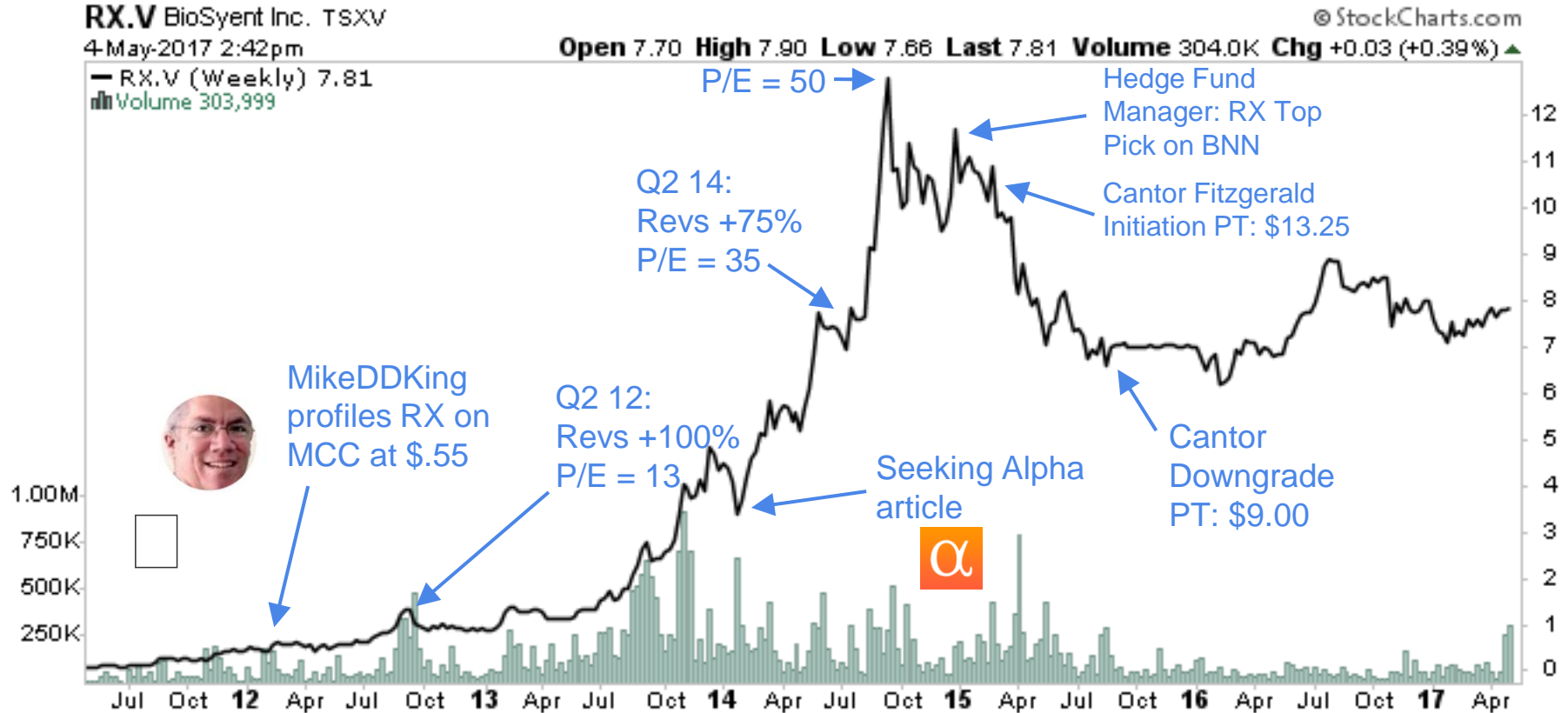
I. Pre-discovery -> II. Catalyst

8/22/11: Biosyent announces Q2 results

- Revenue +220%
- \$114K net income
- \$469K cash
- No debt
- \$1.8M market cap
- P/E: 4 (annualized)



II. Catalyst -> V. Post-discovery





Discovery Case Study #2: XPPEL Technologies (DAP-U.V / XPLT)

