

# WHITE FALCON

## CAPITAL MANAGEMENT LTD.

April 18, 2023

**RE: Q1 2023 Partner update letter**

Dear Partners,

While individual client returns may differ based on their inception dates, consolidated performance of all accounts for the period ending March 31, 2023 is as follows:

	Q1 2023	2022	ITD*
<b>White Falcon (net of fees)</b>	<b>12.36%</b>	<b>-9.26%</b>	<b>0.36%</b>
S&P 500 (CAD)	7.17%	-12.59%	-3.28%
MSCI All Country (CAD)	5.78%	-11.86%	-4.48%
S&P TSX	4.56%	-5.76%	-2.01%

\*Inception date is Nov 8, 2021

The portfolio saw strong performance in the first quarter from technology and precious metals exposure. We also benefited from the takeover of Diversey Holdings at a 90% premium to our cost base. We took the proceeds from Diversey and invested it across the portfolio. There were no other changes to the portfolio in the first quarter.

*"You make most of your money in a bear market, you just don't realize it at the time"*

- Shelby Davis

The portfolio is now up 28.7% since 2Q 2022 (06/30) which was the peak of the panic in the stock market. Our call for capital at that time has been validated. We do not say this to gloat, but to reiterate that the best returns are had after market volatility when one has an ability to enhance the quality and valuation of the portfolio.

While we show other indices above, it is important to reiterate that White Falcon does not manage against any index. Our portfolio is an esoteric group of businesses where each company is underwritten based on expected returns and where risk is managed by buying good quality and growing businesses run by competent management teams.

In the first quarter, equity markets rallied despite a severe banking crisis where a few regional US Banks had to be taken over by the FDIC. While the authorities have managed to limit the

contagion, we reckon that there will be ongoing stress in the banking system due to the large differential between money market rates and deposit rates. The equity market is not worried as it is already one step ahead and believes that this will severely constrain the FED's ability to raise rates much further. The price action in bonds and gold since the banking crises is a further testament of the FED's limitation. Psychologist Daniel Kahneman in his book *Thinking, Fast and Slow* argues that human beings have two modes of thought: 'System 1' thinking which is fast, instinctive and emotional; and 'System 2' thinking which is slower, more deliberative, and more logical. With constant FED intervention in the market over the last 30 years, investors now use their 'System 2' thinking, where, instead of panicking, they focus on the positives that can come out of the turbulence.

Coming back to the portfolio, we were heartened to see **Diversey Holdings** acquired for a 95% premium to our cost base. We started accumulating Diversey in November 2022 and had an average cost base of \$4.35 per share. We also wrote about Diversey Holdings in our [Q4 2022 Partner update letter](#). As we argued in our research report, the stock should have been worth \$9-12 per share in 3-4 years. The stock was acquired for \$8.40 per share in February 2023 giving us a tremendous IRR on the position.

In our short history, Diversey Holdings is the second portfolio company that has been acquired. Previously, **Maxar Technologies** received a bid at a 120% premium to our cost base. Since the end of the quarter, **Teck Resources**, another portfolio company, has been in the news as Glencore has made a bid for it at a premium. Stay tuned!

*"For some reason people take their cues from price action rather than from values. Price is what you pay. Value is what you get"*

— Warren Buffett

We underwrite equities when we believe that the stock can double in 3-5 years. We believe this M&A activity validates our research process and showcases the undervaluation in the portfolio. The 'value' we are getting today and that we should be getting in the future is likely to be much higher than that reflected in the current quoted stock 'prices'.

In February 2023, I sat down with Divya Narendra of Sum Zero for an interview. The interview can be watched on [YouTube](#). In the interview, we describe our value investing philosophy and talk about our investments in EPAM Systems and Diversey Holdings (timing!).

Importantly, we also talked about how we incorporate growth businesses within our value investing framework. To further that conversation, in the appendix to this letter, we highlight such a company - **Docebo (DCBO)**. Docebo is a software as a service (SaaS) business that operates in the learning and training vertical. The business has grown to \$153 mn in ARR in 2022 from \$10 mn in ARR in 2016 with a cumulative net loss (investment) of \$12 mn. This is incredibly efficient! While it is classified as a 'profitless technology' stock, we will argue that it was, in fact, a *value stock* when we initiated a position in October 2022.

