Opening

Welcome to the inaugural issue of our newsletter – Monthly Insights. Each month, I hope to bring you three to four articles the team feels are relevant and will be of interest.

1. Overview of a “coffee can” company (investment idea). For those that don’t know what a coffee can investment is, please ask.
2. Wealth/financial planning article.
3. Fun stuff – can be a recipe, interesting fact or anything we think would be good to share. Also, we are looking to our readers to contribute to this part.
4. Overview of the markets, what I’m thinking about the markets and how I’m suggesting clients position portfolios. Basically – my thoughts and opinions.

The Fountain Group - beliefs

We believe investors who employ a patient and discipline long-term investment philosophy outperform those with short-term horizons. We don’t make the costly mistake of confusing trading and chasing short-term performance with investing.

We are not speculators, but investors who recognize that building wealth is a long-term process. We are focused on protecting your wealth when it comes to managing your portfolios, and contributing to the growth of your families net worth.

We follow a value-driven investment approach supported by a rigorous fundamental research and analysis process. We search for well-managed companies with solid financial and competitive positions that have the potential to achieve strong investment returns over the long-term. We are collectors of excellent businesses.

Growing and protecting your personal wealth goes beyond just looking at your investments. For that reason, we believe a team approach to wealth management generates superior results. The Fountain Group has embraced the family office concept and offers its qualified client families access to individual specialists in tax, estate and retirement planning. Time is a valuable asset, and for that reason family office client families are able to take advantage of personal concierge services through Parker Lawrence – all value-added services, compliments of The Fountain Group.

Pedro Ribeiro, CIM, FCSI
Financial Advisor

A Coffee Can Stock – Bugs and Pests Will Always Be with Us

We highlight a pest control company that fits into our investment strategy. It’s a business with a great brand, strong management, and recurring revenue streams.

Your Wealth Matters – The Big Five Estate Concerns for Your Cottage

We list the big five estate concerns for cottage owners and how working with a financial advisor can reduce the stress of estate succession and planning.

Fun Stuff – Vegan Brownies

A delicious vegan brownie recipe that even meat lovers will find hard to pass up.
A Coffee Can Stock

Bugs and Pests Will Always Be with Us

Christopher De Sousa, B.A. (Econ)

A company that has popped up on our radar and meets our investment criteria is Rollins Inc (ROL).

Rollins is a provider of residential and commercial pest and termite control services in Canada and the U.S. It has aggressively expanded into international markets through strategic acquisitions and franchising, including Central America, South America, the Caribbean, the Middle East, Asia, the Mediterranean, Europe, Africa, Mexico, and Australia.

Rollins has a stable and predictable business model. The core business is ‘sticky’ with recurring demand for residential and commercial pest and termite treatments. According to data from Orkin, termites and similar pests cause an estimated $30 billion in crop and structural damage every year in the U.S. Homeowners can delay the purchase of furniture, but they can’t do the same with a rodent or termite infestation. Additionally, hotels and restaurants have too much at stake (e.g. brand and reputation) to defer pest control services even if their businesses are under financial distress.

Rollins provides customers a low-cost solution to what could potentially become an expensive problem. About 80% of the company’s revenues are recurring, as many residential and commercial customers need continuous treatments. We view the recurring revenue model as a big positive given it provides a measure of stability and visibility of long-term earnings and cash flow. Rollins has broadened its range of services to cover new markets such as bed bugs, mosquitoes, and animal control to capture new recurring incremental revenue streams.

We believe that Rollins is a well-run business led by managers that have consistently demonstrated discipline and value-creating capital allocation strategies. Revenues and net income have increased at an annual compounded growth rate of 6.2% and 11.2%, respectively, over the last decade. In fact, this was the 19th consecutive year of improved revenue and earnings growth. Organic growth and price increases have been driving financial performance, as well as strategic acquisitions and franchising. Rollins acquired 34 companies and established 23 new Orkin international franchises in 2016.

![Figure 1: Revenue growth](source)

![Figure 2: Net income growth](source)

We view Rollins’ track-record as an acquirer is best-in-class, with a history of seamlessly integrating acquisitions (the competition) into its core business model. Pest control is a highly fragmented market. Rollins mainly competes with smaller regional business, more so than larger players like ServiceMaster, Ecolab, and Rentokil. Rollins generates adequate free cash flow (after paying dividends and repurchasing shares) which has helped finance organic growth initiatives, and mergers and acquisitions.

Rollins raised its 2017 annual dividend by 15% to 46 cents per share. This is the 15th consecutive year in which it has hiked the dividend by a minimum of 12% or greater. Additionally, a special year-end dividend has been paid for the past five years. We feel Rollins makes for an attractive addition to the coffee can list as it exhibits: 1) good earnings stability and predictability, 2) a healthy balance sheet (no debt vs highly levered U.S. peers), 3) willingness to grow through acquisition and franchising, 4) a sustainable dividend policy, 5) high insider ownership, 6) competitive advantages (market leader, pricing power, brand recognition), 7) recurring demand and revenue, and 8) provides a service that will always be in need.

