

# TerraVest Industries

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Chris Waller | Plural Investing, LLC | [chris.waller@pluralinvesting.com](mailto:chris.waller@pluralinvesting.com)

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PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

# What We Look For

Hidden gems:

- Small and underfollowed companies where in-depth research gives us an edge
- Attractive and persistent economics
- Managements of high integrity, customer focus, and prudent capital allocation
- Strong shareholder alignment
- Trading at a significant discount to intrinsic value

TerraVest fulfills all these criteria

# TerraVest Industries (TSX:TVK)

- C\$67/shr, C\$1.2bn market cap, C\$1.6bn EV
- No sell-side coverage, no earnings calls, limited MD&A and IR
- Shareholder returns of ~30% p.a. for a decade
- Roll-up of US & Canadian storage tanks (60%), boilers & furnaces (20%), others (20%)
- 25% management ownership -> Majority of net worth
- 25% incremental ROTC (post-tax)
- 15x EV/FCF for earnings growth well into double-digits



# TerraVest's IR Page:

**TERRAVEST**  
INDUSTRIES

HOME COMPANY ▾ PRODUCTS / END MARKETS ▾ INVESTOR RELATIONS ▾ CAREERS CONTACT **TSX30**  
2019  
WINNER

## INVESTOR RELATIONS

TerraVest Industries Inc. is a publicly traded company on the Toronto Stock Exchange. Our objective is to grow free cash flow per share through organic growth and acquisitions. Our share price performance can be followed using the symbol “TVK”.

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Source: <https://terravestindustries.com/investor-relations/>

# Aligned and Excellent Capital Allocators

- Management own 25% of the company
- (Vast) majority of net worth for top 5 executives
- If stock compounds at 10% p.a. until 2032 shares and options are worth ~C\$550mm, C\$80mm, C\$55mm, C\$55mm, and C\$10mm pre-tax
- Exe. Chair and CEO have never sold shares
- Cash comp is low: Exe. Chair paid C\$204k and CEO paid C\$609k in 2023
- 8 sources told us CEO Dustin Haw is a star -> He is only 40 and has a long runway to compound

Management has an excellent 10 year track record and their actions suggest this will continue



# Attractive and Persistent Economics

- Post-tax ROTC = 20% | Incremental ROTC = 25% over last 5 years
- Acquires at 10x FCF and restructures to 6x FCF

TerraVest's business model is to:

- Acquire: Mom & Pops or distressed sellers across storage tanks (propane, fuel, water, etc), boilers and furnaces, others
- Restructure: 1-3 years to focus mindset on profits over revenue, achieve bulk discounts on raw materials, consolidation of facilities, cross-selling, and labor reductions
- Operate: Decentralized approach



# Example: Propane Pressure Vessel

## 60,000 Gallon Propane Pressure Vessel (C\$)

	% of COGS	On Acquisiton	Post Acquisiton	Change
Price		\$ 350,000	\$ 367,500	5%
Steel	55%	\$ (154,000)	\$ (130,900)	-15%
Shipping	5%	\$ (14,000)	\$ (14,000)	0%
Labor	25%	\$ (70,000)	\$ (59,500)	-15%
Others	<u>15%</u>	<u>\$ (42,000)</u>	<u>\$ (37,800)</u>	<u>-10%</u>
<b>Gross profit</b>		<b>\$ 70,000</b>	<b>\$ 125,300</b>	<b>79%</b>
<b>Gross margin</b>		<b>20.0%</b>	<b>34.1%</b>	

