

**Rating: STRONG BUY**  
**12-Month Target: \$3.50**

## Small Niche Lending Play, Big Time Potential

### PROFILE

CFN is a national, non-standard lender, providing used auto financing to individuals with challenged credit profiles through a distribution network of over 1,200 automobile dealerships.

### HIGHLIGHTS

- **Exciting “All Organic” receivables growth could reach 15% in 2010 and over 20% in 2011 due to:**
  - Few competitors,
  - New distribution prospects,
  - New products in development,
  - Market segmentation opportunities through risk based pricing,
  - Geographic expansion into Quebec,
  - and a strategy to get better penetration at existing distribution locations.
- **Balance Sheet Strength:** reserves strengthened while credit quality improved with the coverage ratio rising to 269% in Q3/09 vs. 209% in 2008 while delinquencies fell to 4.5% from 7.2%, respectively. The company’s leverage ratio of 2.47:1 is well within the lending syndicate’s imposed limit of 3.75:1, signifying room to finance growth in 2010.
- **Earnings Expansion:** as growth resumes, operating leverage will combine with lower provisioning requirements (improving credit quality) to drive margins wider.
- **Solid Risk Management Practices:**
  - Stringent underwriting and verification experience and procedures spearhead the process,
  - Risk sharing transfers a portion of credit risk to dealers through the popular Go Plan product,
  - Experienced internal collections officers assisted by cutting edge call centre technology and robust core finance system to efficiently manage client accounts.
  - Collateral Management with a GPS starter interrupter used to immobilize vehicles that are 5 days delinquent facilitating lower seizure costs and thus enhancing recoveries.
- **Low Payout Reduces/Eliminates Risk of Cut in 2011:** attractive yield of 8.7%, with potential for \$0.12 of special distributions in 2010 (raises yield to 14.5%). **Our 76.5% 2010 estimated payout ratio, includes this special distribution, excluding special, payout falls to 45.9%, therefore we see little risk of a cut in 2011.**

Stock Information	2-Feb-10		
Ticker	CFN.UN		
Price (\$)	2.06		
Market Cap (\$MM)	49.3		
EV (\$MM)	116.5		
Net Debt (\$MM)	67.2		
Current Yield	8.7%		
Avg 3-Month Volume	25,890		
f.d. Units Out. (MM)	23.93		

Profitability (TTM)	2008	2009E	2010E
ROE	-9.0%	31.7%	38.8%
adjusted ROE	-6.3%	22.2%	27.2%
NIM	27.0%	26.7%	27.5%

Per Unit Data (\$)			
EPU	-0.08	0.29	0.39
Tax-adjusted EPU	-0.06	0.21	0.25
DCPU	0.25	0.27	0.39
DPU	0.08	0.18	0.30
Payout Ratio (%DCPU)	33%	68%	76%

Financials (\$)			
Revenue (MM)	32.0	33.5	37.4
EBITDA (MM)	4.4	10.6	14.2
Net Income (MM)	-2.0	6.8	9.3
Distributable Cash	5.7	4.3	0.0
Gross Receivables (MM)	108.0	110.8	127.2

Valuation			
P/E*	nmf	10.0x	8.2x
EV/EBITDA	26.6x	11.0x	8.2x

\*P/E adj. for 30% tax on EPU

### COMPANY DESCRIPTION

Carfinco, through its network of over 1,200 independent and franchise automobile dealers, provides automobile loans to consumers, unable to obtain financing from traditional sources like the banks due to limited/no/or poor credit history. The Company operates across Canada except in Québec.

### Recommendation:

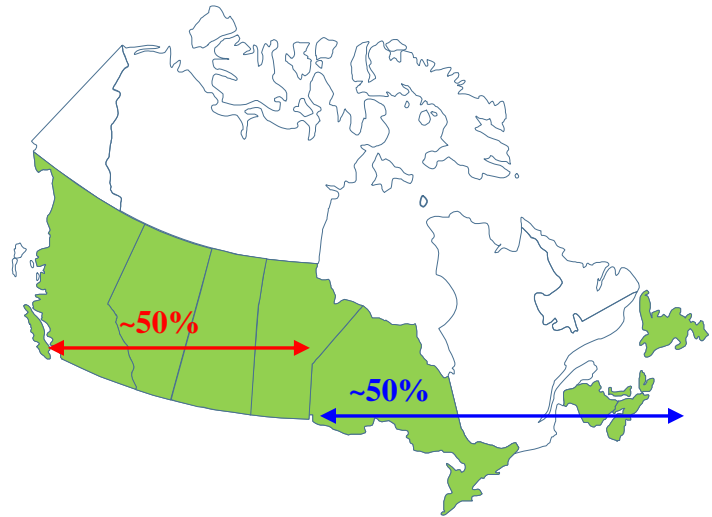
CFN is a led by an experienced management team, with an excellent track record and a material ownership stake. The company has significant growth and earnings expansion opportunities, proven risk management processes and a solid balance sheet to weather uncertainties. An attractive yield, with low payout suggests low/no likelihood of cut at the 2011 tax conversion deadline. **We derive our \$3.50 target by using an equal weighted DCF (\$3.75) and multiple valuation approach applying 13.0x 2010E tax-adjusted EPS of \$0.25 (\$3.25). The 83.6% total return results in a STRONG BUY recommendation.**

## TABLES OF CONTENTS

<b>OVERVIEW</b> .....	<b>3</b>
<i>Figure 1: Consumer Credit Rating Distribution</i> .....	3
<i>Figure 2: Competitive Focus among Non-Prime Auto Lenders</i> .....	3
<i>Figure 3: Typical Customer &amp; Car Loan Characteristics</i> .....	3
<b>INVESTMENT THESIS</b> .....	<b>3</b>
<b>A) Growth Opportunities</b> .....	<b>3</b>
<i>Figure 4: New &amp; Old Cars Purchase Patterns</i> .....	3
<i>Figure 5: Used Vehicle Price Trends</i> .....	3
<b>B) Risk management Process</b> .....	<b>3</b>
<b>C) Capital Adequacy, Reserves and Improving Credit Quality</b> .....	<b>3</b>
<i>Figure 6: Capital Adequacy and Reserves</i> .....	3
<i>Figure 7: Positive Trends in Credit Quality</i> .....	3
<i>Figure 8: Provisioning Trends</i> .....	3
<b>D) Management and Track Record</b> .....	<b>3</b>
<i>Figure 9: Trustees, Directors and Officers</i> .....	3
<i>Figure 10: History &amp; Recent Events</i> .....	3
<i>Figure 11: Finance Receivables and Revenue Growth</i> .....	3
<i>Figure 12: Profitability Ratios</i> .....	3
<i>Figure 13: Competitive Strengths</i> .....	3
<b>E) Safety of Distribution</b> .....	<b>3</b>
<i>Figure 14: Payout Ratios</i> .....	3
<b>F) Financial Highlights and Conclusion</b> .....	<b>3</b>
<i>Figure 15: Financial Highlights</i> .....	3
<b>VALUATION</b> .....	<b>3</b>
<i>Figure 16 – CFN Comparables Table</i> .....	3
<b>APPENDIX: FINANCIALS</b> .....	<b>3</b>
<b>LEGAL DISCLOSURE</b> .....	<b>3</b>

## OVERVIEW

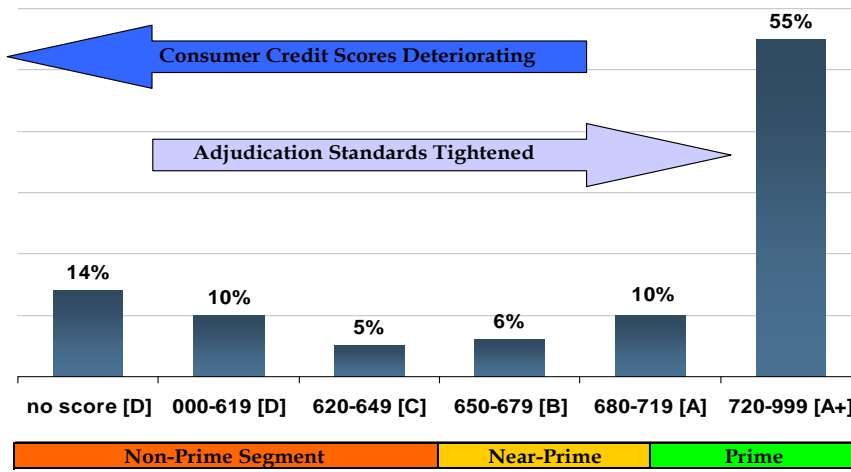
Carfinco, through its network of over 1,200 independent and franchise automobile dealers, provides automobile loans to consumers, unable to obtain financing from traditional sources like the banks due to limited/no/or poor credit history. The Company is often regarded as the lender of last resort, focusing primarily on the “D” customer. CFN operates across Canada (except Québec), with a roughly 50/50 revenue split between Eastern and Western Canada.



### INDUSTRY OVERVIEW

Automobile financing represents one of the largest consumer finance markets in Canada, estimated at over \$35B of extended credit annually. Non-prime consumers (those with BEACON scores <699) represent 35% of the population. However, the non-prime auto lending market size cannot be determined by applying this 35% factor to overall \$35B auto loan market. This is because many of the lowest/no score consumers pay cash for the purchase, represent credit risks that cannot be priced, or simply cannot afford to buy automobiles.