To further illustrate this point, let's assume we have the option of investing in two different companies - Growth Stock A and Value Stock B. The growth stock is a profitless technology stock that is investing in the business through its income statement - primarily with investments in Research & Development (R&D) and Sales & Marketing (S&M). The value stock is a traditional business but it is also currently investing in growth by making capital investments through its cash flow statement.

*“All intelligent investing is value investing – acquiring more than you are paying for. You must value the business in order to value the stock.”*

— Charlie Munger

Assuming similar growth profiles and capital efficiency, we believe that there is no difference between these two investments; and if they should or shouldn't be added to the portfolio would solely depend on the business quality and valuation - not how these businesses are classified or which indices include or exclude these businesses.

Growth stock A		Value Stock B	
Revenues	\$100	Revenue	\$100
Gross Profit	\$80	Gross Profit	\$50
EBITDA	-\$5	EBITDA	\$15
Capex	-\$2	Capex	-\$20
Free Cash Flow	-\$7	Free Cash Flow	-\$5

In DobeCo's case, we bought the stock at a 11-13x multiple of 'look through' operating earnings. These earnings are derived after normalizing the S&M spend which is equivalent to capital expenditures for software businesses. The catch is that normalizing S&M expenses will lower future revenue growth rate. For instance, if DobeCo were to cut its S&M spend in half, revenue growth will likely decline from the current rate of 30-35% to 10-15% per year. We reckon that a 11-13x multiple is very cheap for a business with sticky customers, recurring revenues, 10-15% revenue growth, 80% gross margins and low capital intensity.

The other top 5 positions remain the same - Precious Metals royalty basket, Converge, Nu Holdings, AMD, and Amazon.com.

Last quarter we added **Advanced Micro Devices (AMD)** to the portfolio at 18x earnings and quickly made it into a top 5 position. At that time, Mr. Market was worried about earnings revisions for semiconductor stocks. In Q1 2023, it has been one of our best performing positions with the stock up 50%! In just three months, the market realized that Artificial Intelligence (AI) and related technologies require a lot of semiconductors. Mr. Market really is manic depressive but this volatility can give the enterprising investor just enough of a window to pick stocks with attractive risk rewards.

Our hedge in precious metals has been further validated this quarter. Gold started taking off after the Silicon Valley Bank (SVB) crises and our precious metals royalty stocks followed suit. While government bonds used to act as a ballast in a balanced portfolio, we believe precious metals are better suited to perform that function in a world where there are no limits to the supply of these bonds.

Earnings for portfolio companies were mixed. Technology companies have been cutting costs and showcasing the operating leverage inherent in the business. We also know that markets are forward looking and discount future conditions. Stocks are reacting positively to mixed earnings

as the market is looking out to higher earnings due to cost cutting and a low discount rate with the fall in bond yields. Importantly, as discussed in other letters throughout this year, our base case is that the higher interests are not an anathema to technology stocks and that they should do well over time due to their structural growth and increasing free cash flow profiles.

We started White Falcon with the belief that a simple indexation strategy will not be enough and a nimble and opportunistic investment manager is needed to navigate this market environment. We are even more convinced of this view than when we started White Falcon. This bear market has set us up well for the future by giving us a tremendous opportunity to better the quality and valuation of the portfolio.

### **Personal note**

The last few months have been a difficult time for my family. My father passed away on the 5th of February 2023. He was a good man who lived a full life and died peacefully in his bed. He came from a very humble background but through sheer grit, resourcefulness and risk-taking, he created a wonderful life for himself. He used his material wealth not to buy 'possessions' but to buy 'time' and to live his life on his own terms. He used this time to build meaningful relationships with his friends, spend time with his family, play golf, and travel. He was my first hero and mentor and I will miss him.

I remain forever grateful to all the partners at White Falcon. Please feel free to forward this to anyone who you think will find it interesting.