Source: Plural estimates

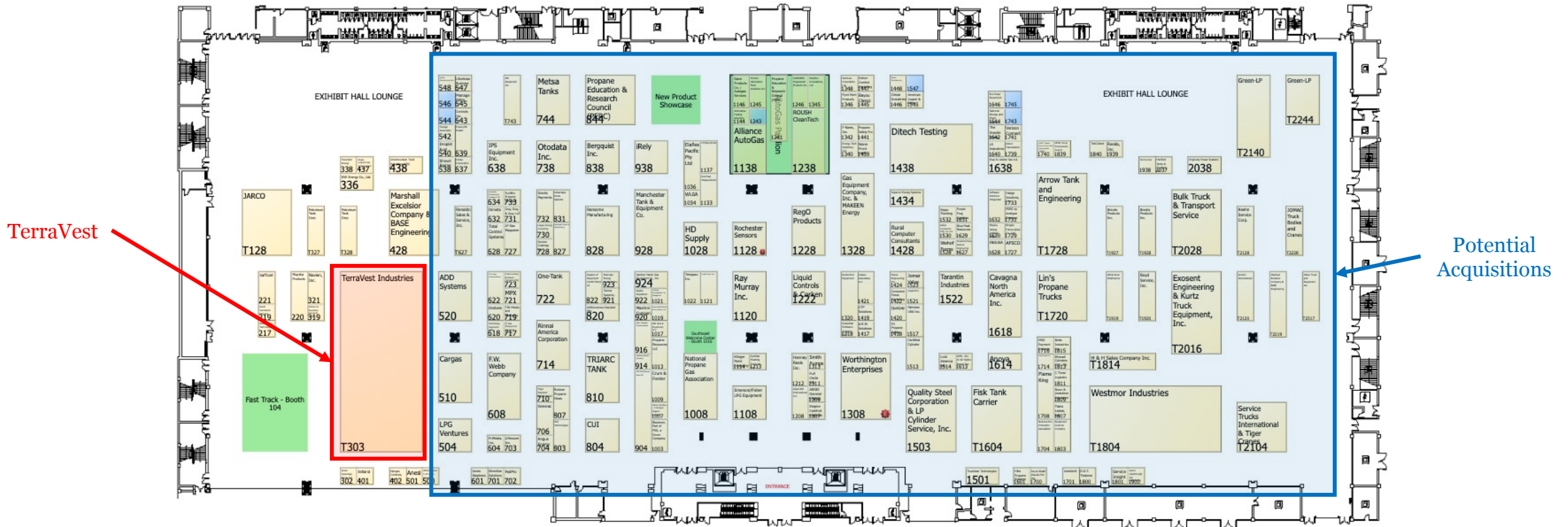


Source: <https://proparinc.com/products/>

# Long Runway to Continue Deploying Capital

- Industries are fragmented
  - Numerous mom & pops at trade shows and in trade magazines
- Many adjacent industries
  - Storage tanks has added heating oil, fuel oil, propane, ammonia, water
  - Expanding vertically into trucks that carry the tanks

NATL PROPANE GAS ASSN  
 SE CONV & INTL EXPO  
 04/05/24 - 04/07/24  
 CHARLOTTE CONVENTION CENTER  
 EXHIBIT HALL A-B  
 CHARLOTTE, NC



Source: <https://www.npgaexpo.org/>

# TerraVest Can Compound at a ~20% IRR

- Markets typically underprice managements that deploy capital at strong incremental returns
- At 25% incremental ROTC, half of TerraVest's capital base in 3 years has yet to be deployed

Illustrative example over 3 years:

- FCF today = C\$105mm
- Historic ND/EBITDA of 2.4x implies C\$315mm of capital is deployed to acquire ~C\$45mm of FCF, bringing FCF to C\$150mm
- Historic EV/FCF multiple of 17x implies an EV of C\$2.5bn, stock price of C\$117, and IRR of 20%

Sense check: TerraVest trades at 15x FCF for an excellent and incentivized management team, strong balance sheet, 25% incremental ROTC, and 23% earnings CAGR over the last decade

# Key Risks and Mitigants

- Macro downturn
  - Businesses are less cyclical than it appears
  - TerraVest buy distressed sellers
- Some markets are declining
  - Declines typically slower than investors perceive
  - Management do a great job redeploying capital from low to high return business
- Execution
  - Management have an excellent track record so far and no single deal is transformational
- Stock has run up
  - Not a fundamental factor and could have said similar things for 10 years

# Conclusion

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