**Figure 1: Consumer Credit Rating Distribution**

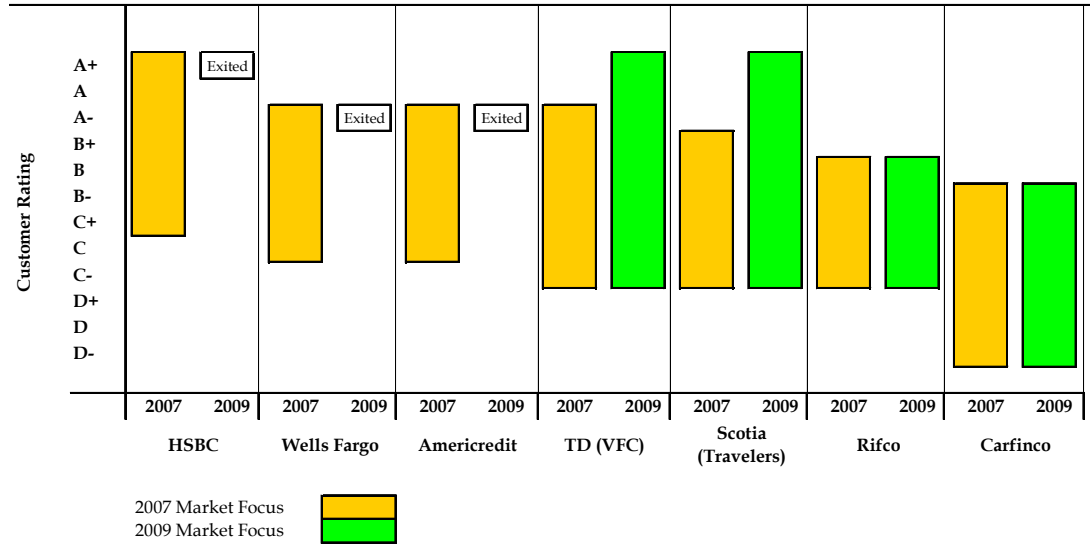


Source: Company Presentation, Industrial Alliance Securities

We estimate that demand for non-prime auto loans lies closer to \$6.0B to \$8.0B annually depending on the cycle. Supply of loans is far shy of that, as most competitors will not even consider consumers in the “D” classification.

In fact, within the non-prime niche, many competitors have recently exited Canada, including AmeriCredit, HSBC and Wells Fargo, while others like VFC (TD Bank Financial Group) and Travelers (Scotia bank) have moved focus upstream to the top tranche (near prime) of this market (the 9.0-19.0%, “B” market) and above (see figure 2).

Figure 2: Competitive Focus among Non-Prime Auto Lenders



Source: Company Filings, Industrial Alliance Securities

**BORROWER PROFILE**

Carfinco focuses in on the “D” customer in the 29.5% segment through the Go Plan structure. The company also provides loans in the “C” segment. Figure 3 profiles the typical CFN borrower and what an average loan looks like. Average loan values hover around \$12k with terms of under 5 years and an effective interest rate of 32.9%. Each loan origination also carries a \$499 administration fee.

Figure 3: Typical Customer & Car Loan Characteristics

Customers Profile		Typical Car Loan	
Average age:	37.8 years	Loan size:	\$12,000
Average residency:	4.7 years	Average term:	51.9 months
Average job length:	4.0 years	Average payment:	\$406
Average income:	\$3,200/month	Vehicle age:	4.6 years
		Interest rate:	28.8%
		Effective rate:	32.9%
		Administration fee:	\$499

Source: Company Filings, Industrial Alliance Securities

The key is the relatively low loan value per contract which limits *severity* of individual losses. Through underwriting expertise, tight collateral management, dealer risk sharing programs and efficient collections processes (all discussed later), **CFN is able to manage the *frequency* and further limit *severity* of losses in its portfolio.**

### **PRODUCT DESCRIPTION**

CFN is rare among lenders in that they purchase loan contracts at a discount from dealers. They have three general loan products, categorized by the discount factor: 2%/10% and Go Plan which is a dealer participation program where discounts range from 20-60%. The Go Plan is unique as it allows the dealers to earn back the discount depending on the performance of a pool of loans originated at that dealership.

### **WHY GO PLAN IS ADVANTAGEOUS TO THE DEALER**

Go Plan helps dealers move used vehicles off their lot by acquiring clients that they would otherwise have been unable to source financing for. Additionally, the dealer can share in the revenue on these loans by earning back the discounted portion. The earn-back is tied to positive performance of the loan pools originated at that dealer.

Intuitively, dealers may also experience other ancillary benefits from Go Plan. We believe that access to this pool of customer's helps dealers' sell more used cars directly as opposed to the auction market. This should either earn the dealer a higher margin per used car sale or allow the dealer to offer prime buyers better trade-in values, enhancing customer loyalty.

## INVESTMENT THESIS

### A) GROWTH OPPORTUNITIES

CFN's opportunities to expand can be categorized into macro factors, industry factors and geographic and organic factors. The firm targets receivables growth of 20-25% during normal phases of the economic cycle. **Financial leverage remains low at 2.47:1 with an upper band set by its underwriting syndicate at 3.75:1. Thus, plenty of capacity exists to fund growth in 2010.**

#### 1. Macro Factors

**Consumer Profile:** the most important macro factor revolves around the increased consumer activity associated with an economic recovery. Specific to Carfinco, the recession will undoubtedly have dampened consumer credit scores for many who overextended prior to the downturn. For example, to Sept 2009, Canadian **personal bankruptcies (including proposals) rose 47% over 2008 to ~150k (nearly 1% of the workforce)**. Moreover, lenders are applying tighter adjudication standards (see Figure 1). Thus, the pool of potential CFN borrowers should have a bias towards expanding as we emerge from the recession.

**Used Vehicle Market:** Used vehicle purchases exhibits lower volatility than new vehicle purchases owing to the fact that the used purchase decision is usually one of *need* instead of *want*. More interestingly, used vehicle sales growth tends to outperform new vehicle sales in years when GDP is below 4%. Specifically, used car sales exhibited positive growth in 42% of years and negative growth in 29% of years when GDP growth was 4% or less, compared to 21% and 42% for new car sales, respectively (see figure 4).

**Figure 4: New & Old Cars Purchase Patterns**

GDP	Growth (% yrs) New Cars			Growth (% yrs) Used Cars		
	(+)	(-)	Total	(+)	(-)	Total
<2%	0%	21%	21%	10%	13%	23%
2-4%	21%	21%	42%	32%	16%	48%
4-6%	29%	0%	29%	23%	3%	26%
>6%	6%	2%	8%	3%	0%	3%
	56%	44%	100%	68%	32%	100%

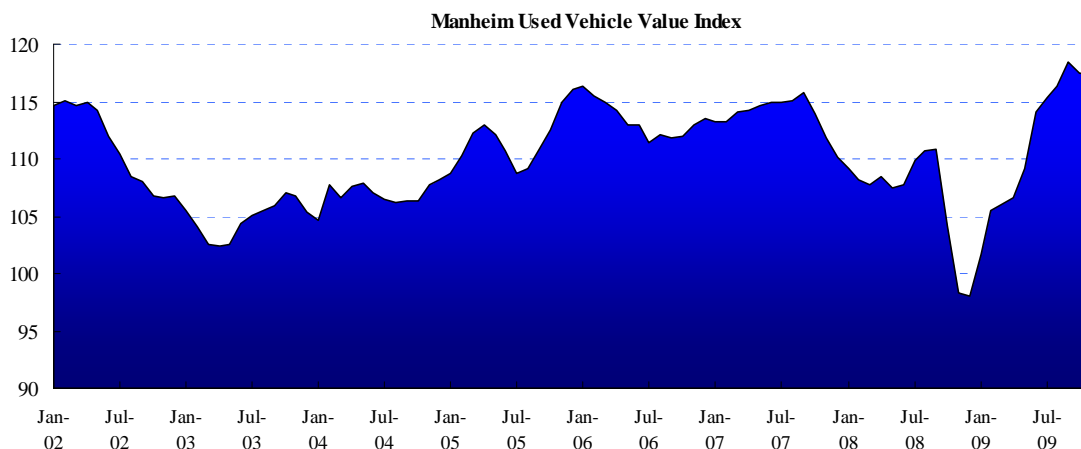
\*new car sample based on 48 years of data, used car sample based on 31 years of data

Source: Manheim Consulting, Industrial Alliance Securities

In tighter employment markets, cost conscious consumers are holding onto their vehicles longer and/or are giving greater consideration to buying used vehicles instead of new ones. In addition, vehicle manufacturers have made some adjustments to narrow the parity gap between Canadian and U.S. sticker prices resulting in fewer cross border purchases.

Currently, the supply of used cars is trending down as owners hold on to their vehicles longer, fewer are leasing and fleet purchases decline. Also, attendance at used vehicle auctions in Canada has risen of late; implying that demand for used cars is on the rise. Meanwhile, the supply of used vehicles is trending down. The combination of these forces are helping to buoy prices in the used car market (see figure 5).

