VALUE CONTRARIAN
ASSET MANAGEMENT

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WHY WARREN BUFFETT GETS A FREE PASS WITH HIS $ 110 BILLION CASH PILE, BUT NOT KNIGHT PHARMA WITH ITS $ 750 MILLION!

In case you may have not noticed, Knight Pharma, the TSX listed pharma company run by Jonathan Goodman (15% Knight shareholder and ex head of Paladin Labs) is now embroiled in a messy proxy battle for control of Knights board of directors.

Board member, and 7.3 % Knight shareholder, Meir Jakobsohn is leading the charge to unseat existing board members. The winners prize, a $ 750 million cash pile sitting on Knight's balance sheet.

How did Knight Pharma, and specifically Jonathan Goodman, the company's existing CEO, find itself in this predicament. It basically resulted from <u>three strategic errors</u>.

1) In most cases, when credit is easy and the capital markets are booming, it's an opportune time to raise funds, even if the company does not need the capital today, or have an acquisition target in sight. Simply stated, get the money when you can. But instead of raising a more manageable amount, ($ 200 - $ 250 million), Knight struck while the

iron was hot and raised over $ 650 million in equity, with no specific deal ready to be signed.

2) What's the problem with this "cash pile" approach? Knight has no controlling shareholder. Raising all that cash is tantamount to waving a blood-soaked red flag in front of a wild bull! In this case, the bull is Knight director Meir Jakobsohn, who wants to use the cash as he sees fit.

   In hindsight, Goodman could have started by raising a manageable $ 200 – $ 250 million from investors. With a "golden boy" reputation from his Paladin "forty bagger" takeover win, future capital raises for Knight should not have been a problem.

   Warren Buffett has over $ 100 billion of cash on Berkshire Hathaway's balance sheet. But, as the controlling shareholder – no wild bulls can dictate to Buffett how to use that cash, or dislodge him from his corporate perch.

3) Finally, Mr. Goodman misjudged the character of 7.3% shareholder Meir Jakobsohn. When the slow, steady, cautious turtle meets the hyperactive jack rabbit, fur may start to fly and some shells may get cracked in the process.

Today's fight at Knight is all about who will get to allocate the company's $ 750 million of capital. SNC Lavalin and Paladin Labs (the former pharma company controlled by the Goodman family) are classic examples of the importance of capital allocation.

SNC, in recent years, has been abysmal at allocating its capital, (especially acquisitions) and consequently its stock has suffered. Conversely, Jonathan Goodman, based on Paladin's record, should be inducted into the "capital allocation" hall of fame. Investors today are betting he can once again work

his magic with Knight Pharma. Investors lacking a reasonable amount of patience need not apply.

However, with no controlling shareholder at Knight, Mr. Goodman does not have the same luxury of time as Mr. Buffett does at Berkshire Hathaway.

Yes, Wall & Bay street usually prefer rabbits & hyperactivity (more $$$ to be made). But in the long run, it's the turtle that often wins the race.

Respectfully,

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