



## CORPORATE UPDATE April 3, 2018

### AXIS AUTO FINANCE INC. (V-AXIS) \$0.70

**RATING: BUY**  
(unchanged)

**TARGET: \$1.70**  
(increased, previously \$1.40)

## Acquires Trend Financial!

- ▶ **EVENT:** The Company announced on March 6, 2018, that it had an agreement to acquire Trend Financial Corp. (Trend). The purchase price was \$29.3M, consisting of \$27.9M up front and \$1.4M in contingency payments on certain loss milestones. This equates to a 1.9x Price/Book ratio. The owners of Trend will receive \$20.9M in cash, \$5.4M in equity (6.95M shares and 6.6M warrants exercisable at \$0.70) and \$3.0M in convertible debentures. The transaction closed on April 2, 2018.
- ▶ **DISCUSSION:** This transaction was funded by a \$7.3M private placement of 10.44M subscription receipts, priced at \$0.70. Each receipt represents the right to receive one common share. This transaction will also be funded by \$17.55M of extendible convertible debentures, of which the owners of Trend will take the \$3.0M mentioned above. The debentures will have a 7.5% interest rate, convertible at \$0.95 and an initial maturity date of March 31, 2023.
- ▶ Trend Financial was established in 2012 and focused on sub-prime loans (D-credit). Headquartered in Toronto, Ontario, Trend is well established in the GTA and competed with AXIS. It has originated over \$125.0M in loans and had net loan receivables of \$54.0M. It has 112 employees.
- ▶ Trend Financial has \$54.0M in adjusted net finance receivables and \$44.0M in net debt. We estimate that it had revenue of \$20.0M (32% of receivables), interest paid of \$6.5M (12% of receivables), SG&A of \$10.3M (19% of receivables), losses of \$4.3M (8% of receivables) and adjusted loss of \$1.1M (-2% of receivables).
- ▶ Pro-forma, management believes they can bring costs down below these percentages of receivables. They are projecting adjusted net finance receivables of \$110.0M, revenue of \$39.6M (36%), interest paid of \$8.8M (8%), SG&A of \$11.0M (10%), losses of \$7.7M (7%) and adjusted earnings of \$12.1M (11%).
- ▶ **IMPACT: Positive.** The Company has become a sub-prime powerhouse in Ontario.
- ▶ **FORECAST/OUTLOOK:** Our FY2018 numbers will only have one quarter of the acquisition. Our FY2019 forecast has revenue of \$41.6M (previously \$25.1M) and adj. EBITDA of \$9.7M (previously \$5.7M).
- ▶ **VALUATION/RECOMMENDATION:** We are maintaining our **BUY** recommendation and **AVERAGE** risk rating, while increasing our **12-month target price to \$1.70** (previously \$1.40). We are maintaining our 4.0x P/B ratio and 5.5x (unchanged) EV/Sales multiple on our revised 2019 forecast.

**Bob Gibson, B.Comm, CFA**  
bgibson@pifinancial.com 416.883.9047

### Company Statistics

Risk:	ABOVE AVERAGE
Current Price	0.70
52 week High / Low:	\$0.85 / \$0.63
Shares Outstanding: ~	92.7M (basic) 107.2M (fd)
Market Capitalization:	\$65M
30 Day Av. Daily Volume:	16,504
Net Debt: ~	\$85.7M
Net Debt/Capital:	67%
CEO	Todd Hudson
Founder & Pres:	Ilya Troitschanski
CFO	Richard Lloyd

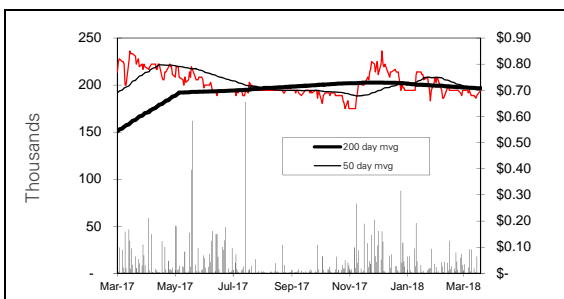
### Financial Summary

(FYE June 30)

(MM\$)	FY16	FY17	FY18E	FY19E
Total revenue	3.6	6.8	20.0	41.6
Adj. EBITDA	(1.7)	0.3	2.6	9.7
Book value	14.7	9.5	41.3	47.7
BVPS	\$0.29	\$0.15	\$0.45	\$0.51

#### Quarterly FY18

	Q1	Q2	Q3e	Q4e
Total revenue	1,803	1,821	4,995	9,198
Adj. EBITDA	925	997	1,799	5,243



**PI Financial Corp. has received compensation for acting as a fiscal agent for AXIS in the previous 12 months. See the disclosure section for additional details.**

### Corporate Information

Axis Auto Finance Inc. is an alternative lender servicing the Canadian used vehicle market. It has relationships with car dealerships throughout Ontario and the Maritimes.

