

**THE COMPANY**

Headquartered in Saint-Georges, Quebec, Canam Group Incorporated designs, fabricates and markets construction products, such as steel decking and joists, composite flooring, bridges and steel building systems. The Company is organized into eight major business units that serve the commercial, industrial and residential markets in Canada and the United States. Canam Group operates 12 plants with an annual production capacity of nearly 600,000 tonnes and employs more than 3,000 people.

**FINANCIAL DATA**

	2008	2009	2010
Earnings per Share (\$)	0.99	0.45	0.00
Price to Earnings (times)	4.1	9.1	0.0
Dividend (\$)	0.16	0.16	0.16
Dividend Yield (%)	3.90	3.90	3.90
Book Value (\$)	9.08	9.11	7.52
Price to Book Value (times)	0.50	0.50	0.50

**HISTORICAL SHARE PRICES**



**WHY ABC FUNDS BOUGHT CANAM GROUP**

ABC Fund’s unitholders should be familiar with the Canam Group story. We originally purchased our shares of Canam Group through a secondary stock issue at \$5.75 in March 2005. We then added to our position in the open market, which took a number of weeks given the thin trading in the stock. By late 2007, as infrastructure stocks became front page news, Canam was trading around \$14.00 per share. Given the weakening economic outlook and full valuation of the stock price, we decided that it was time to take our money off the table. However, selling 3,000,000 shares took considerably longer to sell than to buy. In all it took almost six weeks to liquidate the ABC Funds’ holdings at \$14.00 per share or better. Although Canam shares eventually hit a high of \$15.98 four weeks later, the relative thinness of the stock and its overvaluation necessitated an early exit. Nonetheless, we were extremely pleased with our investment and total return of about 120% over a 25 month holding period.

Now, just because we had sold the stock, it didn’t mean that we stopped following Canam Group. As the real estate crunch intensified and the economic data indicated a downturn, shares of Canam Group began to sell off. As we entered 2008 the shares plummeted. They broke toward \$10.00 in the January to March period, bottoming at a 52-week low of \$9.40. Our interest was piqued. The Company and management were sound and Canam’s lower share price provided an excellent entry point. Yes, the shares were higher on an absolute basis than when we bought our original position. However, the multiples were almost identical to what we paid back in March 2005. Essentially we were now rebuilding a position in Canam Group at 1.3 times book value, 10 times trailing earnings and approximately 8.5 times forward earnings. We were quite comfortable with this valuation.

Today, we believe that Canam is an even more compelling investment than three years ago. The real corporate changes began in 2006 when Marcel Dutil, Canam’s founder, converted his Class “C” multiple voting shares into Class “A” subordinate voting shares. This nicely aligned the interests of all shareholders and leveled the playing field for investors. Marc Dutil, Marcel’s son, then began to take an active role in managing the day to day activities of the business. Since then, the financial results have demonstrated a shift in focus from revenue growth towards profit growth. All of these changes are positive from a fundamental valuation perspective.

We have also seen a tremendous improvement in the financial health of the Company. At the trough of the last infrastructure cycle in 2002/2003 Canam was unduly leveraged for a cyclical business. In 2002, net debt totaled \$333 million on \$256 million of equity for a net debt to equity ratio of 1.3 times. In 2003, although the total debt level fell on an absolute basis to \$276 million, the net debt to equity ratio deteriorated to 1.4 times. Today, through free cash flow, net debt has been reduced to only \$63 million on equity of \$367 million for a net debt to equity ratio of 0.17 times. Current levels of profitability imply that Canam should be debt free by early 2009. This massive debt reduction is extremely significant in that Canam now has the firepower to go out and make acquisitions at the trough of the business cycle. Marc Dutil has stated that he wants to buy businesses at a discount to net asset value as opposed to valuing acquisitions based on cash flow. Currently, an accretive acquisition in the \$150 million range is easily doable given the Company’s improving financial strength.

