



Exeter Student Investment Fund

Learn. Network. Invest.

Morneau Shepell [MSI.TO]

Bethan Scott



- Company
 - Morneau Shepell
 - MSI.TO
- Reasons to Buy
 - One of the world's largest Employee Assistance Programme providers
 - Recent acquisitions
 - Blue-chip clients
 - Well prepared for Covid-19
 - Activated their Business Continuity Pandemic Plan early in the pandemic
- Potential Risks
 - Reliance on information systems and technology
 - Confidentiality of client information
 - Reputational risk



Company Overview – History



Founded

- 1966, Toronto, Canada as Morneau & Associates
- 1987, first U.S. office
- 1997, merged with Sobeco to form Morneau Sobeco
- 2008, acquired Shepell-fgi to form Morneau Shepell



Locations

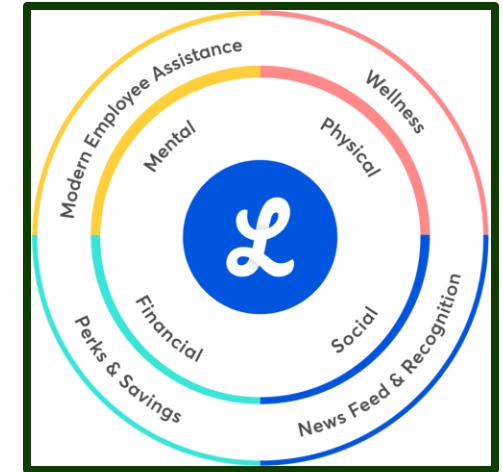
- | | | |
|-----------------|------------------|----------|
| ➤ Canada | ➤ United Kingdom | ➤ China |
| ➤ United States | ➤ Brazil | ➤ India |
| ➤ Australia | ➤ Bahamas | ➤ Russia |



Company Overview – What They Do



- Human resources consulting and technology company
- Their plans take an integrated approach to employee assistance, health, benefits and retirement needs
- The employee plans focus on improving 4 main things: mental, physical, social and financial
- AbilitiCBT
 - Internet-based cognitive behavioural therapy
- Canadian Olympic Partner
 - Provide a suite of mental health services to athletes
- Parent company of LifeWorks
 - EAP mobile platform
- Who they serve:
 - Employers
 - State and local government
 - Higher education institutions
 - Insurance carriers



Modern EAP	Wellness	News Feed & Recognition	Perks & Savings
24/7 counselling and online well-being resources.	All you need to reach your health and fitness goals.	Boost company culture and celebrate great work!	Save money on daily essentials and key life events.

Company Overview -Management



President and CEO – Stephen Liptrap (54)

- Appointed May 2017
- Responsible for the development and execution of the company’s strategic direction
- ConAgra Foods, NCR & Symantec



LifeWorks and Executive Vice President – Neil King (47)

- Appointed November 2019
- Responsible for the management of LifeWorks employee and family assistance program and wellbeing business globally
- ADP, Wolters Kluwer Health & Brainhunter



Chair of the Board – Jill Denham (59)

- Appointed 2015
- Head-Retail Bank and Head-Commercial Banking at Canadian imperial Bank of Commerce
- Independent Director of Canadian Pacific Railway Limited

Largest Shareholders

- Mackenzie Financial Corp. – 18.4%, BMO Asset Management – 5.69%, Manulife Investment Management – 4.84%

Company Overview – Business Model



Revenue:



- Administrative Solutions - 40%
- Wellbeing - 38%
- Retirement Solutions - 13%
- Health & Productivity Solutions - 9%

Geographical Revenue:



- Canada - 57%
- United States - 38%
- International - 5%

Three growth strategies:

- Own the wellbeing space
 - Provide clients to the full continuum of care
 - Helping clients improve the mental, physical, financial and social wellbeing of their employees
- Accelerate growth through U.S. and global expansion
 - Using acquisitions and strategic partnerships to play a continuing role in expansion
 - Include support for multinational enterprises
- Drive world-class delivery through people and technology
 - Cloud-based wellbeing platform
 - Focus on merging the innovation speed of a smaller company with the global talent platform of a much larger one

Company Overview – Acquisitions and Clients



Significant Acquisitions:

- July 2018: LifeWorks
 - CAD 426,000,000
 - Cash and Morneau Shepell Shares
- September 2019: MorningStar Health
 - Disability and absence management service
 - Located in Michigan, U.S.
 - CAD 6,603,000 Cash
- February 2021: SMG Health Pty Ltd
 - Holistic health management solutions
 - Expands Morneau Shepell to Australia