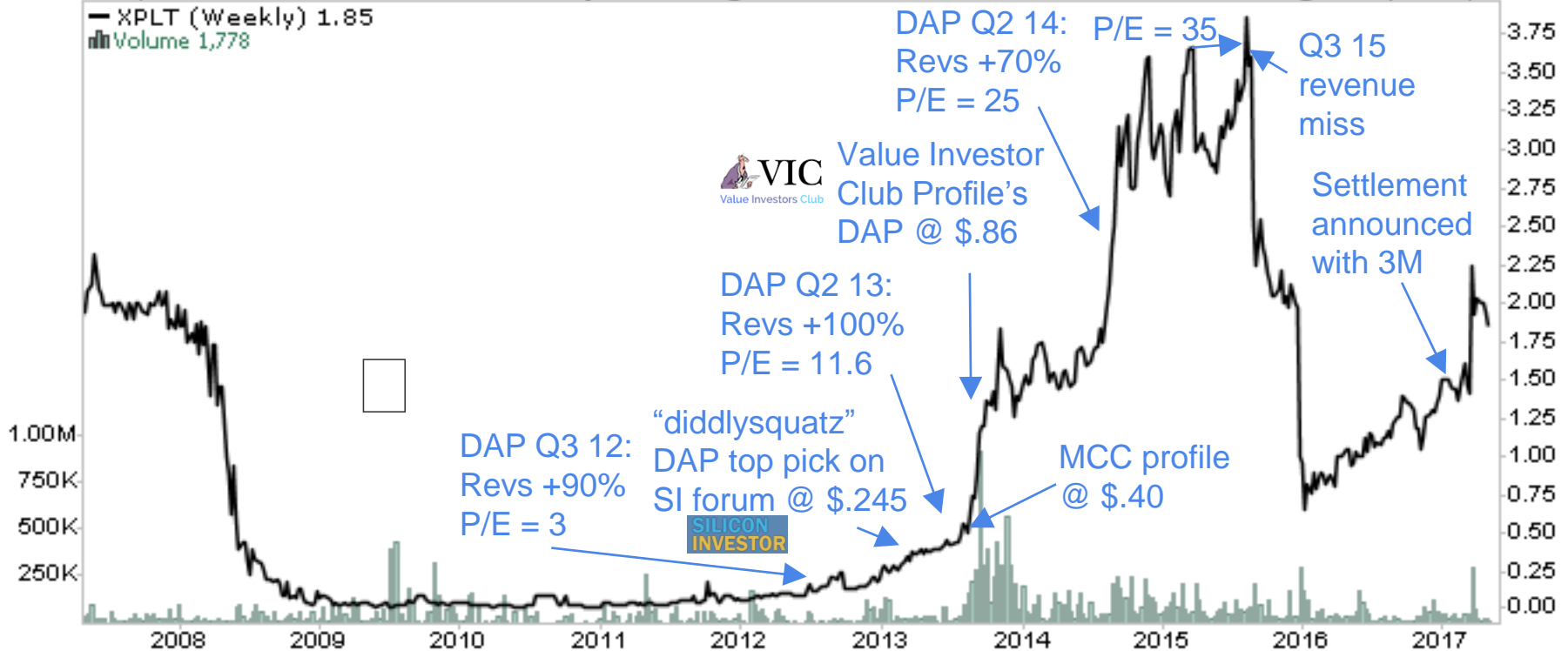
I. Pre-discovery -> III. Retail -> Post-discovery

XPLT XPEL Technologies Corp. OTC Mkt.