## WHY ABC FUNDS BOUGHT CANAM GROUP (cont'd)

From an earnings perspective, Canam's outlook is very solid, with a revenue backlog of \$291 million. In 2007 the Company won work on large projects such as the New York Mets' and New York Yankees' baseball stadiums as well as the New York Jets/Giants football stadium. Canam has subsequently won an additional contract for the Red Bull Park, the new soccer stadium for the New York Red Bulls. Also notable is the fact that the Company acquired an American bridge manufacturer based in New Hampshire. This acquisition will enable Canam to take advantage of the significant repair and rebuilding of aging bridges in both Canada and the United States. For example, the recently announced new Windsor to Detroit Bridge could become a large revenue generator going forward. Furthermore, management has suggested that they are currently bidding on at least 3 other major projects. Finally, Canam has turned around its money losing Mexican operation. This joint venture is now breakeven and should add \$0.20 per share to the bottom line in 2008. In summation, at the next peak of its business cycle, we believe that Canam could earn \$1.20 to \$1.50 per share.

When Canam Group fell \$4 or almost 30% after we sold our original position, we believed that investor fear and capitulation presented a terrific reinvestment opportunity. The fact was: we knew the Canam story, we thought very highly of management, the balance sheet was relatively clean and we believed that the Company's outlook was very bright. It is important to note that infrastructure and non-residential construction spending are generally counter-cyclical relative to the housing market, so we are reasonably confident that Canam's earnings should not deteriorate dramatically during the present economic uncertainty. The investment attraction of Canam is that it is thinly-traded and under-followed by the Canadian investment community, it has slipped between the cracks and has largely gone unnoticed by investors. In summary, it is our belief that stabilization of the North American economies and greater investor awareness throughout the balance of 2008 should prove quite rewarding to Canam's shareholders.

ABC Funds  
June 27, 2008

### UPDATES

Our of our value favourites, Canam Group, has come to exemplify these unusual and difficult markets. We had re-established a position in Canam towards the end of the first quarter of 2008. We were comfortable paying almost \$6 per share lower than the stock's 52-week high and roughly \$4 per share lower than where we had sold our original stake. We thought that we were buying a dirt-cheap stock but, unfortunately, the shares dipped again late-July through early-August.

By October, it became apparent why the shares were declining without any clear fundamental reason. On October 7, the shares opened just below \$6.50 and suddenly plunged to a low of \$3.73 per share, a decline of approximately 40%. We were dumbfounded but quickly put a bid in and actually managed to purchase a few thousand shares at \$3.75. The stock then bounced and closed the day at \$5 per share. Over the next two days we saw several large blocks of stock change hands. It took us a few days to piece together the story but we finally discovered that a hedge fund was behind the volatile trading. This fund, perhaps facing redemptions, was forced to raise cash by dumping several million shares into the market, irrespective of price. It was frustrating to watch but at least we understood that the Company's fundamentals were sound.

Management apparently agreed with our assessment of Canam's prospects. In their recently quarterly release, they announced that as of October 21 the Company had acquired 2,185,100 shares at an average price of \$6.14 per share for a total amount of \$13.4 million. The shares were purchased through the Company's normal course issuer bid that began last August for up to 4,075,000 shares. With a book value of \$8.18 per share, this buyback is accretive and represents an excellent use of the Company's strong and flexible balance sheet. Eventually, investors will focus on fundamentals instead of liquidity and the shares should return to a more realistic valuation range.

ABC Funds  
December 5, 2008

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Canam Group, one of our value favourites, has reported financial results for the 2008 fourth quarter and fiscal year. Consolidated sales for 2008 totaled \$833.7 million compared to \$870.5 million in 2007. Net earnings reached \$48.4 million or \$1.00 per share in 2008 compared to \$47.5 million, or \$0.97 per share in 2007. Looking forward, Canam's order backlog was \$313 million at year end, versus \$300 million a year ago.

Despite the incredibly difficult economic environment, we believe that Canam has done all it can to prepare for the downturn. Net debt is currently \$69.5 million, which implies a net debt-to-equity ratio of 0.17 times. This is vastly better than the last downturn in 2002/2003 where net debt totaled \$333 million, for a net debt-to-equity ratio of 1.3 times. Further, some of the current debt load was actually used to repurchase shares on the open market. As of January 21, 2009 the Company had bought back \$26.3 million worth of shares at an average price of \$6.46 per share. This is accretive to earnings and book value, which currently stands at \$9.06 per share.