Also, please feel free to get in touch with me for any questions or feedback that you may have.

With gratitude,



Balkar Sivia, CFA  
*Founder and Portfolio Manager*  
White Falcon Capital Management Ltd.

# WHITE FALCON

## CAPITAL MANAGEMENT LTD.

### INVESTMENT PHILOSOPHY

White Falcon's mission is to compound capital on a risk adjusted basis with a value investing philosophy.

We believe in active stock picking and draw inspiration from the teachings of Warren Buffett and Charlie Munger.

Our process is to take advantage of volatility and opportunistically invest in good quality and growing businesses that have durable competitive advantages and are run by aligned management teams.

With our research intensive strategy and a mandate to invest across geographies and sectors, we are focused on generating absolute returns.

We invest with a margin of safety. We are opportunistic and price sensitive buyers of securities.

### NO MANAGEMENT FEE

Incentive fee of 15% on profits, with a high water mark - inspired by Warren Buffett's partnership structure

### ALIGNED

All general partner capital invested alongside limited partners capital

### EXPERIENCED

Balkar has 15 years of investment management experience. He was a Vice President at Burgundy Asset Management and an Analyst at McElvaine Investment Management. He is a CFA charterholder and has an engineering degree from UBC.

### SIMPLE STRUCTURE

Separately managed accounts (SMA) with Interactive Brokers. Full transparency on portfolio and balances. No leverage. Minimum investment of \$50,000.

### DIGITAL ONBOARDING

Three step onboarding starts with filling out the 'Invest' form on our website

### INVEST WITH US

<https://www.whitefalconcap.com/invest>

416-770-6131

[bsivia@whitefalconcap.com](mailto:bsivia@whitefalconcap.com)

## Docebo (DCBO) Research Report

*"In our opinion, the two approaches are joined at the hip: Growth is always a component in the calculation of value."*

- Warren Buffett



koymfin

### Executive Summary

- Docebo has #1 market share in the Learning Management Solutions (LMS) software category
- Docebo is an innovative company that has an extensive product portfolio in the learning management category that is full featured but easy to use. In its initial years, Docebo grew through in-bound inquiries and without investments in S&M.
- The Software as a Service (SaaS) product that Docebo sells is sticky and produces recurring revenues for the company. Once a customer builds training materials with Docebo software, it is difficult to switch to another provider.
- Docebo further entrenches itself in the customer's workflow by making it easy to install, integrate and operate. Furthermore, the social and AI aspects of the product are tremendously value added for customers.
- Throughout its history, Docebo efficiency on its S&M spend is high which validates the unit economics of the business. Until 2019, most growth was driven by in-bound calls.
- Docebo is led by Claudio Erba who has a passion for learning and funded by Intercap Equity which has a successful track record investing in technology companies.
- White Falcon bought the stock for 10-13x look through operating earnings when the market was worried about all technology stocks. We believe that the business can grow 30% plus and produce EBITDA margins of 20-25% in maturity.

**Introduction**

Docebo (Latin for ‘I will teach”) was founded in 2005 by Claudio Erba in Italy as a learning management software (LMS) company that develops and provides a learning management platform for training both internal and external workforces, partners and customers. Docebo was incorporated in 2016 in Canada as Docebo Canada Inc. after receiving a significant investment from Intercap Capital, a family office based in Toronto and Klass Capital, a PE firm focused on software, also based in Toronto.

Docebo completed its Canadian IPO in October 2019 raising \$75 mn at C\$16 per share. This was followed up by the US IPO in December 2020, at a price of \$48.00 per share for gross proceeds of \$165.6 million. It is important to note that Docebo has ‘burned’ about \$12 mn in cash since its incorporation in Canada in 2016 so it has been fairly conservative with capital. Intercap currently owns 41% (down from ~60%) and Klass Capital owns 1.83% (down from 11%) as they have sold down their stakes over the last two years. Cat Rock Capital, a Tiger grandcub has taken a substantial 14.67% stake in Docebo over the past year making it the top position in the fund.