**Figure 5: Used Vehicle Price Trends**



Source: Manheim Consulting, Industrial Alliance Securities

**Conclusion: Higher used car values, underpinned by consumer demand, should drive both higher loan values and volumes while supporting better recoveries on seizures (lower loan losses).**

## **2. Industry Factors**

**Rationalized competition:** As noted, competitors have either exited the non-prime auto lending space in Canada or have moved upstream to lower risk contracts at the 9-19% pricing level. While CFN has placed its focus at the 29.5% segment of the market, currently there is a relative supply void in the 21-25% segment or “C” category.

**This market niche represents an opportunity to deploy a risk-based pricing strategy between 21.0% and 29.5%, for CFN to fill this void.** The “C” market segment is between \$1.5B to 1.7B. Rifco does compete somewhat here, however few other competitors exist (See figure 2). While CFN does write a few loans here, the majority of receivables are “D” class.

Bank owned competitors (VFC and Scotia) will likely be loath to turn back downstream in the early goings of an economic expansion as the Banks have an abundance of “low hanging fruit” opportunities with more attractive risk profiles. A greater competitive risk would stem from re-entry by U.S. competitors. Here too, we see little imminent risk as these companies

face very poor credit quality in the U.S. and serious capital constraints to growth. In our view, neither of these risks should materialize sooner than 2-3 years out.

**Dealer Network Restructuring:** Commensurate with the restructuring of the Big 3, the dealer network will also be subject to rationalization. DesRosiers estimates that 500-600 of Canada's 3,450 dealers will close as a result. Many franchise dealers will become independent, and these tend to do more business with CFN.

GM alone is pulling franchises from ~250 of its 750 Canadian dealers and CFN has historically done little business with GM franchise dealers. This presents **CFN with a material opportunity to expand its distribution capabilities, which currently total 1200 dealers.**

**Opportunities at Existing Dealers:** CFN's dealer network is subject to the 80/20 rule. In some cases this means that certain dealers are underperforming their potential, in others it's a matter of scale and location.

For those underperforming dealers, it often boils down to better education of CFN's product offering to help service and capture a car buying customer that the dealer may otherwise have discarded. Many dealers have "drawer-fulls" of rejected credit applications from other lenders that could have been approvals at CFN. Thus, in 2010 CFN is placing emphasis on better educating its dealer network, particularly on the Go Plan, to gain deeper penetration.

### **3. Geographic & Organic Factors**

**Enter Quebec Market:** Research is being done here, but we anticipate the move will be slow and should constitute more of a 2011 story. Certain issues in Quebec's consumer protection laws create some hurdles for CFN's proven lending practices. Examples include requiring 30 days notice to borrower before initiating the GPS starter interrupter while the norm is 5 days elsewhere in Canada. Also, seized vehicles must await judgment before auction recoveries can be executed.

**New Products:** While management was guarded about disclosing any competitive secrets here, they did mention that several new products were in the works. We can only speculate that some may be related to seizing the 21-25% market, while others could be geared towards capturing more of its existing segment. Anyway you look at it, more product breadth can only be seen as a positive for such a focused lender.

**Less competition combined with more distribution outlet opportunities and deeper penetration into existing dealers should drive growth well into 2012 and beyond. We believe that 10-15%, possibly 20%, receivables growth is achievable in 2010 with over 20% in 2011.**

## B) RISK MANAGEMENT PROCESS

**The battle for profitability and success in niche financial services is won and lost on the risk management front.** By their nature, niche markets suffer from much greater risk of loss. By virtue of this, they can also reap significantly higher returns for those who apply strict risk management procedures. We distil risk management, in the context of CFN's operations, into 4 key areas: underwriting process; risk sharing; collections; and collateral management.



### 1. Underwriting Process & Expertise

**Technology (Car-Q):** The lending process begins at the dealer through CFN's proprietary front-end web portal Car-Q. The system can receive apps 24/7 with decisions rendered within 30 minutes, and often faster. **As a small firm, CFN can ill afford to waste time returning incomplete applications to the dealer.** With Car-Q, the dealer must complete a series of fields, with some linked to Black Book algorithms and Equifax credit verification, before being able to continue to the next field and ultimately complete the application. This yields efficiency through ensuring that all applications sent are complete and ready for credit officer review.

**Adjudication & Pricing:** As CFN primarily targets the "D" market, careful review of each application is required to appropriately price the risk. A portfolio underwriting approach would not cut it here. Each application is reviewed by a credit officer who verifies structure, specific terms and pricing based on uniform underwriting standards and comprehensive credit analysis. CFN processed an average of 4,000 credit applications a month in 2008. Of these, 30% were approved, with 24% of these approved applications being funded. **All loans are charged a fee of \$499 up front and are bought at a discount of 2%/10% or 20-60%, as in the case of the Go Plan, and carry an APR of 29.5%.** Once the credit decision is returned to the dealer and accepted by the borrower, the file is handed off to the verification department.

Niche finance tends to be expertise driven. Certain factors play material roles in reducing risk, which is why each application must be individually reviewed. As an example, **CFN has**

**observed that, irrespective of income bracket, non-prime loans with monthly payments above a certain threshold tend to have materially higher loss rates.** Therefore, CFN refuses to underwrite loans with monthly payments in excess of this level.

***Application Verification: in non-prime auto finance, the lender must be aware of deviant practices from both the borrower and the dealer.*** The borrower's motivations to provide incomplete information are self-evident, but less intuitive to some might be the dealer's inclination to withhold information. We must remember that a conflict of interest is present for the commissioned automobile salesman, biased towards closing the deal.

To this end, each approved loan is verified before the funds are advanced to the dealer. How so? CFN checks that the dealer has properly informed the client of all the terms of the loan by calling the borrower and questioning them. Additionally, if the loan application was made for a car with value enhancing options (air-conditioning, sun roof etc...), these must be present on the vehicle. CFN also contacts the insurance company to verify that adequate insurance coverage is available as agreed upon and that appropriate warranty payments are collected and forwarded to the warranty company.

**Verification ensures that the loan extended is not misrepresented in any way to any stakeholders and is in fact for the exact vehicle specifications listed in the application.** Dealers, who are repeatedly non-conforming, are dropped from CFN's network.

## **2. Risk Sharing (Go Plan)**

**CFN has structured a dealer participation program termed "Go Plan", which effectively transfers some of the credit risk to the dealer.** Loans under the plan are discounted by 20-60%, with the dealer taking the residual. As loans are repaid, CFN recovers its capital before the dealer can recover theirs.

**A material portion of receivables and significant proportion of new originations fall under the Go Plan structure,** rendering CFN's credit risk on that portion lower than for the remainder of its book. The dealer reserve is specifically set up to absorb losses stemming from the Go Plan loans before CFN's own reserves (ACL) would kick in.

**In a more competitive phase, we may see dealers less interested in participating in these types of structures. However, these competitive phases tend to arise late in an economic expansion** as larger players come downstream looking for growth opportunities. As a case in point, TD and Scotia have recently retrenched and will likely be slow to return.

### **3. Collections Expertise, Portfolio Management & Technology**

*Portfolio Management:* includes processing customer payments; responding to customer inquiries; contacting delinquent customers; maintaining the security interest in each contract; monitoring insurance requirements; repossessing and liquidating collateral when necessary; and legal proceedings.

Among the above noted items, collections/keeping contact with clients and working to keep them current is a critical function. Again here, CFN invested in technology to streamline the process and enhance efficiencies. **In 2008, they implemented a predictive dialling call center technology that has materially improved collections efforts.**

The chosen system possesses the fastest recognition of live voice pick up and transfer to a representative available, and links into CFN's very robust and flexible Linux based core finance system/database. Together, these allow CFN to run automated and very targeted campaigns like "call all customers 1-30 days late with monthly payments of \$400". The system leaves messages or transfers to an agent instantly upon live voice pick up.

### **4. Collateral Management ("Sitting Duck" Collateral!)**

All the underwriting experience and verification cannot immunize a firm from losses. Thus, the final step in risk management is collateral management. **While CFN "knows where their borrowers live" so to speak, sending a bailiff to seize an asset (the car) in the event of non-payment is not cut and dry.** Many borrowers take steps to evade bailiffs, thereby increasing seizure costs. Normal seizure costs to the finance company can run from \$500-600 to upwards of \$1,500.

**How does CFN deal with this? They install a GPS starter interrupter in a high proportion of new originations and all Go Plan loans.** This device, disclosed to the client at origination, is activated after 2 days delinquency. For the following three days it activates an alarm for 20 seconds each time the vehicle is started or stopped, after which time the interrupter is triggered and the vehicle is rendered immobile.

The GPS component allows for a "sitting duck seizure" by the bailiff which costs between \$300-400. Typically, within 5-12 days of delinquency the vehicle is repossessed. The client then can choose to become current (many of whom remain performing afterwards) or give up the vehicle to Carfinco. **Not only does the use of this technology lower costs of seizures to the firm, but it also increases likelihood and efficiency of seizures.**

**Conclusion: Does this Improve CFN's Credit Risk Profile?**

So do all these risk management processes improve credit risk in CFN's receivables book? You bet they do.

Fitch Prime Credit Card delinquency rates at December 31, 2009 in the U.S. were 4.19%. **By contrast, CFN's "high risk portfolio" had experienced 4.5% delinquencies at Q3/09.** Also, Americredit, one of CFN's massive U.S. comparables, had delinquencies of 7.6% at Sept 30, 2009.