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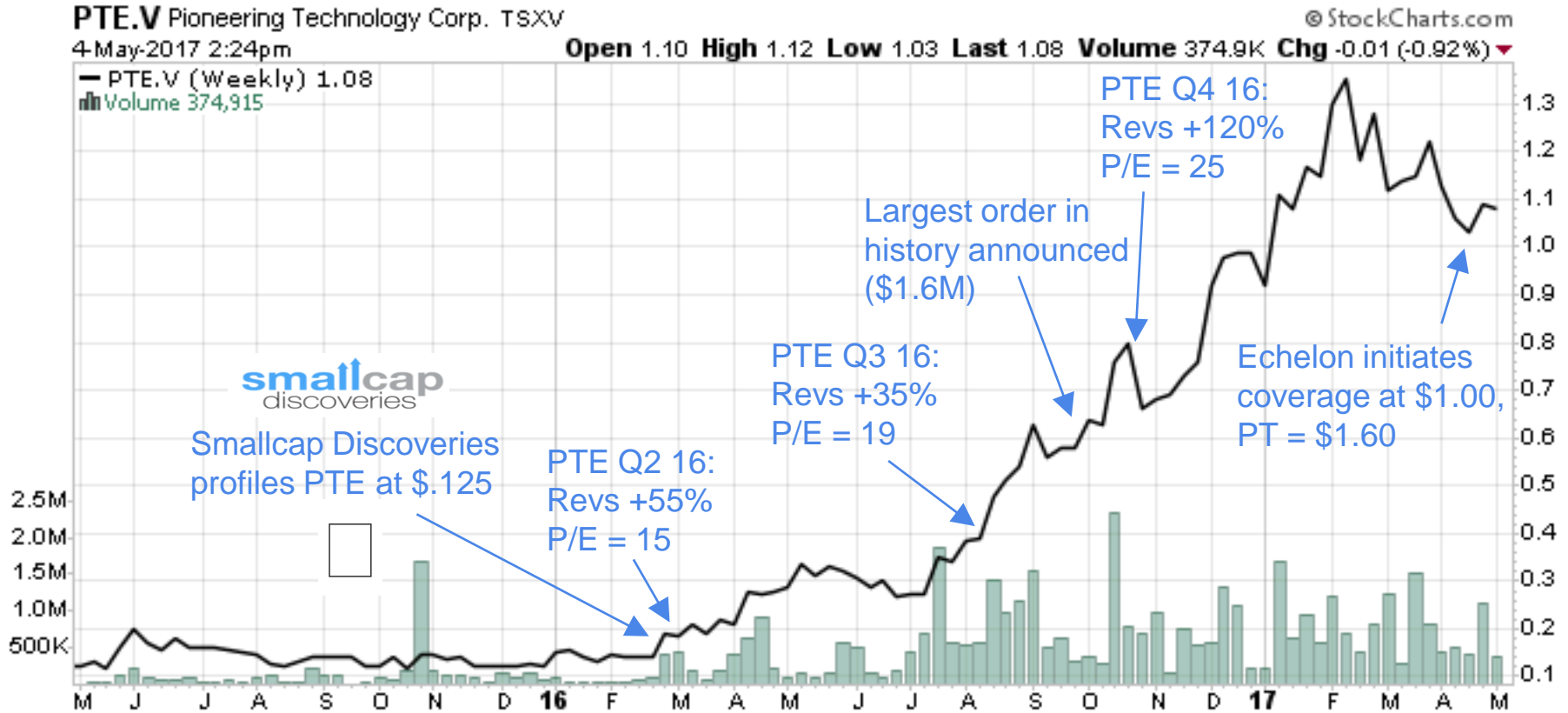
4-May-2017 11:54am

Open 1.94 High 1.96 Low 1.85 Last 1.85 Volume 1,778 Chg -0.09 (-4.81%) ▼



Discovery Case Study #3: Pioneering Technology (PTE.V)

I. Pre-discovery -> III. Retail -> IV. Institutional





Discovery Case Study in the Making: Renoworks Software (RW.V)

I. Pre-discovery -> II. Catalyst -> III. Retail

RW.V RenoWorks Software Inc. TSXV

4-May-2017 9:30am

Open 0.420 High 0.460 Low 0.420 Last 0.450 Volume 929.4K Chg +0.030 (+7.14%) ▲

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Reneworks Discovery Checklist

★Fundamental value

- 33% revenue growth last year, 4 consecutive quarters of revenue growth

★Undiscovered

- Thinly traded
- No Seeking Alpha pieces, only one blog write-up (MCC), few Stockhouse posts
- Management secretive for competitive reasons

★Simple story

- Single product company, dominates niche
- Shift from in-person to technology-assisted contract bidding

★Management Incentives

- CEO owns 7%, insiders own 44%

Discovery Winners

Current



+984%

Entry: \$.25 (Apr 14)
Current: \$2.71 (May 17)



+764%

Entry: \$.125 (Mar 16)
Current: \$1.08 (May 17)



+760%

Entry: \$.10 (Nov 14)
Current: \$.86 (May 17)



+277%

Entry: \$.30 (Nov 16)
Current: \$1.13 (May 17)

Past



+525%

Entry: \$1.20 (May 13)
Exit: \$7.50 (Aug 14)



+833%

Entry: \$.15 (Aug 13)
Exit: \$1.40 (Sep 14)



+1500%

Entry: \$.17 (Apr 13)
Exit: \$2.75 (Aug 15)



+340%

Entry: \$2.75 (Jan 13)
Exit: \$12.00 (Oct 14)



Current Winners: Lite Access Technologies (LTE.V)



LITEACCESS
TECHNOLOGIES INC

+984%



Current Winners: Pioneering Technology (PTE.V)



+764%



Current Winners: Hamilton Thorne (HTL.V)



+760%



Current Winners: Immunoprecise Antibodies (IPA.V)



+277%



Appendix



CENCOTECH INC.