Source: Docebo

Docebo provides an easy-to-use and highly configurable learning platform with the end-to-end capabilities and functionality needed to train both internal and external workforces, partners and customers. Docebo also operates a content marketplace where companies can buy courses covering broad subjects like digital marketing, leadership, or sales. The social aspects of the software differentiate it from run of the mill LMS where administrators can ‘gamify’ learning and employees can contribute content to the platform. With incorporation of AI, when a skills gap is identified, targeted recommendations can be provided in a more personalized format than may be possible without the use of AI - yielding more effective and efficient learning outcomes overall. In addition to above, Docebo can be white-labeled and seamlessly integrated into the enterprise’s software stack for ease of use.

Management and other sources believe that this market will be worth ~\$29.9bn by 2025 from \$9.5 bn in 2019 growing at a CAGR of 21%. The market is changing where new learning functionalities like social learning, learning on the job, and communities designed to drive organizational change are increasingly becoming important.

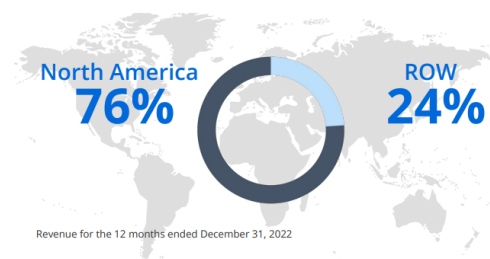
Docebo has executed and proved their credibility by winning major clientele such as Uber, Amazon AWS Cloud, Walmart, Chipotle and over 3,000+ businesses across North America and Europe. Here is the customer profile:



# 3,394

customers across a variety of geographies and industries<sup>1</sup>

(1) As of December 31, 2022.



Source: Docebo

## Product

The software ensures efficient online course delivery and the tracking of learning progress with advanced reporting tools and analytics.

The main platforms include:

- Docebo Learn - This is their foundational module, it helps learning administrators like HR centralize, organize and distribute learning content, track certifications and measure results with customer analytics.
- Docebo Discover, Coach & Share - It provides learners with access to social learning by encouraging the sharing of knowledge through formal, social, interactive and experiential learning across an organization.
- Docebo Extended Enterprises - It allows businesses to manage multiple portals for different audiences or organizations with their own administration, branding and authentication.
- Docebo Content - Marketplace for external content so that client can have one vendor
- Docebo Connect - Seamlessly connect Docebo in client's softwares stack



In this software vertical, Docebo may have a number of possible **competitive advantages**:

- **Switching Costs** - Docebo sells to mid-market and enterprise customers. Typically these contracts are for multi-year periods and require integration. These customers will become accustomed to their learning management system software. Switching platforms, moving courses, and inputting employee, customer, and partner information will all be tedious work and the potential costs may outweigh any potential savings.
- **Social collaboration elements** - Docebo's platform is built around the notion that 70% of learning is in the form of social learning rather than solely instructor-led learning. Hence, the platform makes it easy to create, upload & share with peers. They make it enticing with rewards and relative ranking amongst peers. They allow the collaboration to extend to external organizations which is unique.
  - User generated content - Users are empowered and feel they can contribute to the platform's success by uploading content. This helps in retaining and spreading institutional knowledge.
- **AI** - Docebo is also very focused on using AI and machine learning algorithms to improve the recommendations on the application, so it is easier for users to find content that caters to them.
- **Multiple modules and integration:** Docebo Content gives the customer an opportunity to not have to establish another contract with another content vendor, and have a single relationship with Docebo. Docebo Connect gives the client an ability to integrate the LMS software with multiple systems without the hassle of custom integrations. For example, in Q1 2022 earnings call mgmt mentioned that, "Docebo Connect is being deployed by one of the largest cryptocurrency exchanges in the United States. Our solution will enable automation of their learning processes that touch other applications in the data software stack, while getting learning data where it needs to be, all at scale".