While its true that consumers will tend to try an pay car loans before many other types of consumer debt, CFN's credit quality is comparable to U.S. prime consumer credit card debt and better than the largest comparable U.S. non-prime auto lender.

Worth mentioning also, is that CFN really lends to the poorest credit risks ("D" customer), so as they move upstream into the "C" market, the relative riskiness of the portfolio should decline.

**C) CAPITAL ADEQUACY, RESERVES AND IMPROVING CREDIT QUALITY**

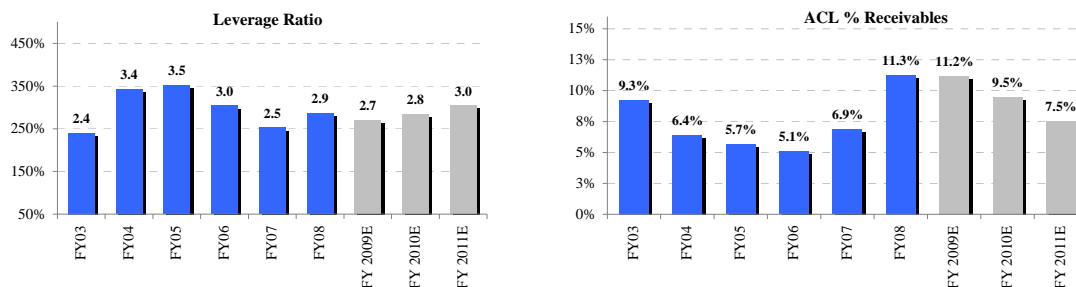
From a shareholder/investor perspective, CFN's balance sheet is in very solid shape, a fact that should allow them to outperform materially over the near and medium term. Specifically, reserves are stronger than ever and delinquencies are on the decline. We also note that charge offs from Go Plan loans flow through the Dealer Reserve line, and not the income statement.

**1. Solid Balance Sheet – Excellent Reserves**

CFN's balance sheet strength begins with its Capital Adequacy and Reserves. Capital Adequacy is measured by the leverage ratio and is closely monitored by CFN's underwriting syndicate who **require them to operate at no more than 3.75x capital. Currently, the firm is running at 2.47x, down from 2.9x in 2008** during the height of the financial crisis. Management indicated comfort to run at 3.25x optimally.

The prime source of debt stems from the lending credit facility, underwritten by Bank of America, Wells Fargo and BMO. The facility has a limit of \$85M with \$66M drawn down and carries a rate of prime +175bps and 25bps for standby. The critical covenant besides the leverage ratio is interest coverage of >1.5x.

**Figure 6: Capital Adequacy and Reserves**



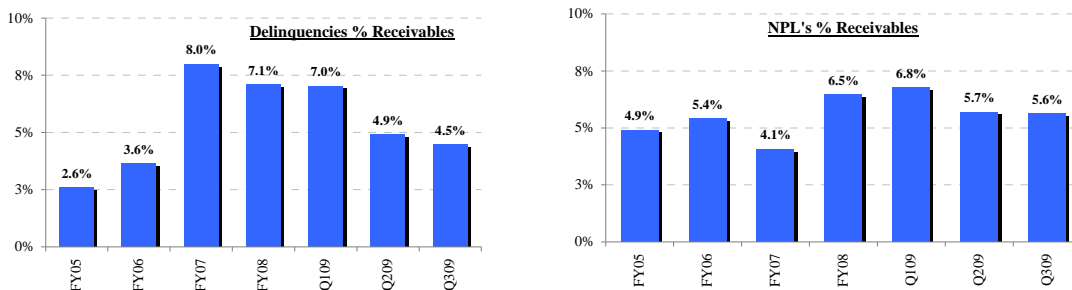
Source: Company Filings, Industrial Alliance Securities

From a reserving perspective, allowance for credit losses (ACL) as a percentage of finance receivables, rose to 11.3% in 2008 from 6.9% in 2007. The level has been maintained above 11% throughout 2009, despite improving credit quality in the book. Put differently, **CFN’s coverage ratio (ACL + dealer reserve divided by impaired loans (NPLs)) rose to 269% in Q3/09 from 209% in 2008.** Even more safety can be gleaned from the fact that the carrying amount (impaired loans less specific reserves) are covered 876% by general reserves or 8.8x coverage.

**2. Improving Credit Quality**

**Delinquencies have trended downward to 4.5% of receivables vs. 7.2% in 2008 and 8.0% in 2007 (see figure 7).** Accounting presentation changed in 2008 (restating 2007) counting delinquencies at 31+ days compared to 61+ days in 2005/2006. Therefore, these earlier years are not comparable, but included here to provide a frame of reference. Since 60+ days in Q3/09 are running at 2.2% of receivables (between the 2004 & 2005 marks), we can determine that credit quality within CFN’s book appears to have improved to pre crisis levels.

**Figure 7: Positive Trends in Credit Quality**

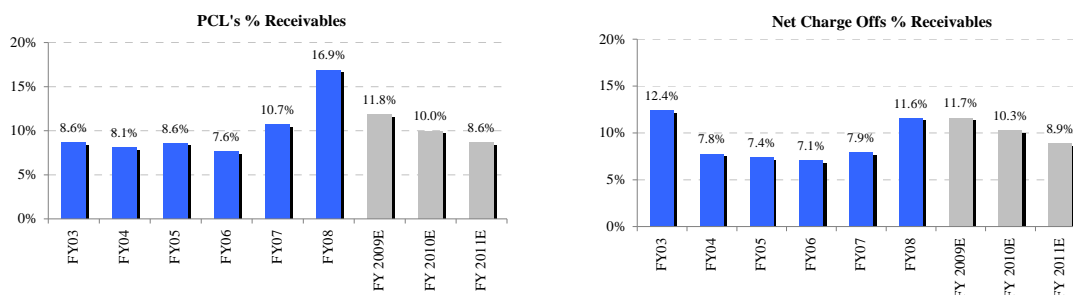


\*Accounting presentation for delinquencies changed in 2008 and restated 2007, therefore 2007 to 2009 are comparable. Prior to 2007, delinquencies were counted as loans 61days+ while 2007 forward, delinquencies are counted more conservatively at 31days+.

Source: Company Filings, Industrial Alliance Securities

Provision for credit losses (PCLs) have trended lower supporting improved earnings in 2009. The lower PCLs are not the result of reserve releases or earnings management. Instead, net charge offs have tended to equal PCLs. Since reserves have strengthened as noted above, CFN appears to be holding reserve levels constant by replacing charge offs with new provisions. **Looking forward, earnings (particularly surrounding the tax conversion deadline) should benefit from reserve releases.**

**Figure 8: Provisioning Trends**



Source: Company Filings, Industrial Alliance Securities

## D) MANAGEMENT AND TRACK RECORD

### 1. Management Profile

Senior management and directors own 21.2% of the firm, aligning interests with shareholders. Below we highlight some statistics of key management and directors.

**Figure 9: Trustees, Directors and Officers**

Name	Position	Trustee/ Director since	'08 Salary	'08 Bonus	Ownership (units)	outstanding %
Tracy Graf <sup>1,2</sup>	President, CEO and Trustee	2002	\$175,000	\$156,000	1,600,327	7%
Troy Graf <sup>3</sup>	CFO and Vice President Finance	2002	\$145,000	\$65,000	494,438	2%
David Prussky	Treasurer and Director, and Trustee, and Director of <i>Patuca Securities Limited</i>	2002	N/A	N/A	1,364,653	6%
David Rosenkrantz	Chairman and Trustee and Director of <i>Patuca Securities Limited</i>	2002	N/A	N/A	1,529,573	6%

1. Mr. Tracy Graf is also entitled to a bonus of \$50,000 per annum in the event that Carfinco LP earns a pre-tax profit of \$1,500,000 or more

2. CEO is entitled to one-twelfth of 0.2% of the outstanding principal amount of the finance receivables in excess of \$25 million at the end of each month

3. Mr. Troy Graf is also entitled to a bonus of \$25,000 per annum in the event that Carfinco LP earns a pre-tax profit of \$1,500,000 or more

4. As of Dec 31, 2008, the Trustees, the Directors and executive officers of the Fund and Carfinco, beneficially owned, or controlled 4,956,305 Units, or approximately 21.2% of the outstanding Units

#### **Related Party Transactions**

Transactions	Description
<b>Patuca Securities Limited</b>	Consulting Services Agreement with fixed monthly fee of \$13,375, a variable monthly fee of one-twelfth of 0.2% of the outstanding principal amount of the finance receivables; payment of \$380,448 was made in 2008 to Patuca Securities Limited
<b>Debentures</b>	During 2008, the Fund issued 14% debentures in the principal amount of \$900,000 to related parties (Trustees and/or Officers of the Fund, or their family members)

Source: Company Filings, Industrial Alliance Securities

Previous to CFN.UN, but still under current management, Carfinco was an “Inc” providing auto repair and maintenance loans under their “Fix ‘em Up” trademark from 1996 to 2002. The shift to non-prime lending grew out of the very low loan values and extremely high administration expense associated with Fix ‘em Up loans. Below we highlight a timeline of some notable events.

