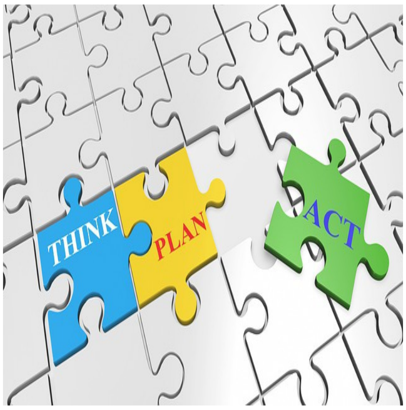

Callidus Capital Corp.: Upside Potential of 22% in Just 6 Weeks!

Description

Many investors have experienced the joy of waking up and finding out one of their holdings is being acquired for a large premium over the previous day's closing price. This news is always accompanied by the stock price jumping to just below the buyout price. What is rare is knowing that a company will be acquired, but still having the chance to buy shares below the eventual takeover price. This is exactly the case with **Callidus Capital Corp.** (TSX:CBL).

Callidus is a lender to distressed companies–lending money to companies that struggle to get financing from the banks and conventional lenders. Because these loans are made to companies in poor financial states, Callidus loans money at very high rates and focuses on the asset values of companies; Callidus's loans consistently achieve gross yields over 15%. If the borrowing company defaults, Callidus is able to acquire the company and all of its assets.

With all of the news about the debt levels of Canadians, the death knells of **Home Capital Group Inc.**, and the description of Callidus as a distressed lender, you might feel nervous about buying shares right now. But the upcoming privatization of the company is one big reason you should be buying Callidus.

Privatization

The share price of Callidus has lagged since the IPO in 2014. Because the markets did not understand the company, and therefore shares remained undervalued, Callidus began an ambitious four-step plan to increase the share price and fight off short sellers.

First, Callidus initiated a dividend, and has since increased it, so shares yield over 8%. Second, Callidus CEO Newton Glassman and his private equity firm The Catalyst Capital Group Inc. bought shares. Third, Callidus began buying back large amounts of shares. Fourth, and the only step yet to be completed successfully, Glassman announced he would be taking the company private.

As part of the privatization process, Callidus had **National Bank of Canada** perform an objective valuation of the company. Looking at several factors, National Bank concluded that shares of Callidus were worth $18-22. This valuation range is the starting point of the privatization negotiations.

Currently, Catalyst Capital Group Inc. owns over 67% of the shares and is looking to partner with another company. Six companies remain in negotiations for the remaining 33% stake; this is down from 17 companies when negotiations were first announced.

During the first-quarter results conference call, Mr. Glassman stated that nothing had changed to make him doubt that $18-22 would be the final buyout price.

Why then have shares plunged since the earnings results were released to under $15?

To start, earnings were—to put it bluntly—bad. Loan loss provisions were up, revenue and net income were down, and, once again, no new loans were signed. But the market is just looking at the trees and missing the forest. The earnings numbers for one quarter do not matter. All the companies looking to take Callidus private know the earning potential of the business, and these results do nothing to change that.

This misunderstanding has presented us with a tremendous opportunity. All indications state the Callidus will be bought out for at least $18 per share sometime around the end of June. Braslyn Ltd., the second-largest shareholder, owns approximately 13% of the company and bought shares as recently as March for over $18.

With shares trading at $14.66 right now, a buyout at $18 represents a 22% return in just six weeks. Not to mention the monthly dividend of $0.10.

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