Source: Docebo

A customer commenting on choosing Docebo,

“ I think it's the design flexibility that we have. It's super easy to set everything up like you want. Others said you can make everything look fairly unique and white-labeled for yourself. I think that is what I'm really happy with. I don't know, the gamification feature is pretty good. The reporting is very exhaustive as well, so it's really cool. I really like their support also. It's quick. They're quick to respond, quick to fix even more difficult issues. These are some of the things I like the best. Hard for me to say which one is the very best.”

-Samsung - Senior Training Manager

The same customer on social and gamification of learning,

“We give rewards for completing training fields as an encouragement, as an incentive for people to actually go and look for new training materials. We also have some small rewards also for sharing your own content if you find lots of content online that are public and sharing.”

-Samsung - Senior Training Manager

Like many leading companies, Docebo has the potential to be one of the leading companies in this growing industry. The Company faces direct and/or indirect competition from a variety of players, including:

- Legacy corporate e-learning service providers such as Cornerstone On Demand, SAP SuccessFactors and SumTotal Systems (owned by Skillsoft);
- Corporate e-learning service providers such as SAP Litmos, Absorb LMS, MindTickle, Lessonly and SkillJar;
  - These companies compete directly with Docebo
- Lower priced solutions such as 360Learning, TalentLMS, Totara and LearnUpon;
- Legacy training vendors such as Global Knowledge, General Assembly and New Horizons;
- Individual-focused e-learning services such as LinkedIn Learning, Udemy, Udacity and Pluralsight;

An executive a a competitor when asked who he respected in the industry:

“I'd say Docebo and Skilljar. Docebo, because they have been doing it for a long time very well, they have evolved with the market and they can serve a broad range of use cases in a way that doesn't meaningfully deflate their ability to serve others. Skilljar, because they're a pure play for customer training and they do it really well, particularly in marketing. In a sub100-person size when they first really started getting going, they were able to establish themselves as one of the leading names. They were punching a bit above their weight class there.”

- Executive, Thought Industries

While there are a lot of ‘competitors’, we observe in the software industry that a better ‘mousetrap’ can grow significantly faster than legacy solutions especially as it solves pain points for both administrators as well as learners. It is also important to note that for many competitors

above LMS is an ‘add-on’ and not a core. LMS can and should be relevant to any industry. In this regard, Docebo’s software is configurable to fit any industry and need. If a software solution is easy to install, easy to upload and integrate and then easy to administer and adopt, it can grow significantly faster than the second best solution. We believe that this is the case with Docebo.

It is remarkable that Docebo has grown from \$10 mn ARR in 2016 to \$143 mn in ARR in 2022 even with all this competition. **Docebo has not done this by ‘buying’ revenues - we know that they have ‘burned’ a cumulative \$12 mn since their IPO.** Importantly, a large part of their customer segment is the mid-market segment which is notoriously difficult to penetrate due to low ticket sizes and a large marketing effort. Docebo has been able to penetrate this sector mostly led by its superior product where **80% of lead generation came from in-bound calls.** The return on Docebo’s S&M is remarkably high and we estimate that every \$1 spent in S&M produces \$1.2 mn revenues. Management has also mentioned that 70% of their wins are coming from replacing a legacy player. We believe this speaks directly to the quality of the solution offered by Docebo.

The other aspect that has helped the company is acknowledging its sub-par scale in initial years and sourcing partners. Customers can white-label Docebo’s solution. Docebo’s first OEM partner, HR software provider Ceridian, took nearly two years to ramp up, but is now one of the company’s largest customers by ARR (~10%). With several new partnerships signed over recent quarters and an expanding pipeline with parties from beyond traditional HR (e.g. managed services, sales enablement, and talent management), we see potential for meaningful upside to street expectations as Docebo’s partner channel continues to scale, allowing the company to tap into new markets and drive more profitable growth in the years ahead.