**A Disclosure fact sheet is available on Pages 4-5 of this report.**



## Outlook

Axis also announced that Todd Hudson has been appointed as CEO. Mr. Hudson has over 25 years of experience in the alternative lending industry. His last position was COO of ECN Capital (T-ECN, not a covered company) and before that was EVP at Element Financial Corp. Ilja Troischanski will remain as President.

Axis has become one of the largest public non-prime automotive finance company in Canada, with combined finance receivables of \$110M. This increased size should result in faster and easier access to cheaper senior debt. We expect lower cost bank financing to be in place sometime in calendar 2018.

Axis acquired Cars on Credit on December 21, 2017. Management believes that there are significant operating synergies to be realized given the three businesses similar operations. See management's pro-forma operating metrics above.

Given the complexities of integrating three businesses, we have assumed that these synergies and cost savings will take several months to work through. In Q4/FY18, we've assumed there will be severance charges as well as expenses related to the physical consolidation of the businesses. Benefits are unlikely to be felt until FY19, where we've gradually lowered G&A and interest expenses.

After these two acquisitions are digested, we expect Axis to further roll up the non-prime auto finance field. Now that Axis has a dominant position in the GTA, an acquisition out west would make sense. Some of the other players in this space include: Autonum, AC autocapital, Baron Finance, Credit River Capital, First Access, NAC, Option, Source One and of course Carfinco.

Our FY2019 forecast has revenue of \$41.6M (previously \$25.1M) and adj. EBITDA of \$9.7M (previously \$5.7M). We are maintaining our **BUY** recommendation and **AVERAGE** risk rating, while increasing our **12-month target price to \$1.70** (previously \$1.40). We are maintaining our 4.0x P/B ratio and 5.5x (unchanged) EV/Sales multiple on our revised 2019 forecast.



Source: Trend Financial

## Financials / Models

INCOME STATEMENT											
(year end June 30th)	FY17	Q1/FY18	Q2/FY18	Q3/FY18E	Q4/FY18E	FY18E	Q1/FY19E	Q2/FY19E	Q3/FY19E	Q4/FY19E	FY19E
(000\$)											
Interest revenue	\$5,663	\$1,803	\$1,821	\$4,995	\$9,198	\$17,816	\$9,327	\$9,384	\$9,971	\$10,032	\$38,714
Fee and servicing income	\$1,176	\$357	\$366	\$732	\$732	\$2,186	\$732	\$732	\$732	\$732	\$2,927
<b>Total revenue</b>	<b>\$6,838</b>	<b>\$2,159</b>	<b>\$2,186</b>	<b>\$5,727</b>	<b>\$9,930</b>	<b>\$20,002</b>	<b>\$10,059</b>	<b>\$10,116</b>	<b>\$10,702</b>	<b>\$10,764</b>	<b>\$41,641</b>
Interest expense	\$2,051	\$622	\$655	\$1,442	\$2,380	\$5,099	\$2,430	\$2,427	\$1,948	\$1,903	\$8,708
Fee and servicing expense	\$227	\$82	\$80	\$110	\$110	\$381	\$146	\$146	\$146	\$146	\$585
Provision for credit losses	\$1,766	\$348	\$404	\$915	\$2,196	\$3,863	\$2,231	\$2,244	\$2,235	\$2,237	\$8,947
<b>Financial expenses</b>	<b>\$4,044</b>	<b>\$1,052</b>	<b>\$1,139</b>	<b>\$2,466</b>	<b>\$4,686</b>	<b>\$9,344</b>	<b>\$4,808</b>	<b>\$4,817</b>	<b>\$4,329</b>	<b>\$4,286</b>	<b>\$18,240</b>
General & Admin	\$2,454	\$766	\$824	\$1,571	\$4,941	\$8,102	\$4,184	\$3,366	\$3,089	\$3,109	\$13,748
Depreciation	\$188	\$36	\$37	\$74	\$148	\$294	\$148	\$148	\$148	\$148	\$591
Amortization	\$15	\$4	\$4	\$4	\$4	\$16	\$4	\$4	\$4	\$4	\$16
Stock based compensation	\$645	\$92	\$100	\$100	\$100	\$392	\$100	\$100	\$100	\$100	\$400
Professional fees	\$258	\$27	\$31	\$50	\$50	\$158	\$50	\$50	\$50	\$50	\$200
<b>Operating expenses</b>	<b>\$3,560</b>	<b>\$925</b>	<b>\$997</b>	<b>\$1,799</b>	<b>\$5,243</b>	<b>\$8,963</b>	<b>\$4,485</b>	<b>\$3,668</b>	<b>\$3,391</b>	<b>\$3,411</b>	<b>\$14,955</b>
Income Taxes (recovery)	\$31	\$113	\$84	\$365	\$0	\$563	\$192	\$408	\$745	\$767	\$2,111
Earnings	-\$797	\$69	-\$33	\$1,096	\$0	\$1,132	\$575	\$1,223	\$2,236	\$2,300	\$6,334
E.P.S.	-\$0.01	\$0.00	\$0.00	\$0.01	\$0.00	\$0.01	\$0.01	\$0.01	\$0.02	\$0.02	\$0.07