## UPDATES (cont'd)

In the near-term, upside to the story could come from two potential catalysts. Firstly, the Company should benefit from US and Canadian economic stimulus that focuses on infrastructure spending, especially bridge building. Secondly, Canam could make one or more accretive acquisitions. The Company has the financial firepower to go out and buy businesses at trough valuations, which could be cents on the dollar for assets that have come under financial duress. If management can find quality assets that are simply overleveraged, we believe that Canam could pull the trigger on up to \$150 million in acquisitions. This would support revenue and earnings through the downturn to the inevitable recovery.

ABC Funds  
March 6, 2009

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Although Canam Group has yet to announce a meaningful acquisition, a second potential catalyst for share price appreciation has begun to emerge. In our most recent update, we suggested that upside to the story could come from the US and Canadian economic stimulus packages that focus on infrastructure spending, especially bridge building. Thankfully, we are finally seeing money being disbursed and contracts being awarded as expected.

Here is a quick recap of some of the more interesting jobs that the Company has won since our last commentary. On April 28, Canam announced a \$25 million contract for the rehabilitation, expansion and re-construction of the Alexander Hamilton Bridge in New York City. This contract with the New York State Department of Transportation validates the Company's efforts in gaining traction in the United States. As the Company continues to demonstrate its expertise, there is a tremendous opportunity to win more business in the State of New York. On August 4, the Company won a \$60 million contract for the construction of the retractable roof of the new Florida Marlins ballpark. In September, Canam announced a contract to rebuild the Dominion Bridge, located at the approach to the Quebec City Bridge for \$16.5 million. They also began to deliver girders worth over \$30 million for the Highway 25 Bridge between Montreal and Laval. Again, winning technically complex, large scale projects, such as these, proves Canam's top-notch reputation and expertise in the steel fabrication industry.

As the work flows from backlog to the income statement and the Company wins additional contracts, we believe that the shares should "play some catch-up" relative to the market. Bear in mind at about \$6.50, and carrying a dividend yield of 2.45%, this stock is trading at a \$2.65 discount to its book value of \$9.15 or about 29%. If natural buyers don't return to the stock quickly, the Company has renewed its common share buyback program, which will allow the repurchase of up to 3,632,509 of its common shares or 10% of the Company's public float. Given the thinly-traded nature of the stock, this alone could provide a substantial lift to the shares.

ABC Funds  
September 11, 2009

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Canam Group has just posted sales of \$144.7 million and net earnings of \$4.4 million or \$0.10 per share for the third quarter of 2009. These results compare to sales of \$218.2 and net earnings of \$15.0 million or \$0.31 per share a year ago. On the surface, the results were marginally below expectations due to weakness in the Company's steel joist business, especially in the United States. However, at the comparable bottom of the last cycle, Canam reported a net loss of \$0.61 per share in the fourth quarter of 2003. The fact that the Company has remained profitable during the worst recession since the Second World War demonstrates how much the Company has improved.

The key to successfully managing this downturn compared to previous cycles has been the Company's strengthened balance sheet. At the end of the 2003, net debt reached almost \$300 million and interest payments totaled \$24 million. Today the company has only \$8.5 million of net debt and has paid approximately \$1.7 million of net financial expenses for the first 9 months of the year. As Marc Dutil said, "The strategic plan that we began implementing a few years ago to build on Canam Group's financial strength and allow the company to capitalize on the vitality of the infrastructure and heavy construction sectors is paying off and we are seeing results".

The "results" can be measured by examining the Company's track record of winning new business despite the difficult economic environment. Canam's combined order backlog stood at \$290 million at the end of the quarter, compared with \$239 million at the end of the second quarter and \$313 million at the end of fiscal 2008. This excludes the just-announced \$100 million contract for the construction of a new roof on the BC Place Stadium in Vancouver. The contract spans several areas of Canam's expertise, including design, project management, fabrication and erection of the structural steel and cables for what will be the world's largest cable-supported retractable roof in the world. We take great comfort in the fact that the Company is winning large, complex and high profile work despite a competitive bidding environment.

