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## QV Q&A

In meeting with several investors and analysts over the past week, we faced a number of very good questions. QV would like to share some of this dialogue with you in this week's letter.

*With markets becoming more and more expensive, is QV more focused on value than quality for new investments these days?*

Although we continuously aim to enhance the valuation metrics of our portfolios, value is not more important than quality today. In fact, as we get further into this equity bull market, we would rather buy a business that has a slightly higher short-term valuation with an enduring franchise and a clear pathway to grow than one that carries less clarity.

Take Cineplex as an example. Cineplex is not a value stock today but we see numerous opportunities for it to grow into its current valuation while offering investors a 3.7% dividend yield.

We feel Cineplex assets are becoming increasingly valuable on several fronts. Mall operators today face more and more online retail competition on a daily basis. To retain or grow visits, malls need to offer an "entertainment experience" rather than just a "shopping experience". With theatre, dining and gaming venues, Cineplex can help malls provide an entertainment solution. The company's media assets are also becoming more valuable. Unlike traditional media such as newspapers, magazines and network television, moviegoers are still a captive audience and Cineplex is extending its digital offering beyond the walls of the traditional theatre. They have a digital signage presence in numerous malls, office buildings, coffee shops and banks. If you have visited a Tim Hortons lately, you have likely seen a digital signage board provided by Cineplex Media. This business segment is quickly growing to around 11,000 locations with impressions in the billions. In a landscape where traditional advertising is under attack, we believe this media business is an increasingly attractive solution for advertisers. In addition, Cineplex is now the 15th largest food service company in Canada and has room to grow. They are just beginning to leverage their food service expertise beyond the theatre walls with offerings that include frozen yogurt, bistros and gourmet popcorn.

*What is QV's stance regarding share buy backs?*

QV does not apply Thomas Jefferson's immortal quote *"all men are created equal"* to share buy backs. No two buy backs are the same. Some are value enhancing, some are value destructive and some simply appear to be a waste of time. Canadian Equity strategy holding Suncor Energy has been a large purchaser of shares over the past few years. As a result, their total share count has decreased by over 6% since the start of 2012. The company has bought back shares at a time when its valuation has been at the low end of its historic range going back over a decade. Using excess cash to repurchase shares when they are attractively valued in both an absolute context and relative to other capital deployment opportunities is a value enhancing strategy. Unfortunately, we believe Suncor is an exception. Too often, buybacks occur when sentiment and share valuations are near record highs.

*Keeping with that theme, where is market sentiment these days?*

We continue to see investor sentiment shift from risk avoidance to risk seeking behaviour. We have seen merger activity pick up. Monday has become "Merger Monday". The first day of the workweek often comes with news of a large merger or acquisition that bankers had been working on all weekend to complete. In Canada, we have also seen a heightened amount of equity issuances since the start of September. We have recently come across acronyms such as FOMO: *Fear Of Missing Out* and TINA: *There Is No Alternative* to help describe today's equity backdrop. Acronyms like these only arrive when capital is abundant and fear is scarce. We do not know why or when the music will stop but we are not blindly drinking the Kool-Aid.

QV owned companies are maintaining attractive balance sheets relative to the market as a whole. In addition, these are strong franchises often containing multiple avenues for growth. These traits should help to provide protection during tougher times. We always appreciate your questions. Please keep them coming.