Company Name	Ticker	Price	EV	FY17E Sales	FY17E EV/Sales	FY16 Book Value	FY16 P/B	FY17E P/B
Axis Auto Finance Inc	axis.v	\$0.70	\$69	<b>\$6.84</b>	10.1x	\$0.07	10.2x	3.7x
goeasy Ltd	gsy.to	\$36.50	\$836	\$405.22	2.1x	\$14.71	2.5x	2.2x
Rifco Inc	rfc.v	\$1.09	\$227	\$33.50	6.8x	\$1.40	0.8x	0.7x
Mogo Finance Technology Inc	mogo.to	\$3.52	\$147	\$48.68	3.0x	\$0.31	11.3x	5.7x
Accord Financial Corp	acd.to	\$8.50	\$218	N/A	N/A	\$9.11	0.9x	N/A
Callidus Capital Corp	cbl.to	\$6.44	\$707	\$165.81	4.3x	\$8.76	0.7x	N/A
DealNet Capital Corp	dls.v	\$0.08	\$173	\$35.75	4.8x	\$0.20	0.4x	0.4x
<b>Average (ex Axis)</b>					<b>4.2x</b>		<b>1.1x</b>	<b>2.2x</b>

## Disclosure Fact Sheet

### Ratings

**BUY** : recommendation: stock is expected to appreciate from its current price level at least 10-20% in the next 12 months.

**NEUTRAL** : recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

**SELL** : recommendation: stock is expected to decline from its current price level at least 10-20% in the next 12 months.

**U/R** : Under Review

**N/R** : No Rating

**TENDER**: Investors are guided to tender to the terms of the takeover offer.

Analyst recommendations and targets are based on the stock's expected return over a 12-month period or may be based on the company achieving specific fundamental results. Under certain circumstances, and at the discretion of the analyst, a recommendation may be applied for a shorter time period. The basis for the variability in the expected percentage change for a recommendation, relates to the differences in the risk ratings applied to individual stocks. For instance stocks that are rated Speculative must be expected to appreciate at the high end of the range of 10-20% over a 12-month period.

### Price Volatility / Risk

**SPECULATIVE** : The Company has no established operating revenue, and/or balance sheet or cash flow concerns exist. Typically low public float or lack of liquidity exists. Rated for risk tolerant investors only.

**ABOVE AVERAGE** : Revenue and earnings predictability may not be established. Balance sheet or cash flow concerns may exist. Stock may exhibit low liquidity.

**AVERAGE** : Average revenue and earnings predictability has been established; no significant cash flow/balance sheet concerns are foreseeable over the next 12 months. Reasonable liquidity exists. Price Volatility/Risk analysis while broad based includes the risks associated with a company's balance sheet, variability of revenue or earnings, industry or sector risks, and liquidity risk.

### Analyst Certification

I, Bob Gibson, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this report. I am the research analyst primarily responsible for preparing this report.