However, we are concerned about Rollins’ high valuation on a relative PE basis vs industry peers. And for this reason, we believe it is reasonable for us to exercise patience and take a wait and see approach.

![Figure 3: Historical dividends per share (2004 to 2016)](source)
Retirement is a time for rest, relaxation, and enjoyment—a celebration of life’s achievements and milestones.

As Canadians approach the age of retirement, the pressure of having an estate succession plan in place intensifies. This is often the time in which many contact their financial advisors and collaborate with their lawyers to set a plan in motion. However, having an estate plan in place at any point, not just as retirement approaches, is an essential component of a healthy financial plan. It is an unfortunate reality that an unexpected event leading to a death can occur at any time. Not only does having a legal will and succession plan in place provide piece of mind knowing assets are passed on as intended, but the cost savings involved by having an estate plan can have a huge impact on what beneficiaries will receive and the timeframe in which assets will be received. Probate costs, taxes, and fees due to an inefficient estate plan, or the absence of a plan entirely, can eat away at assets and add months, or even years in some cases, to the time in which assets are finally transferred.

There are many rules and regulations regarding the transfer of an estate. Certain areas of estate succession are more straightforward, such as the transferring of a principle residence from one spouse to another, while others are far more complex by comparison. One area that often leaves individuals scratching their heads is the division or transfer of property that is not a primary residence. Their cottage.

Some legal and financial experts believe that cottage succession planning can be one of the most emotional, complex, and conflict-ridden areas of estate planning. From deciding who will inherit to the taxable capital gains that occur upon ownership transfer of non-primary residences, it’s no surprise that Canadian cottage owners can feel overwhelmed at the prospect of solidifying an estate succession plan. Joint owners of property may not agree on whom to name in their will as beneficiaries, neglect to ask beneficiaries if they are open to inheriting (time, location and cost all factor into this choice), and may forget to consider the financial feasibility of their beneficiaries to afford the cost and upkeep of property. And it’s no secret that the value of cottage property in Ontario has skyrocketed over time, leaving quite a capital gain tax dilemma for many Canadian cottage beneficiaries.

Luckily, a good financial advisor can traverse this landscape. Using financial expertise and collaborating with clients, an advisor can reduce the cost and stress associated with estate succession planning. Advisors provides clients with clarity on their situation, suggestions as to the best course of action, and solutions to problems as they arise - allowing clients to rest easy knowing their estate plan is sound.

The team at The Fountain Group – Raymond James has identified the following five as some of the biggest concerns with estate succession planning relating to cottage property.

The Big Five

- Not inquiring if the intended beneficiaries wish to inherit property
- Naming multiple beneficiaries of the cottage and leaving them to handle division of the property, leading to the creation or exacerbation of conflicts within the family
- Forgetting on-going cottage costs and how or if the beneficiary(s) can afford them financially
- Not factoring in or properly addressing the capital tax gains on the non-primary residence
- Failing to utilize the principle residence exemption appropriately

Our team offers comprehensive financial planning to address concerns such as the complex issues that arise with estate succession planning, and highlight opportunities for financial growth and goal achievement that may otherwise be overlooked. We are dedicated to providing financial solutions that are aligned with each individual’s unique situation – taking into consideration our clients goals, lifestyle, and financial position and merging them with our financial expertise, insight, and resources to carefully craft a roadmap that provides clear direction and choice of destination for your financial journey.
Fun Stuff

Vegan Brownies Recipe

I admit, I’m a meat and potatoes type of guy. But over the last few years more and more friends and family members have become vegetarians or vegan. My youngest brother is a self-proclaimed pescatarian. Pesca is Portuguese for “to fish” and since he only eats fish and vegetables, he calls himself a pescatarian. He is also an avid fisherman so pescatarian is a great word to describe him.

It used to be easy cooking for family get togethers, but now we must prepare additional dishes for the vegetarians and vegans in the family—not that I mind. For dessert, we have it covered. Thanks to my sister-in-law these vegan brownies are always a great hit. For the recipe click here.

Pedro’s Overview

We’ve been busy these last few weeks communicating with most of you and repositioning portfolios. At the time of this writing the TSX is up 1.25% on the month and 2% year to date. South of the border the DOW and S&P500 have lagged for the month of March but have gained 4.6% and 5.6% year to date respectfully.

Collectively our clients have the greatest equity exposure to Apple, Brookfield Asset Management, Royal Bank, Dollarama and Pure Industrial Real Estate. All of which are positive for the month and year to date as I write this. Apple comes in at the top gaining 24% YTD and Dollarama surprised analysts on Thursday and jumped 11% in a single day.

However, cash is the single largest position amongst the majority of our clients as we have been taking profit, removing positions we no longer recommend and take a wait and see approach to the markets. In short – we are being cautious at this time.

Disclaimer:

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