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# LOOKING TO THE FUTURE: THE NEXT GENERATION OF TRADING FOR MCGILL ST LAURENT

Prepared for: McGill St Laurent

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# AGENDA

- Analysis
- Alternatives
- Recommendation & Implementation
- Q&A

# The Issue

*McGill St. Laurent's vision is to develop and grow the next generation trading company for the long term but we know the industry will soon be disrupted given technology and innovation.*

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# The Recommendation

*We recommend a two-pronged approach for McGill St. Laurent to evolve its trading portfolio and invest in new innovative technologies to grow at a fast pace.*

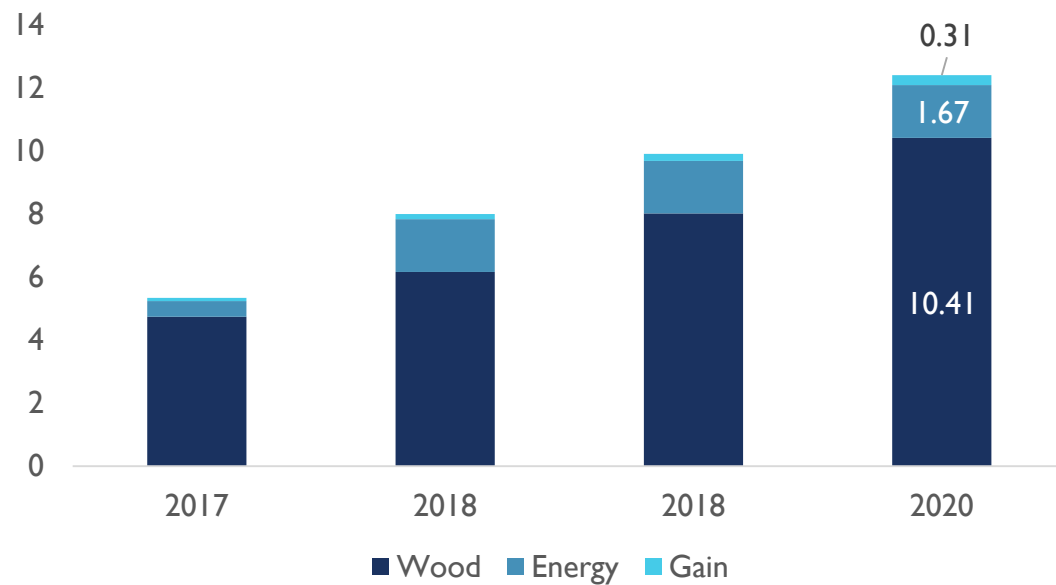


# ANALYSIS

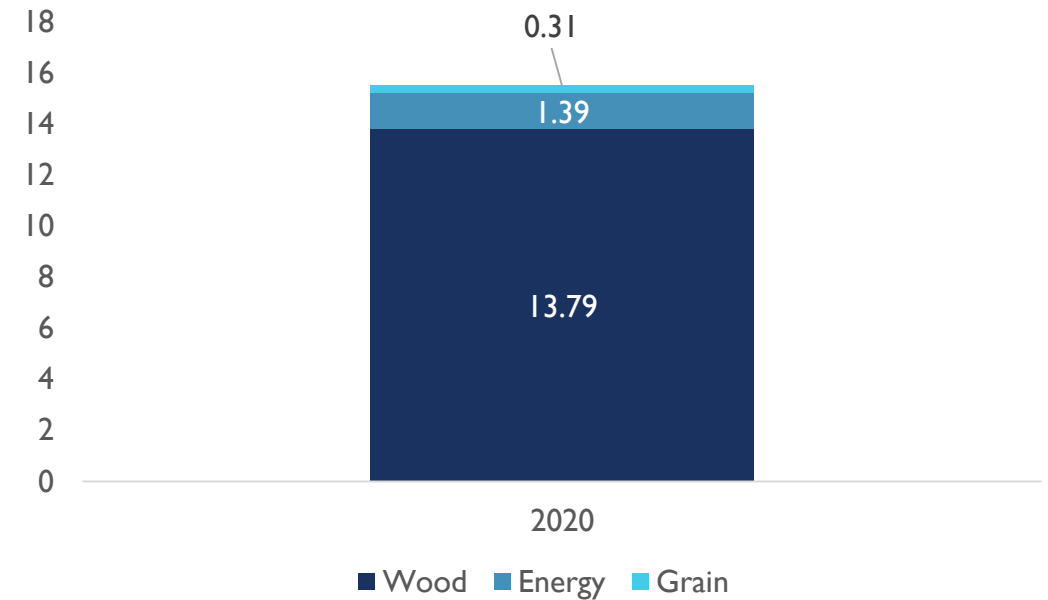