### Research Disclosures

	Applicability
1) PI Financial Corp. and its affiliates' holdings in the subject company's securities, in aggregate exceeds 1% of each company's issued and outstanding securities.	1) No
2) The analyst(s) responsible for the report or recommendation on the subject company, a member of the research analyst's household, and associate of the research analyst, or any individual directly involved in the preparation of this report, have a financial interest in, or exercises investment discretion or control over, securities issued by the following companies.	2) No
3) PI Financial Corp. and/or its affiliates have received compensation for investment banking services for the subject company over the preceding 12-month period.	3) Yes
4) PI Financial Corp. and/or its affiliates expect to receive or intend to seek compensation for investment banking services from the subject company.	4) Yes
5) PI Financial Corp. and/or its affiliates have managed or co-managed a public offering of securities for the subject company in the past 12 months.	5) Yes
6) The following director(s), officer(s) or employee(s) of PI Financial Corp. is a director of the subject company in which PI provides research coverage.	6) No
7) A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.	7) No
8) PI Financial Corp. and/or its affiliates make a market in the securities of the subject company.	8) No
9) Company has partially funded previous analyst visits to its projects.	9) No
10) Additional disclosure:	10) No

### General Disclosure

The affiliates of PI Financial Corp. are PI Financial (US) Corp., PI Financial Services Corp., and PI Capital Corp.

Analysts are compensated through a combined base salary and bonus payout system. The bonus payout is amongst other factors determined by revenues generated directly or indirectly from various departments including Investment Banking. Evaluation is largely on an activity-based system that includes some of the following criteria: reports generated, timeliness, performance of recommendations, knowledge of industry, quality of research and investment guidance, client feedback. Analysts and all other Research staff are not directly compensated for specific Investment Banking transactions. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PI Financial Corp.

PI Financial Corp.'s policies and procedures regarding dissemination of research, and stock rating and target changes can be reviewed on our corporate website at [www.pifinancial.com](http://www.pifinancial.com) (Research: Research and Conflict Disclosure).

The attached summarizes PI's analysts review of the material operations of the attached company(s).

Analyst	Company	Type of Review	Operations / Project	Date
Bob Gibson	Axis Auto Finance Inc.	Management Call	All	3/18

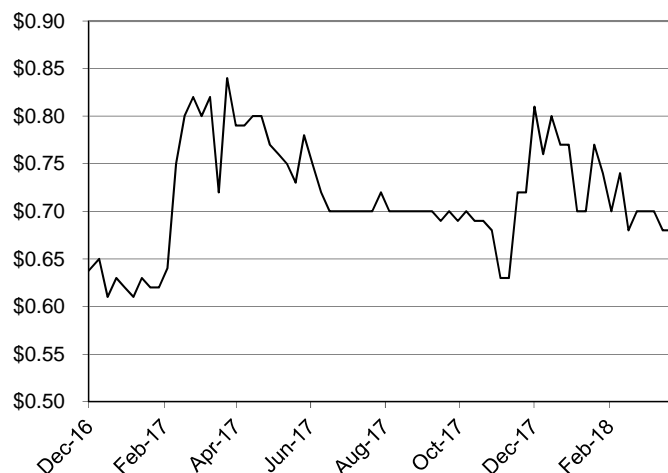
## Disclosure to US Residents

PI Financial (US) Corp. is a U.S. registered broker-dealer and subsidiary of PI Financial Corp. PI Financial (US) Corp. accepts responsibility for the contents of this research report, subject to the terms and limitations as set out above. U.S. residents seeking to effect a transaction in any security discussed herein should contact PI Financial (US) Corp. directly.

Recommendations	Number of Recommendations	Percentage
BUY	62	89.86%
NEUTRAL	4	5.80%
SELL	0	0.00%
TENDER	3	4.35%
U/R	0	0.00%
N/R	0	0.00%
TOTAL	69	

## Stock Rating and Target Changes

For reports that cover more than six subject companies, the reader is referred to our corporate web site for information regarding stock ratings and target changes. [www.pifinancial.com](http://www.pifinancial.com) (Research: Research and Conflict Disclosure).