**Figure 10: History & Recent Events**

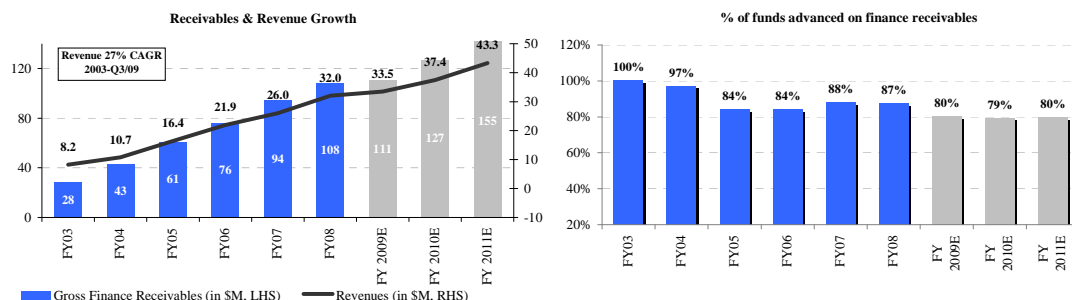
Date	Event
December 30, 1996	Carfinco Inc. was incorporated
May 7, 1997	Completed an IPO on the Canadian Dealing Network
October 10, 2000	The Company's shares began trading on the Canadian Venture Exchange
November 27, 2002	Converted into an income trust
June 21, 2005	Transferred its listing to TSX
June 10, 2008	Suspended their monthly distribution
December 15, 2008	Extended the maturity date of its credit facility to Dec 15, 2010, with interest rate of Canadian prime rate + 175bps (0.25bps standby)
August 6, 2009	Announced the resumption of the monthly distribution of 1.5 cents/ unit starting August 2009

Source: Company Filings, Industrial Alliance Securities

**2. Track Record - Growth and Profits Too...**

**Growth Performance:** Revenue growth is directly tied to growth in underlying receivables. From 2003 to 2008, the company grew gross receivables and revenue by a CAGR of 30.8% and 31.2%, respectively. Including 9M2009, the CAGR slows to ~27% for both receivables and revenue, as tighter adjudication by CFN combined with lower borrowing demand, caused slower growth in 2009. However, as noted above, we anticipate lending activity to pick up and more rapid growth to resume in the near term.

**Figure 11: Finance Receivables and Revenue Growth**



Source: Company Filings, Industrial Alliance Securities

Figure 11 also shows the funds advanced to dealers as a percentage of receivables. This highlights the increased use of the Go Plan loans in 2008 and 2009. The unfunded amount largely reflects the dealer portion.

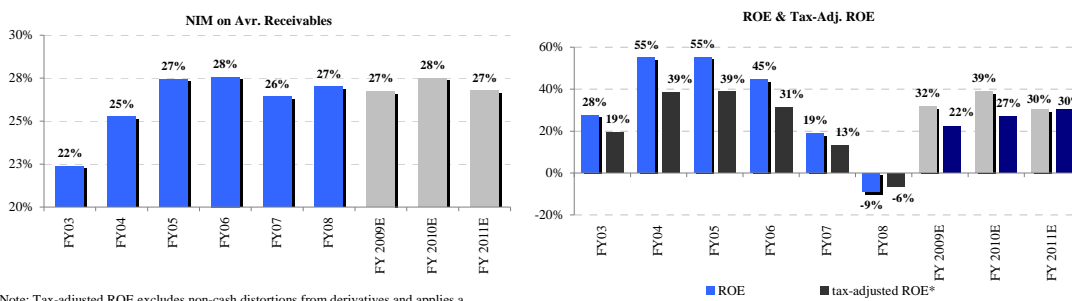
**Excellent Profitability:** CFN’s profitability, as a spread lender, is dependent on its cost of funds (thus interest rate movements), operating efficiency and credit quality which impacts PCLs.

On the spread side, we measure performance using net interest margin or NIM (interest income less interest expense divided by average receivables). Compared to banks, which have NIMs around 2.0-3.5%, CFN enjoys a fairly attractive spread of roughly 25-28%.

Operating expenses tend to run around 30% of revenues, but **operating leverage is possible once the growth path resumes, thus this could track down to 26-28%.**

We display ROE and tax-adjusted ROE in Figure 12. Tax adjusted ROE excludes non-cash impact from derivatives as well as applying a 30% tax rate to make CFN’s performance comparable with corporations. **We note that tax adjusted ROE is forecast to rise from ~22.2% in 2009 to 27.2% in 2010, and then 30.1% in 2011.**

**Figure 12: Profitability Ratios**



Note: Tax-adjusted ROE excludes non-cash distortions from derivatives and applies a tax rate of 30% to reflect what taxable ROE would have looked like if CFN was a Corp.

Source: Company Filings, Industrial Alliance Securities

PCLs as a percentage of receivables are running around 12% in 2009, keeping reserves stable by matching charge offs. Historically, CFN has run at more like 8-10%. As growth resumes, we expect a return to more normal levels, which will roughly coincide with the 2011 tax conversion for income trusts and offset some tax impact on earnings.

**Sensitivity:** Each percentage point of operating leverage gained adds roughly \$0.01 to EPS on an after tax basis while each percentage point improvement in PCL adds \$0.03 after tax. Each 100bps decrease in NIM lowers after tax EPS by \$0.02.

**Competitive Advantage:** CFN's strengths and competitive advantages are summarized in the table below. These are the critical factors that should allow CFN to capitalize on significant market opportunities over the next few years.

**Figure 13: Competitive Strengths**

Competitive advantages & company strengths	
<b>Strong management</b>	Expertise, track record, ownership
<b>Product diversity</b>	Programs tailored to the varying needs of dealerships and consumers
<b>Barrier's to entry</b>	Experienced call center, customized software systems & detailed monitoring of customer base
<b>Vertically integrated</b>	All key functions internal: underwriting, account management, inventory tracking, legal, collections, skip tracing, repossession & re-sales
<b>Indirect lending</b>	Allows for lower capital expenses as it purchases the loans being originated by the Dealers at a discount
<b>Technology &amp; operational efficiency</b>	Agreements with Curomax and Dealer Track Canada, proprietary Car-Q, and robust core finance system and predictive dialing technology for call centre
<b>Strong Dealer relationships</b>	Excellence in dealer service through consistency, reliability and responsiveness
<b>Knowledge of the market</b>	Inadequate knowledge of the risks on both dealer side and borrower side face tremendous underwriting risks

Source: Company Filings, Industrial Alliance Securities

**E) SAFETY OF DISTRIBUTION**

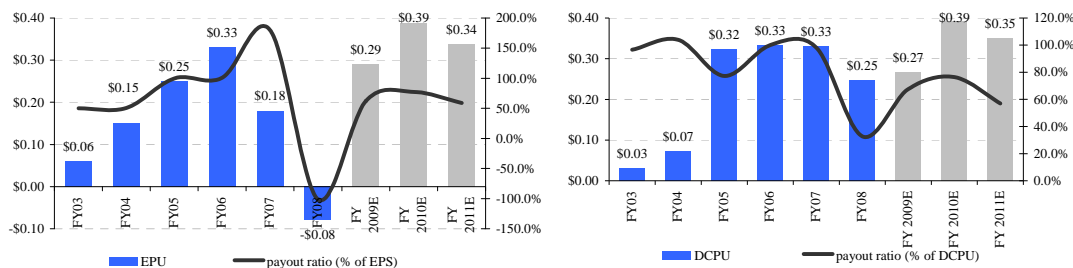
**1. Restored Distribution & Payout**

CFN restored a monthly distribution in August 2009 of \$0.015/unit per month (\$0.18 annualized). This was below the pre-suspended level of \$0.027/unit. While Q3/09 benefited from only two months, **on a proforma basis, CFN would have paid out 50% of EPU and 55% of DCPU in the quarter.**

**2. Special Distribution and 2010 Expectations**

On December 8, CFN announced a special distribution of \$0.105 cash and \$0.0641 unit distribution for a total of \$0.1691 per unit to avoid taxation within the trust. **The current yield on regular distributions equates to 8.7%, but the special distribution provides a window into what investors could expect next year (we forecast \$0.30).** This equates to a 14.5% current yield.

**Figure 14: Payout Ratios**



Note: FY2011 distribution contains no special distributions as firm will pay 30% tax. FY2010 estimated special distributions are \$0.12, FY2009 special distributions are \$0.105

Source: Company Filings, Industrial Alliance Securities

**3. 2011 Tax Conversion**

We do not anticipate that CFN will raise its monthly distribution from \$0.015/unit this year to \$0.022+ in 2010 in advance of the 2011 tax conversion deadline. What we do expect is some minor increase in conjunction with another sizable year-end special distribution, or quarterly special distribution adjustment (our preference).

In this way, the regular payout ratio will be maintained at a manageable level, reducing/eliminating the risk of a cut at the conversion deadline.

**F) FINANCIAL HIGHLIGHTS AND CONCLUSION**

While 2008 and 2009 will be nothing to write home about in terms of growth, management has shown its mettle under fire and steered the company through an environment that could have had a catastrophic conclusion.