Revenue growth at Docebo has both been led by the number of customers as well as the growth in average deal size (ACV) as can be seen below:

	2018	2019	2020	2021	2022
Subscription Rev	23,881	37,283	57,415	95,936	131,597
Growth %		56.12%	54.00%	67.09%	37.17%
Professional Rev	3,193	4,160	5,502	8,306	11,315
Growth %		30.28%	32.26%	50.96%	36.23%
Customers	1,400	1,700	2,200	2,800	3,400
Additions	200	300	500	600	600
Avg Contract Value (,000)	21,000	27,000	34,000	42,000	46,000
Growth	31.25%	28.57%	25.93%	23.53%	9.52%
ARR	29,400	45,900	74,800	117,600	153,400

The growth at the company will be a result of adding more customers **and** adding bigger customers. This trend took a bit of a hiatus in Q2 2022. The following from the earnings transcripts give a good picture.

Q4 2021 Earnings Transcript: “We continue to see traction from enterprise customers as Docebo is being selected for more complex, multiple-use case deployments. This is reflected in the ACV for new logos and cross-sells added in the fourth quarter, which was close to \$60,000. In addition, approximately 45% of the ARR generated from new and cross-sell logos this quarter came from deals valued at over \$100,000.”

Q1 2022 Earnings Transcript: “New and cross star logos with ARR greater than \$100,000 represented approximately 50% of the net new ARR, underscoring continued momentum with larger commercial and enterprise customers, and we take confidence in the fact that our pipeline continues to be strong. ACV for new customers in the quarter was approximately \$60,000 driven by our continued shift in mixed to enterprise-size deals and adding incremental products.”

Q2 2022 Earnings Transcript: “ACV for new customers in the quarter was approximately \$45,000. New and cross sell logos with ARR greater than \$100,000 represented approximately 30% of the net new ARR. ACV from new customers declined sequentially as the result of the lower contribution from deals valued over \$100,000. This is a direct result of the elongation of the enterprise sales cycle. The reason why we’re seeing that happen in deals, generally speaking, deals above \$100,000 and/or you can associate that with our more enterprise type customer is we’re seeing our companies changing or making the buying process more complex within their own environment. Among those changes is the inclusion or introduction of a C suite that wasn’t prior necessarily involved in certain spend thresholds at all levels.”

All other commentary from management from a market demand perspective remains robust. As an example, the CEO has mentioned multiple times that the market for **external training is twice the size of internal training** and that they have only scratched the surface here. Further, more and more customers are deploying Docebo for multiple use cases such as onboarding, enablement, professional education, compliance, to name a few. They disclose that in Q4 2021 , 61% of revenues and 80% of use cases are hybrid - meaning covering more than one department.

Customer Mix:

- Commercial < 50K ARR
- Mid-market >50K<100K ARR
- Enterprise > 100K ARR

The company discloses that more than 80% of ARR is multiple use cases which means that these customers are likely to be sticker.

In order to keep growing at a fast pace Docebo is embarking on a two pronged strategy:

- Hired a CMO and other senior personnel in the sales division in order to properly cover the enterprise division. The whole focus of the management is in penetrating and growing the enterprise division. Not only is it good business but it is also needed at this point in time due to base effects.
- Geographical expansion starting with Europe. Docebo indexes heavily to the US; which leaves a lot of space to grow revenues from ROW. This ROW revenue comes with extra complexity (language etc.) but Dacebo seems to be learning and adapting.

## Financials and valuation

Docebo trades in both US and Canada but reports in USD. We'll use USD financials here:

	2018	2019	2020	2021	2022
Total Revenue	27,074	41,443	62,917	104,242	142,912
Growth %		53.07%	51.82%	65.68%	37.10%
Total COGS	5,650	8,261	11,539	20,786	28,178
Gross Profit	21,424	33,182	51,378	83,456	114,734
<i>Gross Profit Margin %</i>	79.13%	80.07%	81.66%	80.06%	80.28%
R&D	6,612	8,579	13,384	20,363	24,778
<i>Margin %</i>	24.42%	20.70%	21.27%	19.53%	17.34%
S&M	11,630	16,266	24,020	43,346	59,654
<i>Margin %</i>	42.96%	39.25%	38.18%	41.58%	41.74%
G&A	10,940	15,872	16,998	28,443	30,183
<i>Margin %</i>	40.41%	38.30%	27.02%	27.29%	21.12%
SBC	253	659	1,619	2,261	4,713
<i>Margin %</i>	0.93%	1.59%	2.57%	2.17%	3.30%
FX loss/gain	775	922	1,775	473	-11,112
Depreciation	169	693	1,209	2,019	2,333
<i>Margin %</i>	0.62%	1.67%	1.92%	1.94%	1.63%
Total Opex	30,379	42,991	59,005	96,905	110,549
<b>EBIT</b>	<b>(8,955)</b>	<b>(9,809)</b>	<b>(7,627)</b>	<b>(13,449)</b>	<b>4,185</b>
<i>EBIT Margin</i>	-33.08%	-23.67%	-12.12%	-12.90%	2.93%