# BREAK-DOWN OF FUTURE EXPECTATIONS

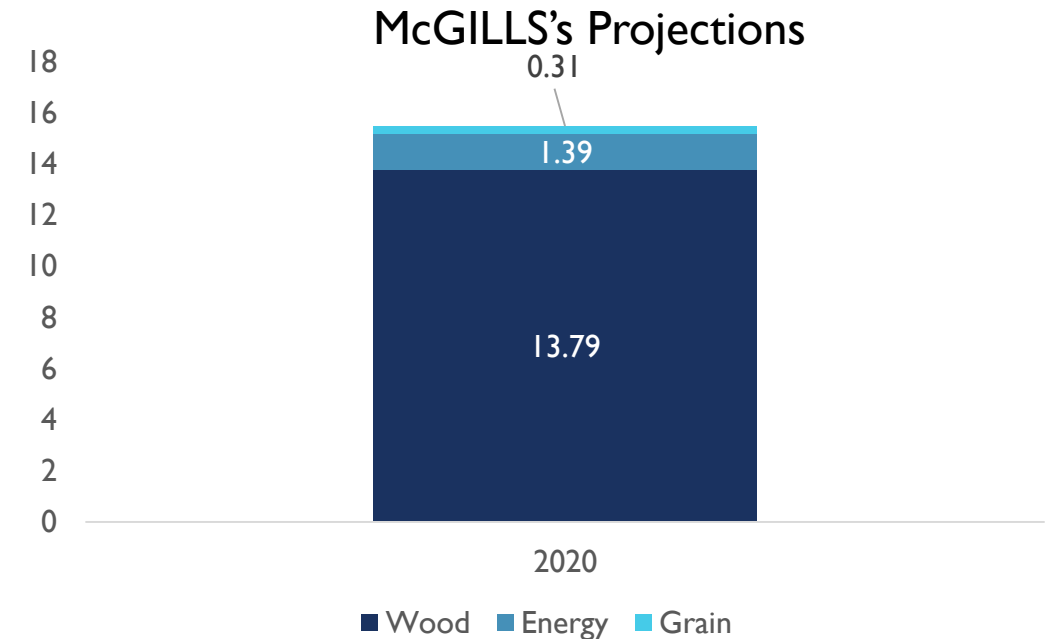
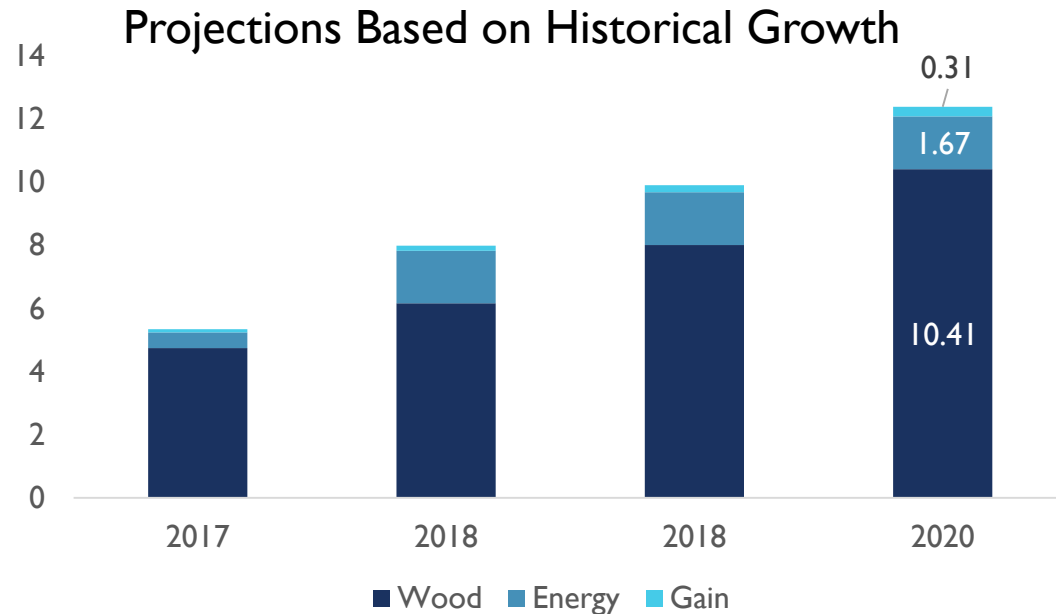
## Projections Based on Historical Growth



## McGILLS's Projections



# BREAK-DOWN OF FUTURE EXPECTATIONS



Since wood is already an anchor of the business and with the recent purchase of the manufacturing company we believe there is additional growth expected from this acquisition to get to 2020 projection, therefore focus on new commodity trading side

# CURRENT TRENDS INDICATE A NEED TO DIVERSIFY PORTFOLIO AND INVEST IN INNOVATIVE TECHNOLOGY

Disintermediation

Machine Learning, AI,  
IoT

Renewable sources of  
energy on the rise

Competition

Low barriers to entry



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Trading is a traditional industry waiting to be disrupted.