Instead, CFN emerges as a very well capitalized firm, with improved technology, risk management processes and opportunities in a market nearly void of competition. Moreover, the firm has re-instituted a monthly distribution and demonstrated that it has ample capability to maintain and grow it, regardless of the impending tax conversion deadline.

**Figure 15: Financial Highlights**

	Q309	%Chg QoQ	Q209	%Chg YoY	Q308
<b>Revenue</b>	<b>8,601</b>	<b>5.9%</b>	<b>8,119</b>	<b>3.2%</b>	<b>8,338</b>
Provision for credit losses	3,074	-4.6%	3,222	-19.6%	3,825
Operating expenses	2,475	1.9%	2,429	6.2%	2,330
<b>EBITDA</b>	<b>2,039</b>	<b>44.9%</b>	<b>1,407</b>	<b>120.0%</b>	<b>927</b>
EPU	0.09	12.5%	0.08	200.0%	0.03
DCPU	0.08	61.3%	0.05	1.4%	0.08
DPU	0.03	NA	0.00	NA	0.00
<b>Payout Ratio</b>	<b>37%</b>	<b>NA</b>	<b>0%</b>	<b>NA</b>	<b>0%</b>
<b>ROE</b>	<b>37.1%</b>	<b>NA</b>	<b>32.4%</b>	<b>NA</b>	<b>13.5%</b>
<b>Gross Receivables</b>	<b>111,508</b>	<b>1.8%</b>	<b>109,487</b>	<b>2.6%</b>	<b>108,637</b>

Source: Company Filings, Industrial Alliance Securities

## VALUATION

We use a blended approach to valuing CFN, using discounted free cash flow as well as P/E, which results in a **target price of \$3.50**. The **potential 83.6% upside results in a STRONG BUY recommendation**.

**Discounted Cash Flow:** Our DCF target price of \$3.75 applies a WACC of 17.5%, derived by adjusting estimated WACC for liquidity and small company discounts, and a terminal growth rate of 2.5%.

Critical assumptions in our forecast model include

- 5-year CAGR revenue growth of 14.3% (modest in our view),
- margin expansion of 2.5% (also conservative as most of the systems investment was taken in 2008/2009),
- average charge offs to receivables of 8.6%,
- Adjusted EBITDA CAGR of 20.3%,

WACC	12.5%
Liquidity adj.	2.5%
Small Cap adj.	2.5%
<b>Adj. WACC</b>	<b>17.5%</b>
<b>Terminal Growth Rate</b>	<b>2.5%</b>

	2010	2011	2012	2013	2014	Terminal (TV)
FCFF	28.5	27.7	31.8	35.3	41.0	
PV	24.2	20.0	19.6	18.5	18.3	124.6
PV TV						55.6

<b>SUM PV (Est. EV)</b>	<b>156.1</b>
Debt	69.8
Cash	2.7
Residual Equity	89.0
S/O adj. for unit dist.	23.9

#### PV Time Weighting

<5 Years %	64%
>5 Years %	36%

<b>Intrinsic Value</b>	<b>3.72</b>
------------------------	-------------

		WACC				
		13.5%	15.5%	17.5%	19.5%	21.5%
Terminal Growth	1.5%	5.93	4.55	3.55	2.83	2.26
	2.0%	6.13	4.68	3.63	2.88	2.30
	2.5%	6.35	4.81	3.72	2.94	2.34
	3.0%	6.58	4.96	3.81	3.00	2.38
	3.5%	6.84	5.11	3.91	3.07	2.42

Our sensitivity analysis demonstrates that a discount rate of 21.5% and a terminal rate of 1.5% would still result in a value roughly equal to the current trading level.

**Multiple Valuation:** Comparable analysis was conducted using comparable US peers (non-income trust) as well as a few specialty lenders in Canada, notably Rifco a direct competitor, and Chesswood, a small business equipment lender and vehicle leasing specialist.

While we provide P/B, EV/EBITDA for comparison, P/E is most appropriate for lenders with an eye on yield and ROE.

**U.S. peers trade at a P/E of 18.8x TTM and 6.5x 2010E, while in Canada, selected peers trade at 9.3x TTM, respectively.** We note that none of the U.S. comparables pay dividends, and average ROE among all peers is 9.7%.

While CFN's tax adjusted TTM P/E 16.3x, is lower than its U.S. peers, but slightly higher on a forward basis. The two profitable U.S. comps have an average 13.1x forward multiple on 2010 EPS. We assign a 13.0x multiple to CFN's 2010E tax-adjusted EPS, slightly lower than the global peer average of 14.0x TTM and in-line with the U.S. comps.

This is justifiable in that CFN is fully capitalized, and has better ROE on a TTM basis and on a 2010E forward basis. CFN also pays a healthy 8.7% yield, which including estimated special distributions 2010 will raise to approximately 14.5%. We remind investor that U.S. comparables are under capital pressure and not currently in an expansionary phase, and still command a 18.8x multiple.

As a fast growing, high margin, dividend paying, high yielding stock, we feel that a 13.0x multiple on 2010 tax-adjusted earnings of \$0.25 is more than justified, resulting in a value per share of \$3.25.

**Figure 16 – CFN Comparables Table**

Company	Ticker	Price 2-Feb	Market Cap. (millions)	EPS/EPU			EV/EBITDA (TTM)	P/E		P/B	BVPS	ROE %	Indicated Yield
				TTM	Last Quarter	2010E		TTM	2010E				
<b>U.S. Non-Standard Auto Lenders</b>													
AMERICREDIT CORP	ACF	\$21.35	\$2,848	\$0.75	\$0.33	\$1.32	6.9x	28.5x	16.2x	\$1.29	\$16.57	1%	0%
CREDIT ACCEPTANCE CORP	CACC	\$52.65	\$1,631	\$3.78	\$1.29	\$5.16	8.6x	13.9x	10.2x	\$3.61	\$14.57	22%	0%
NICHOLAS FINANCIAL INC	NICK	\$7.50	\$95	\$0.54	\$0.23	\$0.92	6.2x	14.0x	8.2x	\$0.99	\$7.58	6%	0%
CONSUMER PORTFOLIO SERVICES	CPSS	\$1.29	\$24	-\$1.80	-\$0.23	-\$0.92	6.2x	N/A	-1.4x	\$0.30	\$4.37	nmf	0%
UNITED PANAM FINANCIAL CORP	UPFC	\$3.00	\$47	-\$1.01	-\$1.25	-\$5.00	N/A	N/A	-0.6x	\$0.35	\$8.67	nmf	0%
Group Average							7.0x	18.8x	6.5x	1.3x		10%	0%
<b>CARFINCO INCOME FUND</b>	<b>CFN-U</b>	<b>\$2.06</b>	<b>\$49</b>	<b>0.13</b>	<b>0.06</b>	<b>0.25</b>	<b>12.8x</b>	<b>16.3x</b>	<b>8.2x</b>	<b>2.0x</b>	<b>\$1.02</b>	<b>0.4%</b>	<b>8.7%</b>
<b>Canadian Specialty Lenders</b>													
RIFCO INC	RFC	\$0.40	\$8	\$0.04	\$0.00	N/A	5.1x	10.0x	N/A	0.9x	\$0.46	8.9%	0.0%
CHESSWOOD INCOME FUND	CHW-U	\$4.25	\$29	\$0.50	\$0.00	N/A	11.7x	8.5x	N/A	0.5x	\$9.05	10.7%	8.5%
Group Average							\$8.39	9.3x	N/A	0.7x		10%	4%
<b>CARFINCO INCOME FUND</b>	<b>CFN-U</b>	<b>\$2.06</b>	<b>\$49</b>	<b>\$0.13</b>	<b>\$0.06</b>	<b>\$0.25</b>	<b>12.8x</b>	<b>16.3x</b>	<b>8.2x</b>	<b>2.0x</b>	<b>\$1.02</b>	<b>14.2%</b>	<b>8.7%</b>
Global Average							7.7x	14.0x	6.5x	1.0x		9.7%	2.1%
<b>CARFINCO INCOME FUND</b>		<b>2.06</b>	<b>\$49</b>	<b>\$0.13</b>	<b>\$0.06</b>	<b>\$0.25</b>	<b>12.8x</b>	<b>16.3x</b>	<b>8.2x</b>	<b>2.0x</b>	<b>1.02</b>	<b>14.2%</b>	<b>8.7%</b>
<b>IAS Actual CARFINCO ESTIMATE (without 30% tax inclusion)</b>				<b>\$0.18</b>	<b>\$0.09</b>	<b>\$0.36</b>		<b>11.4x</b>	<b>5.7x</b>				

Note: CFN ROE, EPS & P/E adjusted to include 30% tax to make comparable with U.S. traded non-standard auto lenders.