We can see the operating leverage in almost all cost items. The G&A expenses bumped up in 2021 due to US listing expenses. The EBIT in 2022 was affected by very high FX, absent which the EBIT would have been \$11 mn higher! In our call with the CFO he mentioned that there should be continuous operating leverage on both G&A and R&D but less so on S&M as management will focus on investing in the business. In the Q4 call, the CFO mentioned that there is no reason why G&A cannot go to 10-12% of revenues. This is a 10% bump in EBIT margin!

	2018	2019	2020	2021	2022	2023	2024	2025
Customers	1,400	1,700	2,200	2,800	3,400	3,950	4,450	4,900
Avg Contract Value (,000)	21,000	27,000	34,000	42,000	46,000	51,000	56,000	60,500
<i>Growth</i>	31.25%	28.57%	25.93%	23.53%	9.52%	10.87%	9.80%	8.04%
ARR	29,400	45,900	74,800	117,600	156,400	201,450	249,200	296,450
<i>Growth</i>		56.12%	62.96%	57.22%	32.99%	28.80%	23.70%	18.96%

When we initiated our position, its valuation looked as follows:

(\$ USD millions)		
Stock Price	27	
Shares Out	33	
Mcap	891	
Cash	211	
EV	680	
EV/S 2022	4.76	
EV/S 2023	3.58	
EV/S 2024	2.79	
Look Through EV/EBITDA	@20% EBITDA	@25% EBITDA
EV/EBITDA 2022	23.79	19.03
EV/EBITDA 2023	17.89	14.32
EV/EBITDA 2024	13.93	11.15
EV/EBITDA 2025	11.43	9.14

We reckon that these valuation multiples were not high given the quality and growth profile of the business.

Docebo is also good at share based dilution because perhaps a large part of the float is held by insiders or controlling shareholders. Docebo is 41% owned by InterCap which has the same shares as everyone else but a shareholder agreement that allows them to appoint directors in proportion of their shareholding. The founder and CEO, Claudio Erba holds about 4% in stock.

The company has close to \$260 mn net cash. One of the things we have not seen here is any buybacks. Management clarified that buybacks are not a priority and that they may look for accretive targets in this market.

## **Conclusion**

In conclusion, I believe Docebo has the following characteristics,

- Large TAM
- Good product with good execution
- Insiders with significant skin in the game
- Depressed valuation due to quarterly deceleration

The stock price reflects the disappointment of the market at ACV deceleration. While the near term demand environment may present a risk, a longer term view on the TAM and business presents significant upside potential as these stocks trade at 8-10x EV/Rev.

When we initiated the position at the US\$27 per share (CA\$36.50 per share), we assumed that Docebo can trade at 6x EV/S multiple in 2024 resulting in an EV of US\$1.5 bn and a market capitalization of US\$1.7 bn and a stock price of US\$48 which was nearly double the stock price at initiation.

Since then, Docebo stock price has moved up and currently trades at US\$38 per share. At this valuation, the market has recognized some of the positives of the Docebo business model. While a large part of the valuation gap has closed, we still believe Docebo can compound at its earnings growth rate. We further believe that this earnings growth rate will be much faster than the revenue growth rate due to the operating leverage that Docebo is beginning to realize. Furthermore, the stock also has an optionality built in to be acquired by a large software company and in return provide an exit for InterCap.

***Disclosure: White Falcon has a long position in the shares of Docebo.***

## Disclaimer

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