# ALTERNATIVES



# DECISION CRITERIA

Wind behind  
your back

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Wind behind  
your back

Market growth

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Wind behind  
your back

Market growth

Leverages  
competitive  
advantage

# ALTERNATIVES

1. Invest in disruptive technologies (i.e. AI)
2. Enhance metals & renewable energy trading strategy
3. Enter livestock “auction-style” market

# ALTERNATIVE 1: INVEST IN DISRUPTIVE TECHNOLOGIES (I.E. AI)

## Pros

- Mitigating the risk of Disintermediation
- Industry leadership
- Future proofing your business
- Help support innovation in Canadian market

## Cons

- Potential job loss
- Upfront investment costs
- Ability for competitors to adopt solution

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Recommended: Aligns with decision criteria by adding wind behind your back and driving growth long-term



## ALTERNATIVE 2: TRADE METALS & RENEWABLE ENERGY

2A: Cobalt

2B: Molten Salt

## ALTERNATIVE 2: TRADE METALS & RENEWABLE ENERGY

### 2A: Cobalt

#### Pros

- Companies are pulling out of the Congo because of political uproar (producer of ~60% of world's Cobalt)
- As a result, companies are turning to Canada because it has many silver mines where Cobalt is found
- Trend in renewable energy (i.e. electric cars require cobalt as a power source for their lithium battery)

#### Cons

- Other market players may be an expert in this space

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Recommended: strong growth opportunity given future rise of renewable energy demand

# ALTERNATIVE 2: TRADE METALS & RENEWABLE ENERGY

## 2B: Molten Salt

### Pros

- Renewable energies have short storage capabilities, which is why adoption has been slow to date
- Molten salt acts as an agent to prolong the storage capabilities of natural gas and renewable energies
- As the trend towards renewable energy increases, so will the need for storage capabilities

### Cons

- Relatively new to market, not well understood by consumers

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### Cons

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Recommended: capitalizing on innovative disruptor in renewable energy space

## ALTERNATIVE 3: ENTER LIVESTOCK “AUCTION-STYLE” MARKET

### Pros

- Creates more transparency in the livestock market
- Product extension (i.e. sell grain and livestock to buyers, one-stop-shop model)

### Cons

- Does not address market and consumer shift towards digital
- Buyers would likely want to view the livestock before purchasing
- Not a commodity, does not align to current core product focus

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Not recommended: allows for growth but does not leverage competitive advantage

# ALTERNATIVES

1. Invest in disruptive technologies (i.e. AI)
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- ~~3. Enter livestock “auction-style” market~~



# RISKS & MITIGATION

| Risk   | Impact | Mitigation  |
|--|--------|---|
| Political tensions in Congo ease and market players return to that market      | Medium | <ul style="list-style-type: none"><li>• Current trends, do not indicate this happening</li><li>• Obtaining strong foothold in Canadian market will sustain future success (leverage competitive advantage of relationships)</li></ul> |
| Shift to use of technology = job loss for existing McGill St Laurent employees | Low    | <ul style="list-style-type: none"><li>• Leverage company's great culture</li><li>• Continue to use incentives to maintain employee satisfaction</li></ul>   |
| Lack of consumer awareness about molten salt                                   | Medium | <ul style="list-style-type: none"><li>• Capitalize on strong relationship-building capabilities to ensure education and awareness among customers</li></ul>   |



# RECOMMENDATION & IMPLEMENTATION



# IMPLEMENTATION PLAN

## 3 YEAR PLAN – KEY PRIORITIES

Trading Technology  
Investment

Trading: Cobalt and  
Energy

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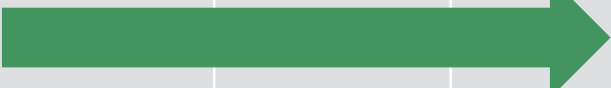