Source: Bloomberg, Company Reports, Industrial Alliance Securities

# APPENDIX: FINANCIALS

## INCOME STATEMENT

Statement of Income and Retained Earnings													
	FY 2007	FY 2008	Q109	Q209	Q309	Q409	FY 2009E	Q110	Q210	Q310	Q410	FY 2010E	FY 2011E
<b>Total revenue</b>	26,034	32,014	8,050	8,119	8,601	8,754	33,523	8,880	9,191	9,513	9,846	37,430	43,345
<b>Revenue growth</b>	18.7%	23.0%	6.3%	2.4%	3.2%	7.1%	4.7%	10.3%	13.2%	10.6%	12.5%	11.6%	15.8%
Interest & financing fees	3,533	4,689	1,139	1,061	1,013	1,056	4,269	1,071	1,138	1,208	1,282	4,699	5,568
<b>Interest expense growth</b>	16.6%	32.7%	5.8%	-10.0%	-19.3%	-10.3%	-9.0%	-6.0%	7.3%	19.3%	21.3%	10.1%	18.5%
<b>Interest expense % of average receivables</b>	3.7%	4.3%	4.2%	3.9%	3.7%	3.8%	3.9%	3.8%	3.9%	4.0%	4.1%	3.9%	3.9%
<b>Net financial income before provision for credit losses</b>	22,502	27,325	6,911	7,059	7,589	7,698	29,256	7,809	8,053	8,305	8,564	32,731	37,777
<b>Growth in net financial income</b>	19.0%	21.4%	6.3%	4.6%	7.2%	10.1%	7.1%	13.0%	14.1%	9.4%	11.2%	11.9%	15.4%
Provision for credit losses	10,092	18,262	3,779	3,222	3,074	3,048	13,123	3,083	3,191	3,204	3,214	12,692	13,399
<b>Net financial income before operating expenses</b>	12,410	9,062	3,132	3,836	4,515	4,651	16,134	4,726	4,863	5,101	5,350	20,039	24,378
<b>Growth in PCL's</b>	73.8%	81.0%	-24.2%	-39.8%	-19.6%	-25.7%	-28.1%	-18.4%	-1.0%	4.2%	5.5%	-3.3%	5.6%
<b>PCL's % average receivables</b>	10.7%	16.9%	13.9%	11.8%	11.1%	11.0%	11.8%	10.9%	10.9%	10.6%	10.3%	10.0%	8.6%
General and administrative	8,014	9,369	2,412	2,429	2,475	2,486	9,803	2,530	2,566	2,603	2,842	10,542	12,228
<b>Growth in G&amp;A</b>	18.8%	16.9%	2.6%	2.1%	6.2%	7.7%	4.6%	4.9%	5.6%	5.2%	14.3%	7.5%	16.0%
<b>Efficiency ratio</b>	30.8%	29.3%	30.0%	29.9%	28.8%	28.4%	29.2%	28.5%	27.9%	27.4%	28.9%	28.2%	28.2%
Loss on derivatives	440	1,543	-94	-416	-196	0	-706						
Amortization of equipment	110	137	45	45	49	50	189	42	43	47	48	181	175
Total operating expenses	8,554	11,050	2,363	2,058	2,329	2,534	9,286	2,572	2,609	2,650	2,890	10,722	12,403
<b>EBITDA</b>	7,929	4,382	1,859	2,468	3,052	3,220	10,599	3,267	3,434	3,705	3,789	14,196	17,718
<b>EBITDA growth</b>	-15.5%	-44.7%	668.0%	1168.1%	39.8%	82.7%	141.9%	75.8%	39.2%	21.4%	17.7%	33.9%	24.8%
<b>EBITDA margin</b>	30.5%	13.7%	23.1%	30.4%	35.5%	36.8%	31.6%	36.8%	37.4%	39.0%	38.5%	37.9%	40.9%
Adjusted EBITDA	7,489	2,830	1,953	2,884	3,248	3,220	11,205	3,267	3,434	3,705	3,789	14,196	17,718
Adj. EBITDA growth	-20.2%	-62.1%	-771.7%	491.5%	64.1%	385.7%	298.2%	67.3%	19.1%	14.1%	17.7%	25.6%	24.8%
Adj. EBITDA margin	28.8%	8.9%	24.3%	35.5%	37.8%	36.8%	33.7%	36.8%	37.4%	39.0%	38.5%	37.9%	40.9%
EBT	3,846	-1,988	769	1,779	2,186	2,114	6,848	2,154	2,253	2,450	2,459	9,317	11,976
Taxes													3,593
<b>Net (loss) earnings and comprehensive (loss) income</b>	3,846	-1,988	769	1,779	2,186	2,114	6,848	2,154	2,253	2,450	2,459	9,317	8,383
<b>Net income growth</b>	-38.6%	-151.7%	NM	NM	216.9%	NM	-444.5%	180.2%	26.7%	12.1%	16.3%	36.1%	-10.0%
<b>Net margin</b>	14.8%	-6.2%	9.5%	21.9%	25.4%	24.2%	20.4%	24.3%	24.5%	25.8%	25.0%	24.9%	19.3%
Deficit, beginning of year	-2,219	-5,484	-9,361	-8,593	-6,814	-5,328	-9,361	-6,714	-5,637	-4,460	-3,087	-6,714	-4,577
Net (loss) earnings	3,846	-1,988	769	1,779	2,186	2,114	6,848	2,154	2,253	2,450	2,459	9,317	8,383
Cash & unit distributions on fund unit equity	-7,111	-1,890	0	0	-700	-3,500	-4,200	-1,077	-1,077	-1,077	-1,077	-9,349	-7,180
<b>Deficit, end of year</b>	-5,484	-9,361	-8,593	-6,814	-5,328	-6,714	-6,714	-5,637	-4,460	-3,087	-4,577	-4,577	-1,150
(Loss) Earnings per Fund Unit													
Basic	0.18	-0.08	0.03	0.08	0.09	0.09	0.29	0.09	0.09	0.10	0.10	0.39	0.34
Diluted	0.18	-0.08	0.03	0.08	0.09	0.09	0.29	0.09	0.09	0.10	0.10	0.39	0.34
<b>EPS Growth</b>	-45.5%	-144.4%	NM	NM	200.0%	NM	NM	200.0%	17.7%	13.8%	13.4%	34.0%	-13.1%
DPU	0.32	0.08	0	0	0.03	0.15	0.18	0.045	0.045	0.045	0.165	0.30	0.20
payout ratio (% of EPU)	180.0%	-101.3%	0.0%	0.0%	33.3%	165.5%	61.9%	50.0%	47.8%	44.0%	160.6%	77.1%	89.1%
DPU Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%	10.0%	66.7%	-33.3%

Source: Company Reports, Industrial Alliance Securities

## KEY METRICS

Metrics	FY07	FY08	Q109	Q209	Q309	Q409	FY 2009E	Q110	Q210	Q310	Q410	FY 2010E	FY 2011E
<b>BVPS</b>	1.03	0.87	0.90	0.98	1.04	0.98	0.98	1.00	1.05	1.11	1.05	1.05	1.24
OCF/cash	0.64	0.78	0.27	0.28	0.28	0.29	0.94	0.23	0.25	0.26	0.26	1.00	0.96
FCF/cash	0.78	0.97	0.27	0.28	0.28	0.29	1.12	0.27	0.30	0.31	0.31	1.19	1.12
<b>Net Interest Margin</b>													
Net Interest Margin	24%	25%	25%	26%	27%	28%	26%	27%	27%	27%	27%	26%	24%
Net Interest Margin - avg receivables	26%	27%	26%	26%	27%	28%	27%	28%	28%	28%	27%	28%	27%
<b>ROE</b>													
ROE	18.9%	-9.0%	14.9%	32.4%	37.1%	35.8%	31.7%	36.7%	36.7%	37.9%	38.1%	38.8%	30.1%
ROE (quarterly table)	0.0%	-9.0%	14.9%	32.4%	37.1%	35.8%	31.7%	36.7%	36.7%	37.9%	38.1%	38.8%	30.1%
tax-adjusted ROE*	13.2%	-6.3%	10.4%	22.7%	26.0%	25.1%	22.2%	25.7%	25.7%	26.5%	26.7%	27.2%	30.1%
Pretax Earnings before loss/gain on derivatives	3,846	-1,988	769	1,779	2,186	2,114	6,848	2,154	2,253	2,450	2,459	9,317	11,976
tax @ 30%	1,154	-596	231	534	656	634	2,054	646	676	735	738	2,795	3,593
Adjusted Net Income	2,692	-1,391	538	1,245	1,530	1,480	4,793	1,508	1,577	1,715	1,722	6,522	8,383
<b>Financial Risk</b>													
DE	2.4	3.4	3.2	2.9	2.7	3.0	3.0	3.0	2.9	2.8	3.1	3.1	3.1
D/A	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Debt to EBITDA (adj.)	7.8x	23.9x	8.5x	5.7x	5.1x	5.3x	6.0x	5.4x	5.4x	5.0x	5.1x	5.4x	5.5x
Interest coverage	2.2x	0.9x	1.6x	2.3x	3.0x	3.0x	2.5x	3.1x	3.0x	3.1x	3.0x	3.0x	2.5x
Leverage Ratio	2.5x	2.9x	2.7x	2.6x	2.5x	2.7x	2.7x	2.7x	2.7x	2.6x	2.8x	2.8x	3.0x
<b>Credit Quality</b>													
Net Charge offs % of Receivables	7.9%	11.6%	12.8%	12.1%	11.0%	11.0%	11.7%	11.1%	11.1%	10.7%	10.8%	10.3%	8.9%
Net Charge offs + Dealer % of Receivables	13.7%	17.4%	18.8%	20.2%	18.9%	17.0%	18.7%	18.4%	18.5%	18.4%	18.1%	17.5%	15.8%
PCL % of Receivables	10.7%	16.9%	13.9%	11.8%	11.0%	11.0%	11.8%	10.8%	10.8%	10.4%	10.1%	10.0%	8.6%
ACL % of Receivables	6.9%	11.3%	11.5%	11.3%	11.1%	11.2%	11.2%	10.7%	10.3%	9.9%	9.5%	9.5%	7.5%
ACL+Dealer Reserve % of Receivables	9.4%	13.6%	14.6%	14.9%	15.1%	16.1%	16.1%	16.3%	16.6%	16.7%	16.4%	16.4%	15.7%
<b>Assumptions</b>						Estimated							
	11/30/07	11/30/08	31/03/2009	30/06/2009	09/30/09	0	FY 2009	Q110	Q210	Q310	Q410	FY 2010	FY 2011
Gross finance receivables growth (YoY)							-12.0%	3.5%	3.5%	3.5%	3.5%	-11.8%	-10.8%
Go Plan receivables		75,612	81,552	83,210	85,861	86,444	86,444	92,000	96,000	103,000	107,000	107,000	123,000
Go Plan % of gross receivables		70.0%	75.0%	76.0%	77.0%	78.0%	78.0%	80.2%	80.9%	83.8%	84.1%	84.1%	79.3%
Interest income (% of receivables)		31.6%					7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	29.5%
Cost of funds (% of receivables)							1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	3.9%
Admin fees % of average receivables							0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	2.0%
PCL = Net Charge offs % of receivables							2.8%	2.7%	2.7%	2.6%	2.5%	11.9%	10.2%
Efficiency ratio							28.4%	29.2%	28.5%	27.9%	27.4%	28.9%	28.2%
Variable cost per \$1 of revenue							11.3%	11.3%	11.6%	11.6%	11.6%	11.6%	11.6%
Fixed cost							1,500,000	6,000	1,500	1,500	1,500	1,700	6,200
Employees	85	90					100	100	100	100	100	110	120
Revenue per employee	306	356					335	335	335	335	335	340	361
Expense per employee	94	104					98	98	98	98	98	96	102
Receivables per employee	1,110	1,200					1,108	1,108	1,108	1,108	1,108	1,156	1,293
Fixed cost per employee							60	60	60	60	60	56	60