Clients:

- Many blue-chip clients
- ¾ of TSX 60

Financial Services	Technology Media and Telecom	Government, Public Sector	Manufacturing, Wholesale, Retail	Transportation	Energy & Environmental	Pharmaceutical & Biotech

Company Overview – Differentiators



- The only organization today that has integrated solutions for the four key pillars of employee wellbeing: mental, physical, financial and social
- World's largest solutions provider in converging markets for wellbeing solutions and employee and family assistance programs
- Largest administrator of retirement and benefit plans in Canada
 - 8.5 million plan participants under administration at the end of 2019
- Largest provider of integrated absence management solutions in Canada
- Positioned to continue growing the business into the U.S.
- 24,000 clients in 162 countries
- Cloud-based wellbeing platform
- Multinational enterprises support

Company Overview – Competitors



- Competes with many domestic and international firms
- Some competitors have achieved more market penetration in specific areas in which Morneau Shepell competes
 - Morneau Shepell has an all round package whereas other companies are focusing on certain aspects
- Morneau Shepell is much larger than other competitors
- Morneau Shepell has a larger global presence



- Recent acquisition of SMG Health Pty Ltd
 - Allows further expansion in Australia
- Aims to do more acquisitions in the future
- Mental health is becoming less of a taboo in business
- Covid-19
 - A higher need for mental health and wellbeing support, especially virtually
- LifeWorks app boosts community culture
 - Reduces loneliness, which is a problem due to the pandemic



➤ Buy

- Currently: CAD 32.71
- High: CAD 35.30
- P/E: 48.02
- Market cap: CAD 2.227B
- Dividend: 2.4%





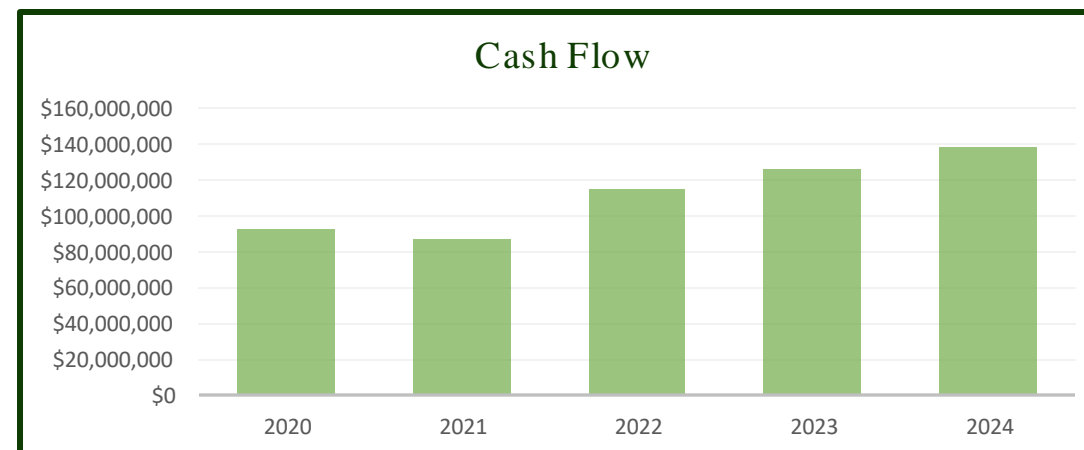
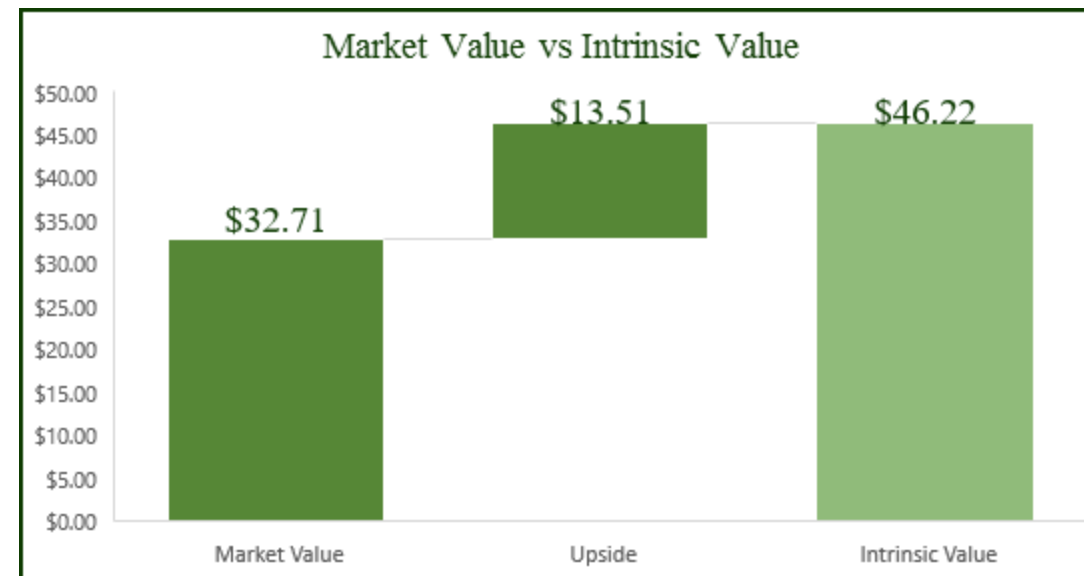
- Revenue
 - Significant year-on-year growth
 - CAD 888,889,000 in 2019
 - 14% increase in 2018, 12% increase in 2019
- Net Debt
 - Long-term debt of CAD 470,456,000
- Free Cash Flow
 - CAD 39,181,000 of free cash flow in 2019