Trading Technology  
Investment

Trading: Cobalt and  
Renewable Energy

This approach will allow you to evolve to the next generation of trading





# IMPLEMENTATION PLAN: SHORT TERM PLAN – 3 YEARS

## TRADING TECHNOLOGY INVESTMENT

| Activities   | Timeline | Year 1   | Year 2 | Year 3 | Cost       | KPI                       | Owner              |
|--|----------|--|--------|--------|------------|---------------------------|--------------------|
| Invest in R&D/ Innovation team<br>• 1-2 new resources                                      |          |    |        |        | ~\$80-100K |                           | R&D/<br>Innovation |
| National incubators and accelerators to identify start-up and trading technology platforms |          |    |        |        |            | Identify new technology   |                    |
| Sponsorships/ funding internship opportunities for students                                |          |   |        |        | ~\$40-60K  | Sourcing strong talent    |                    |
| Purchase trading technology platform (AI and machine learning technology)                  |          |  |        |        | ~\$1M      | Successful implementation |                    |


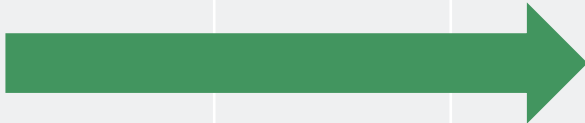
# IMPLEMENTATION PLAN: SHORT TERM PLAN – 3 YEARS

## TRADING RENEWABLE ENERGY

| Activities  | Timeline   | Year 1 | Year 2 | Year 3 | Cost                                | KPI                       | Owner           |
|---|--|--------|--------|--------|-------------------------------------|---------------------------|-----------------|
| Leverage new R&D resources to investigate MS capabilities – Natural gas and LNG                                     |    |        |        |        | ---                                 |                           | R&D             |
| Hire 1-2 new traders to support renewable energy trading<br>- Experts in molten salt production and storage         |    |        |        |        | ~\$80-100K                          | Successful hire           | Sales & Trading |
| ***Assume Molten Salt traded on exchange<br>→ Start trading Molten Salt   |  |        |        |        | --                                  | 25% increase in NG trades |                 |
| LONG TERM CONSIDERATIONS:<br>Provide logistics solutions for molten salt producers and deliver to current customers |  |        |        |        | Outsourcing Relationship Technology | --                        |                 |

# IMPLEMENTATION PLAN: SHORT TERM PLAN – 3 YEARS

## TRADING RENEWABLE ENERGY


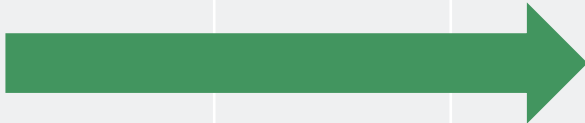
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### OTHER LONG TERM CONSIDERATIONS: 3-5 YEARS

- Reduce headcount on the trading team and leverage trading technology (i.e. not displace and algorithmic trading)

# IMPLEMENTATION PLAN: SHORT TERM PLAN – 3 YEARS

## TRADING RENEWABLE ENERGY

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Total Implementation Plan Costs ~\$1.3-1.4K



# HOW TO SOURCE THE FUNDS

## Public Market

| PROS  | CONS   |
|---|--|
| <ul style="list-style-type: none"><li>• High amounts of capital can be raised</li></ul>           | <ul style="list-style-type: none"><li>• Public scrutiny from shareholders</li></ul>            |
| <ul style="list-style-type: none"><li>• Less leverage</li></ul>                                   | <ul style="list-style-type: none"><li>• Shift towards short-term view from long-term</li></ul> |
| <ul style="list-style-type: none"><li>• Increased awareness of company and capabilities</li></ul> | <ul style="list-style-type: none"><li>• May inhibit entrepreneurial ideas</li></ul>            |

# HOW TO SOURCE THE FUNDS

## Bank Loan

| PROS   | CONS   |
|--|--|
| <ul style="list-style-type: none"><li>• Relationship with Bank</li></ul>   | <ul style="list-style-type: none"><li>• Increased leverage</li></ul> |
| <ul style="list-style-type: none"><li>• Maintain private ownership of company</li></ul>                          | <ul style="list-style-type: none"><li>• Less liquidity</li></ul>     |
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**Better option for current business model**

## REVENUE OPPORTUNITIES

- Similar EBITDA to current energy commodities of ~2M/year
- Longer term growth opportunities from growth in lithium battery use
- Molten salt is going to disrupt the natural gas sector with potential high revenues and improvements in the industry due to its storage capabilities

# The Recommendation

*We recommend a two-pronged approach for McGill St. Laurent to evolve its trading portfolio and invest in new innovative technologies to grow at a fast pace.*



# Q&A