Source: Company Reports, Industrial Alliance Securities

**STATEMENT OF CASH FLOWS & BALANCE SHEET HIGHLIGHTS**

Statement of Cash Flows													Estimated	
Increase (decrease) in cash and cash equivalents														
	FY 2007	FY 2008	Q109	Q209	Q309	Q4/09	FY 2009E	Q110	Q210	Q310	Q410	FY 2010E	FY 2011E	
<b>Operating</b>														
Net (loss) earnings	3,846	-1,988	769	1,779	2,186	2,114	6,848	2,154	2,253	2,450	2,459	9,317	8,383	
Adjustments to reconcile NI to net cash from operations:	0	0	0	0	0	0	0	0	0	0	0	0	0	
Provision for credit losses	10,092	18,262	3,779	3,222	3,074	3,048	13,123	3,083	3,191	3,204	3,214	12,692	13,399	
Amortization of equipment	110	137	45	45	49	50	189	42	43	47	48	181	175	
Accrued interest	-411	-326	112	88	43	0	242	0	0	0	0	0	0	
Deferred dealer obligation	600	1,375	450	450	450	450	1,800	450	450	450	450	1,800	1,800	
Derivatives	440	1,543	-94	-416	-196	0	-706	0	0	0	0	0	0	
Accounts payable and accrued liabilities	803	-951	59	125	170	42	397	-324	125	110	79	-10	207	
Other assets	-535	4	76	84	-139	31	53	-16	-58	-28	3	-99	-79	
Future income taxes	-51	51	0	0	0	0	0	0	0	0	0	0	0	
	14,894	18,108	5,196	5,377	5,637	5,736	21,946	5,389	6,004	6,233	6,254	23,881	23,885	
<b>Investing</b>														
Funds advanced on finance receivables	-63,370	-64,939	-12,266	-13,295	-14,619	-13,501	-53,681	-15,306	-16,470	-15,477	-13,543	-60,796	-71,675	
Principal collections on finance receivables	37,720	43,039	9,959	10,780	10,963	10,839	42,540	11,840	12,255	12,684	13,128	49,906	59,107	
Change in finance receivable reserves and transaction costs	-3,857	-5,861	-1,534	-1,584	-1,237	-1,200	-5,555	-1,500	-1,500	-1,500	-1,500	-6,000	-6,400	
Purchase of equipment	-135	-227	-42	-11	-21	-30	-103	-30	-30	-30	-30	-120	-120	
	-29,642	-27,989	-3,884	-4,109	-4,914	-3,892	-16,799	-4,995	-5,746	-4,323	-1,946	-17,000	-19,083	
<b>Financing</b>														
Net advance on bank credit facility	10,820	9,665	-1,205	-1,142	522	3,616	1,792	1,486	1,569	-2,613	-2,737	-2,295	-702	
Issuance of long term debt	0	2,300	0	0	0	0	0	0	0	2,500	0	2,500	0	
Repayment of long term debt	0	0	0	-157	0	0	-157	0	0	-2,143	0	-2,143	0	
Repayments on units/share purchase financing	83	52	52	0	0	0	52	0	0	0	0	0	0	
Fund units/shares issued on public/private offering	11,500	0	0	0	0	0	0	0	0	0	0	0	2,500	
Fund unit issue costs	-852	-51	0	0	0	0	0	0	0	0	0	0	-255	
Fund unit cash distribution	-7,111	-1,890	0	0	-700	-3,500	-4,200	-1,077	-1,077	-1,077	-3,949	-7,180	-4,956	
	14,440	10,076	-1,153	-1,299	-178	116	-2,514	409	492	-3,333	-6,686	-9,118	-3,413	
<b>Net increase (decrease) in cash and cash equivalents</b>	-307	195	159	-31	545	1,959	2,633	803	750	-1,423	-2,377	-2,247	1,384	
<b>Cash and cash equivalents or Bank Indebtness</b>														
Beginning of year	142	-166	29	188	157	703	29	2,662	3,465	4,216	2,793	2,662	416	
End of year	-166	29	188	157	703	2,662	2,662	3,465	4,216	2,793	416	416	1,799	
<b>Balance Sheet Highlights</b>														
Estimated														
	FY 2007	FY 2008	Q109	Q209	Q309	Q4/09	FY 2009E	Q110	Q210	Q310	Q410	FY 2010E	FY 2011E	
<b>Assets</b>														
Finance receivables	94,383	108,017	108,736	109,487	111,508	110,825	110,825	114,704	118,719	122,874	127,175	127,175	155,154	
Receivables growth	24.2%	14.4%	8.5%	3.5%	2.6%	2.6%	2.6%	5.5%	8.4%	10.2%	14.8%	14.8%	22.0%	
Allowance for credit losses	-6,470	-12,190	-12,500	-12,400	-12,400	-12,400	-12,400	-12,314	-12,224	-12,135	-12,045	-12,045	-11,669	
Dealer reserve	-2,406	-2,455	3,335	-3,890	-4,463	-5,425	-5,425	-6,372	-7,480	-8,376	-8,869	-8,869	-12,693	
Finance receivables - net	85,508	93,372	92,900	93,196	94,646	93,001	93,001	96,018	99,014	102,364	106,261	106,261	130,791	
Cash	0	29	188	157	703	2,662	2,662	3,465	4,216	2,793	416	416	1,799	
Other assets	638	633	557	473	611	580	580	595	653	681	679	679	757	
Equipment	367	457	454	420	392	372	372	359	346	329	311	311	257	
<b>Total assets</b>	86,563	94,491	94,100	94,246	96,352	96,614	96,614	100,438	104,229	106,168	107,666	107,666	133,604	
<b>Liabilities</b>														
Bank credit facility	58,213	67,878	66,674	65,532	66,054	67,692	67,692	70,905	73,506	73,676	76,629	76,629	96,776	
Accounts payable and accrued liabilities	1,454	503	562	688	858	900	900	576	701	811	890	890	1,098	
Deferred dealer obligation	2,190	1,604	1,631	1,589	1,712	1,862	1,862	1,867	1,903	1,978	2,081	2,081	2,296	
Derivatives	440	1,983	1,890	1,474	1,278	1,096	1,096	949	802	655	507	507	204	
Long term debt	0	2,300	2,300	2,143	2,143	2,143	2,143	2,143	2,143	2,500	2,500	2,500	2,500	
<b>Total liabilities</b>	62,464	74,269	73,057	71,425	72,045	73,693	73,693	76,440	79,055	79,620	82,607	82,607	102,874	
<b>Total unitholders' equity</b>	24,099	20,222	21,042	22,821	24,307	22,921	22,921	23,998	25,175	26,548	25,058	25,058	30,730	
<b>Total liabilities &amp; unitholder's equity</b>	86,563	94,491	94,100	94,246	96,352	96,614	96,614	100,438	104,229	106,168	107,666	107,666	133,604	

Source: Company Reports, Industrial Alliance Securities

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Speculative Buy	11%
Hold	4%
Tender	0%
Not Rated	4%
Sell	0%
	100%

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