Discovery Case Study #4: Cencotech (CTZ.V)

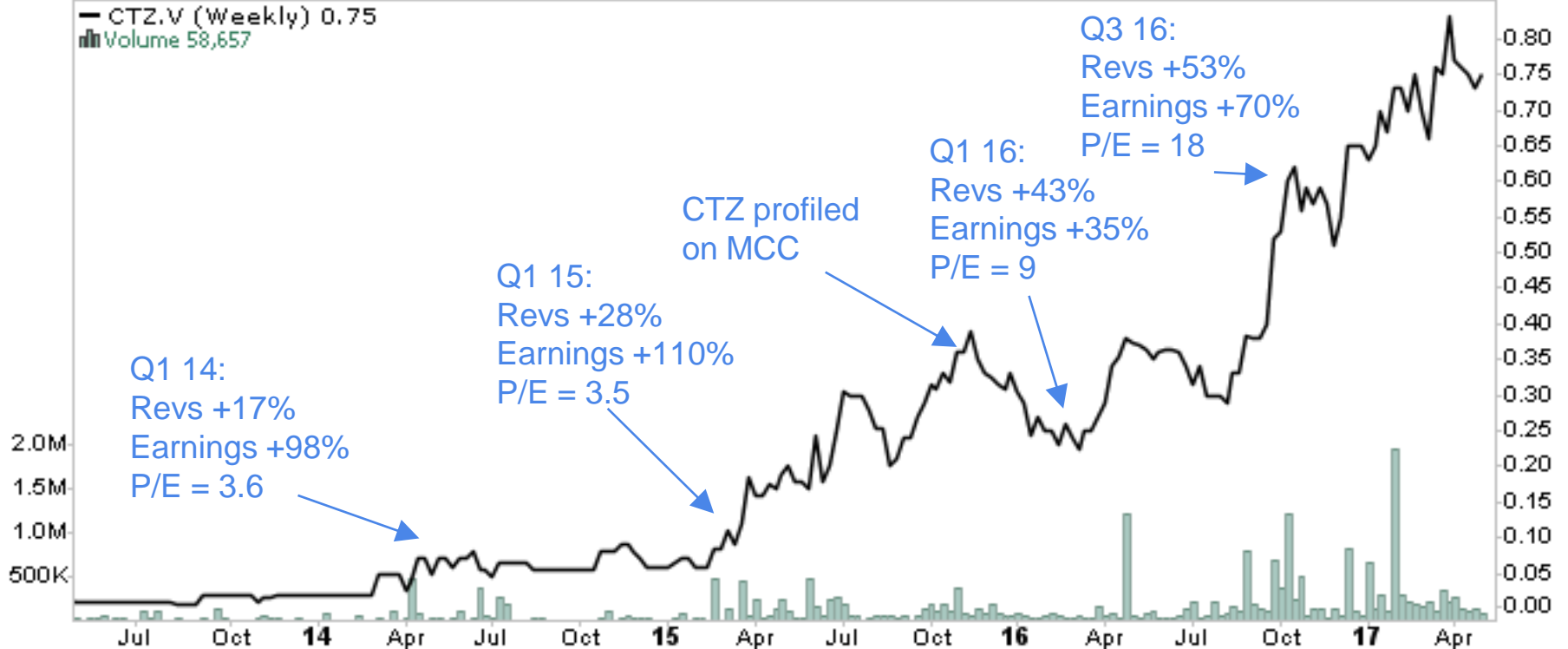
I. Pre-discovery -> II. Catalyst -> III. Retail

CTZ.V Cencotech Inc. TSXV

4 May 2017 12:33pm

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Open 0.73 High 0.76 Low 0.72 Last 0.75 Volume 58.7K Chg +0.02 (+2.74%) ▲





Thank You!