As many investors are aware, the stock market has had a tremendous run from the deeply oversold levels of March 2009.

## UPDATES (cont'd)

Given how far stocks have moved, it is extremely rare to find a high quality company, with a clean balance sheet that remained profitable through the cycle at a real discounted valuation. Trading at 0.8 times the current book value of \$8.88, we believe that Canam Group, which meets the above criteria, offers excellent value for patient investors.

ABC Funds  
October 30, 2009

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In previous comments, we suggested that although Canam Group had almost doubled from the lows, the shares were still undervalued. We believed that the market may have been impatiently waiting for the Company to deploy its ample financial firepower and make an accretive acquisition at the trough of the cycle. We hoped that a significant transaction would act as a catalyst for the shares, much like Aecon's purchase of Lockerby & Hole, which invigorated the stock.

On December 23, 2009 the long-awaited catalyst may have materialized. Canam Group announced that they had acquired a 15% interest in FabSouth for \$11.25 million. FabSouth is a fabricator and erector of structural steel products that operates five plants in Florida, North Carolina and Georgia. According to various discussions, FabSouth likely had revenue in the \$300 million to \$400 million range and EBITDA around \$50 million at the peak of the last cycle.

The purchase price seems quite attractive assuming FabSouth can recover to historic levels along with the cycle. However, the deal requires a little more information to understand the full implications of this relatively small transaction. Interestingly, Canam purchased the 15% interest from a company controlled by Canam Group's Chairman of the Board and CEO Marcel Dutil. Independent directors were required to review and approve the terms and conditions of the transaction and concluded that Canam Group had obtained fair value. Our take on the minority purchase is that Canam will eventually bid for the remaining 85% of FabSouth. However, the Company is now free to negotiate with the remaining parties on an arm's length basis. If this scenario plays out successfully, we believe that the market will eventually reward Canam Group for the higher peak earnings potential.

ABC Funds  
January 29, 2010

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Canam Group has just reported sales of \$625.8 million, net earnings of \$20.1 million and EPS of \$0.45 for fiscal 2009. During the worst year of the global recession, Canam remained profitable, largely due to bridge building and repair work and several large-scale structural steel projects. Importantly, Canam's rock-solid balance sheet gave the Company plenty of financial flexibility through the downturn. At the end of 2009, the Company's net debt was only \$0.3 million, compared to \$69.9 million at the end of 2008. The Company's net debt to equity ratio is now negligible, with shareholders' equity of \$400.6 million, or \$8.83 per share.

We believe that these financial results will likely be overshadowed by the announcement on February 23rd, that Canam had increased its ownership in FabSouth from 15% to 80% for US\$65 million. Further, the Company has agreed to acquire the remaining 20% over a three year period starting in 2011, for an amount ranging between US\$15 million and US\$25 million depending on EBITDA generated in 2010, 2011 and 2012.

As we had alluded to in our last update, we believed that the initial purchase of 15% of FabSouth was just the first step in acquiring the entire entity. Remember that FabSouth is a leading structural steel fabricator that operates six plants located in Florida, North Carolina and Georgia. The Company has approximately US\$8 million to US\$9 million in debt and about US\$20 million of cash on its balance sheet. The founders will continue to be involved in the business, which will be led by Kurt Langsenkamp, FabSouth's president since inception.

Because historic financial statements are unavailable, we are still working through the financial metrics of the transaction. However, Canam has suggested that between 2007 and 2009, the FabSouth's sales averaged more than US\$325 million, bottoming at about US\$250 million and peaking at about US\$400 million. Marcel Dutil implied that he had sold his 15% stake to Canam at just above two times EBITDA, while the 65% interest was purchased at a slightly higher multiple but below three times EBITDA. Essentially, Canam Group will be paying approximately US\$90 million to US\$100 million for \$50 million of incremental EBITDA.