Valuation – Base Case



Assumptions:

- Tax rate: 30.51%
- Discount Rate: 6.43%
- Perpetual Growth Rate: 2.5%
- 10% increase in EBIT each year

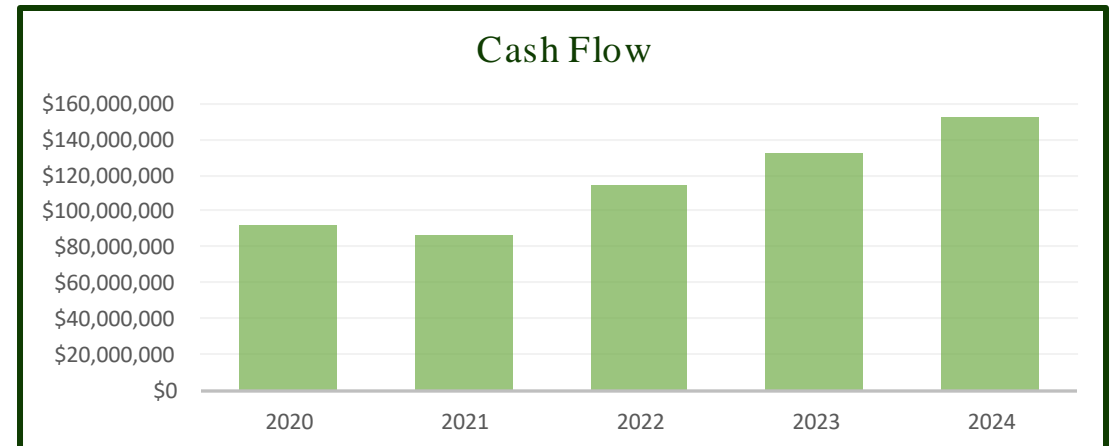
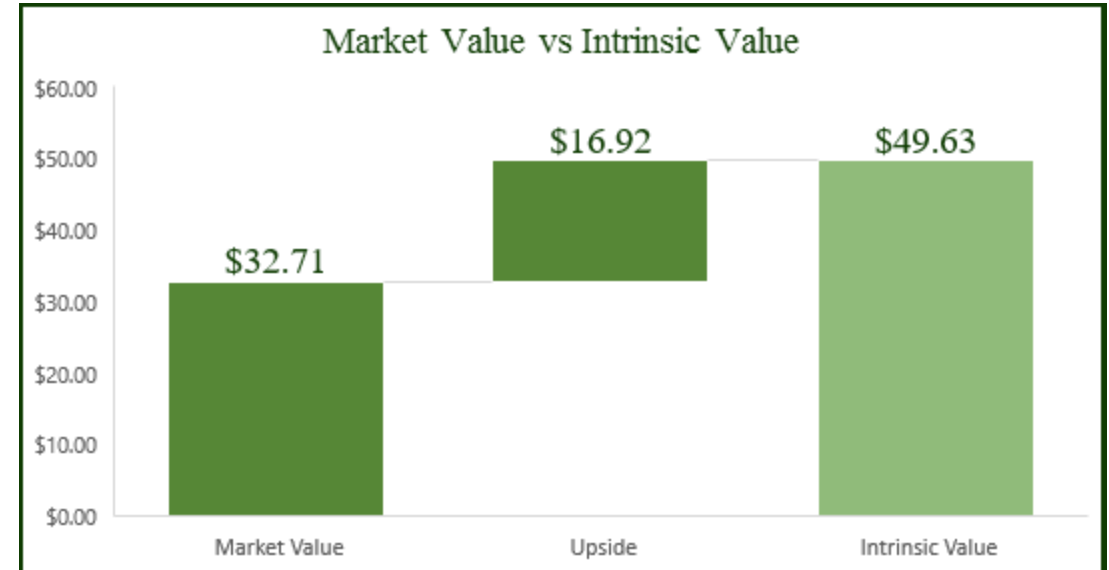