### Axis Auto Finance Inc. (Initiated Coverage Dec 6/17)

Date	Rating Change	Target Change	Share Price
Apr 3/18	Buy	\$1.40 to \$1.70	\$0.70
Jan 22/18	Buy	\$1.15 to \$1.40	\$0.70
Dec 6/17	Buy	\$1.15	\$0.75

## Capital Markets Group

### Managing Director, SVP Capital Markets

**Jeremiah Katz**  
604.664.2916

### Managing Director, Head of Research

**Bob Gibson**, B.Comm, CFA  
416.883.9047

### Managing Director, Head of Institutional Sales & Trading

**Jim Danis**, B.Sc. (Hons.)  
604.718.7551

### Managing Director, Head of Investment Banking

**Dan Barnholden**, MBA  
604.664.3638

#### Research Analysts

##### Consumer Products

Bob Gibson, B.Comm, CFA  
416.883.9047

##### Mining

Chris Thompson, P. Geo  
Head of Mining Research  
604.718.7549

Philip Ker, PGeo, MBA  
647.789.2407

Brian Szeto, MA, CFA  
647.789.2415

Gary Sidhu, B.Sc., MBA  
604.718.7544

##### Special Situations

Jason Zandberg, B.BA, CFA  
604.718.7541

##### Industrials

Devin Schilling, CFA  
604.718.7557

##### Technology

David Kwan, CFA  
604.718.7528

##### Research Associates

Neehal Upadhyaya, BAFM, MAcc  
416.775.5107

Justin Stevens, EIT  
604.718.7542

### Marketing and Publishing

Michelle Kwok  
604.664.2724

#### Institutional Sales

##### Vancouver

Jim Danis, B.Sc. (Hons.)  
604.718.7551

Jeremiah Katz  
604.664.2916

David Goguen, CFA  
604.664.2963

Doug Melton, FCSI  
604.718.7532

Brodie Dunlop  
604.718.7533

##### Toronto

Jose Estevez, CFA  
416.883.9042

John McBride  
416.883.9045

#### Institutional Trading

##### Vancouver

Darren Ricci  
604.664.2998 or 800.667.6124 (US)  
or 877.682.7233 (CDN)

Adam Dell, CFA  
604.718.7517 or 888.525.8811

##### Toronto

Stephen Pynn  
416.883.9048

#### Investment Banking

##### Mining

Dan Barnholden, MBA  
604.664.3638

Russell Mills, CFA, MFin  
647.789.2405

Tim Graham, B.Comm  
604.664.3656

Jim Locke, CFA  
604.664.2670

##### Technology

Blake Corbet, BA  
604.664.2967

Joel Kitsul, CFA  
604.718.7510

##### Diversified Industries

Grant Hughes, CFA, MFin  
647.789.2417

##### Equity Capital Markets/Syndication

Tim Johnston  
416.775.5112

Trina Wang  
604.664.3637

##### Investment Banking Analyst

Cameron Dowle  
604.718.7516

## PI Financial Corp.

[www.pifinancial.com](http://www.pifinancial.com)

### Head Office

Suite 1900, 666 Burrard Street  
Vancouver, BC V6C 3N1  
ph: 604.664.2900 fx: 604.664.2666

### Toronto Office

Suite 3401, 40 King Street West  
Toronto, ON M5H 3Y2  
ph: 416.883.9040 fx: 647.789.2401

### Calgary Office

Suite 1560, 300 5<sup>th</sup> Avenue SW  
Calgary, AB T2P 3C4  
ph: 403.543.2900 fx: 403.543.2800

For a complete list of branch office locations and contact information, please go to [www.pifinancialcorp.com](http://www.pifinancialcorp.com)

Participants of all Canadian Marketplaces. Members: Investment Industry Regulatory Organization of Canada, Canadian Investor Protection Fund and AdvantageBC International Business Centre - Vancouver. Estimates and projections contained herein are our own and are based on assumptions which we believe to be reasonable. Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed either as to accuracy or completeness, nor in providing it does PI Financial Corp. assume any responsibility or liability. This information is given as of the date appearing on this report, and PI Financial Corp. assumes no obligation to update the information or advise on further developments relating to securities. PI Financial Corp. and its affiliates, as well as their respective partners, directors, shareholders, and employees may have a position in the securities mentioned herein and may make purchases and/or sales from time to time. PI Financial Corp. may act, or may have acted in the past, as a financial advisor, fiscal agent or underwriter for certain of the companies mentioned herein and may receive, or may have received, a remuneration for their services from those companies. This report is not to be construed as an offer to sell, or the solicitation of an offer to buy, securities and is intended for distribution only in those jurisdictions where PI Financial Corp. is registered as an advisor or a dealer in securities. Any distribution or dissemination of this report in any other jurisdiction is strictly prohibited.

**For further disclosure information, reader is referred to the disclosure section of our website.**