Although the reaction was slightly delayed, the market is beginning to grasp the significance of this transaction. Marc Dutil has astutely deployed some of the firepower on Canam's pristine balance sheet and the strong Canadian dollar to make a significant and accretive acquisition in the United States at very attractive multiples. Further, the announcement from Commercial Metals Company, a large US-based steel manufacturer, indicating that it is exiting the joist and deck business implies reduced competition through the next cycle. We believe that this acquisition could be the catalyst to drive the stock

## UPDATES (cont'd)

price closer to the Company's book value of \$8.83 per share. Note that the shares of Canam Group finally broke above the upper boundary of the stock's recent trading range and powered above \$8.00 per share in the days following the news release.

ABC Funds  
March 5, 2010

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Canam Group recently reported financial results for the second quarter, ended June 26, 2010. Consolidated sales grew by 23% to \$185.4 million compared to \$151.2 million generated in the second quarter of 2009. The Company reported a net loss of \$2 million or (\$0.05) per share compared to net earnings of \$5.2 million or \$0.12 in the year ago period. In part due to the acquisition of FabSouth, Canam's backlog of orders increased 59% to \$563 million at June 26, 2010. Management suggested that "strong competition in the non-residential construction market continued into the second quarter, primarily in the United States, exerting pressure on gross margins". However, they highlighted some positives in the quarter, as "several of the Company's business units saw an increase in new bookings, a sign of an improving economy".

Fellow shareholders and readers of ValueInvestigator.com may be growing weary of the Canam story because of the protracted turn in the Company's financial performance. However, management seemed optimistic on the earnings call saying, "we have turned the corner; the worst is behind us". Marc Dutil had the following telling quote, "When things are good people think they will be good forever and when things are bad people think they will be bad forever. Marcel says to erase that from your mind". We are encouraged by the fact that management's outlook and tone seem to be improving.

We want to stress that investors need to be patient with this highly cyclical stock. However, management has made several moves to ensure higher peak earnings potential once the cycle moves in the Company's favour. During the previous upturn, they cleaned up the balance sheet and maintained a disciplined approach to running their business in preparation for the inevitable downturn. During the trough of the cycle, Canam deployed its balance sheet and acquired FabSouth at an extremely attractive price. Further, the day before the Company's second quarter earnings release, management announced an agreement to acquire two steel deck plants in South Plainfield, New Jersey and Peru, Illinois from Commercial Metals Company. The plants have a combined annual production capacity of 144,000 tonnes and over the last two years generated average annual sales of over US\$140 million. We believe that cheap acquisitions at the bottom of the cycle will result in higher earnings potential and a higher share price at the next peak, whenever it arrives.

ABC Funds  
August 20, 2010

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Canam Group reported improved financial results for the third quarter ended September 24th, 2011. Consolidated revenues increased to \$225.6M, compared to \$207.1 million in 2010. The 9% year-over-year improvement was mainly attributable to the company's joist and steel deck activities. While downward pressure on sales prices had a negative impact on Canam's Q3 gross margin (11.5% compared to 13.6% last year), earnings benefited from a \$9.9 million tax free gain resulting from life insurance proceeds following the death of an executive officer of a U.S. subsidiary. The significant gain had a material impact on Canam's Q3 2011 reported EPS, which increased to \$0.21 compared to \$0.05 in Q3 2010.

Although Canam continues to operate in a challenging market, we believe the stock remains inexpensive. At its current share price of \$4.10, Canam is trading at a significant discount to its tangible book value of \$7.52. While CEO Marc Dutil indicated that the non-residential market remains highly competitive, the company's order backlog increased to \$526 million at quarter-end, compared to \$512 million at the end of Q2 2011. In addition, it is worth noting that on November 1st, 2011, Canam initiated a normal course issuer bid, which allows it to repurchase up to 1,629,274 common shares or 5% of the common shares outstanding. The company subsequently increased the amount to 10% on December 15th. Based on a public filing, the company was actively repurchasing shares under its buyback program prior to year-end 2011.

ABC Funds  
January 6, 2011