Valuation – Bull Case



Assumptions:

- Tax rate: 30.51%
- Discount Rate: 6.43%
- Perpetual Growth Rate: 2.5%
- 15% increase in EBIT each year

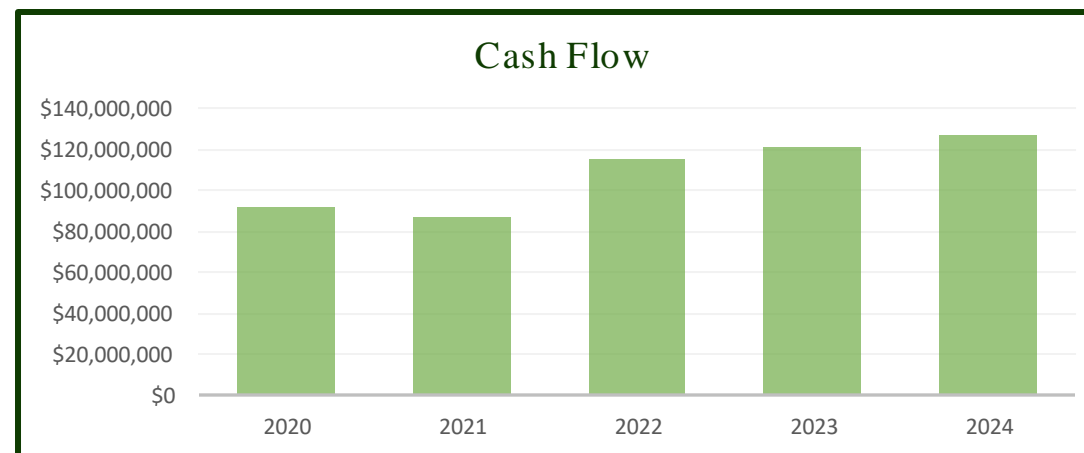
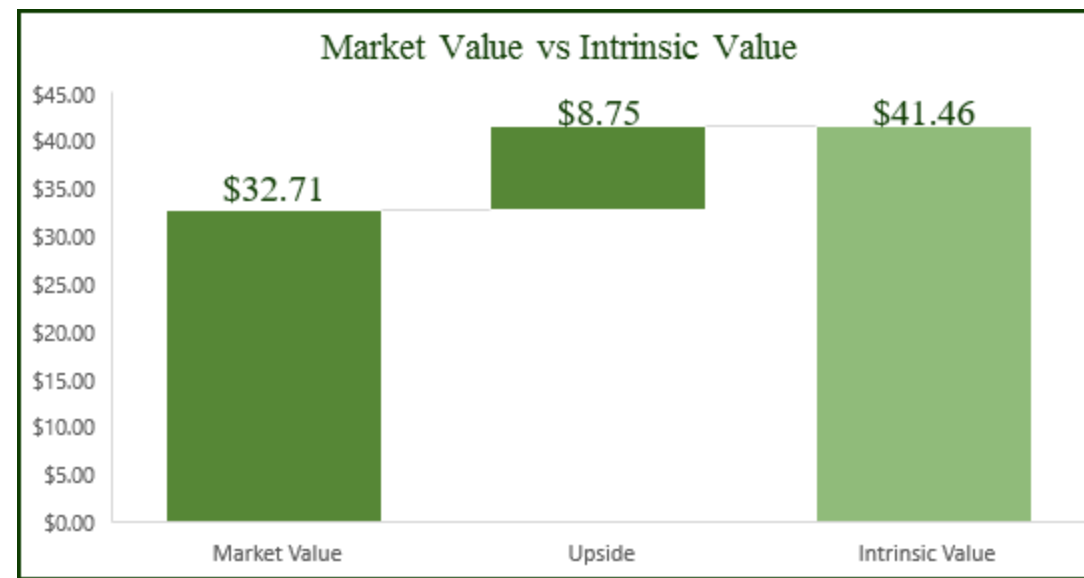


Valuation – Bear Case



Assumptions:

- Tax rate: 30.51%
- Discount Rate: 6.43%
- Perpetual Growth Rate: 2.5%
- 5% increase in EBIT each year



ESG Considerations



Environment:

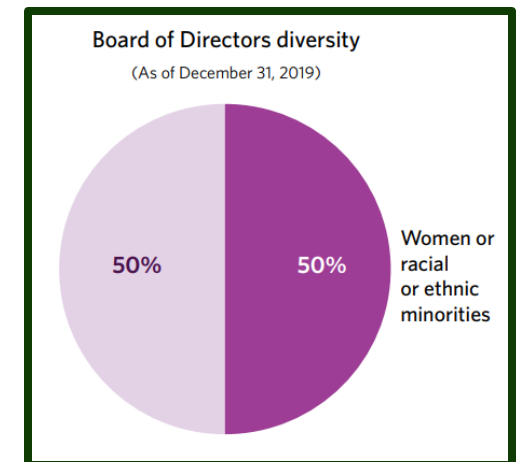
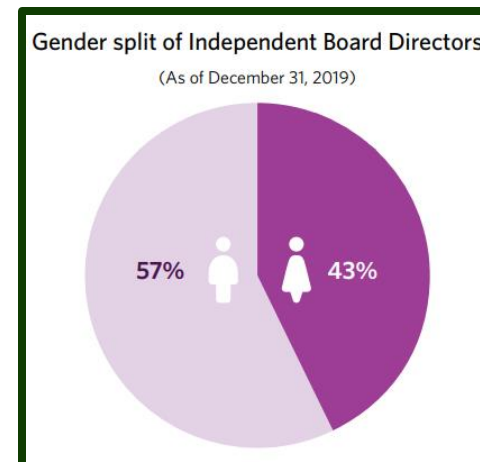
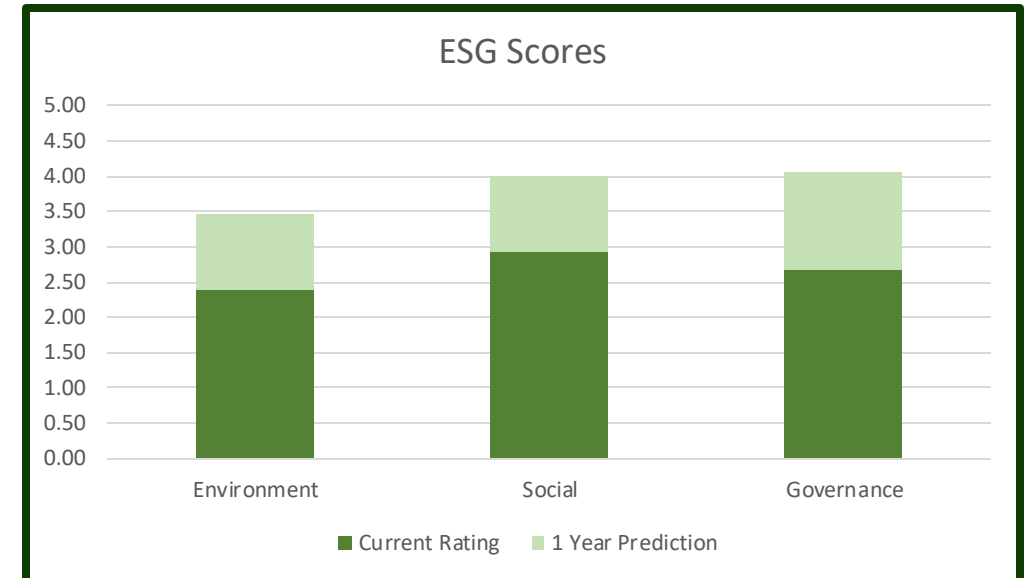
- 12% reduction in paper consumed over the 2017 baseline
- Eliminated all single-use plastics
- Advanced Green Team program

Social:

- Company-wide employee volunteerism program
Improving1BillionLives
- Intensified focus on addressing anti-Black systemic racism
- Launched the Morneau Shepell Mental Health Index
- Invested in mental health and wellbeing support for employees

Governance:

- Became a supporter of the United Nations Global Compact in August 2020
- Ranked 7th out of 224 in the Globe and Mail's annual corporate governance assessment with a score of 96/100





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Closing Summary and Q&A