Louis Paquette's
EGS EMERGING GROWTH STOCKS

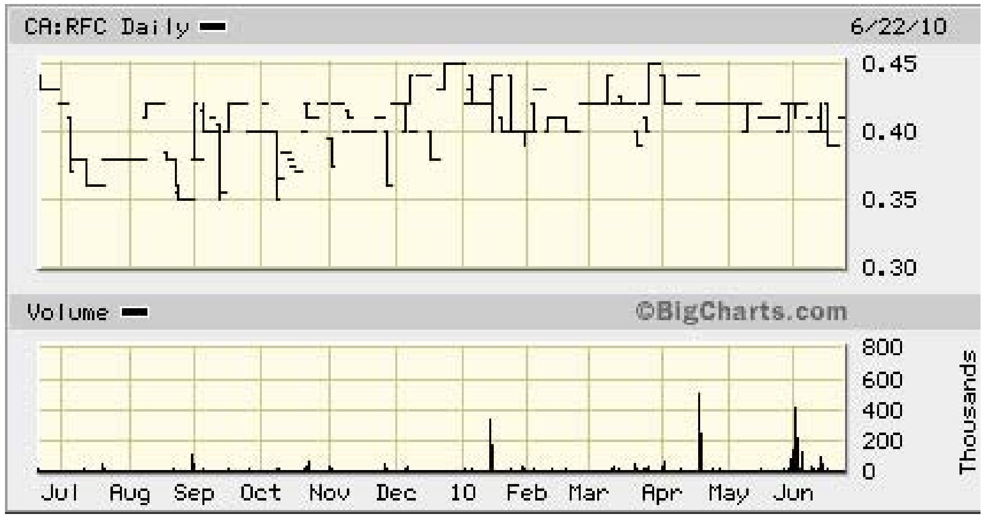
"Finding Extreme Value in Small Caps"

June/July 2010 Issue No. 5-10 | ***www.EmergingGrowthStocks.ca*** | Prices as of June 23, 2010

New Picks

RIFCO Inc. RFC.TSX-V

Shares Issued: 19.2 Million
52-Week H.-L.: $0.64 - $0.01
Price June 23, 2010: $0.41
Profitable Auto Financier emerges unscathed from recession - Growth & Value situation



The Business

RIFCO finances car purchases for the more than one out of three of Canadians who do not qualify for lower interest loans from banks or auto makers. If Canadians are ranked from "A" as the best credit ratings to "D" as the worst, RFC lends to the "B" and "C" category. These are ordinary Canadians with a credit issue caused by a job loss, divorce, illness or something similar within the past six years.

RFC's Business Model

RFC receives loan applications electronically from its dealer network. RFC believes an owner who is proud of their vehicle is more likely to repay the loan. Their sales force services dealerships that provide the combination of customers and cars RFC seeks.

RFC looks beyond the credit score for evidence of creditworthiness before and after the person's credit event. RFC approves half its applicants and half of those become loans.

If a payment is missed, RFC does not wait. They call immediately to try to resolve the problem. If it can't, the car is repossessed according to consumer laws and sold at auction.

The average annual yield on RFC's portfolio is 20% and loan losses net of recoveries is 5%. This leaves 15 points to cover funding costs (around 7½ points), operating costs and profits.

Trial by Fire

RFC wrote its first loan in 2002. In 2008/09 RFC encountered a "perfect economic storm" - a worldwide recession, hard to imagine a high unemployment, loss of consumer confidence, auto makers facing bankruptcy and dealerships closing. It is hard to imagine a more adverse set of conditions for a non-traditional auto finance company.

However, RFC did more than survive this tempestuous time period. They came through it profitably! In fact, the company has been profitable in each of the last four fiscal years.

Current Market Conditions

The following are factors influencing RFC's market currently:

- auto sales declined during the recession. However, cars wear out and must be replaced. So a combination of economic recovery and pent up demand augers well for RFC in the near future.
- acquired VFC, a major independent and in 2007, Scotiabank acquired Travelers Leasing, RIFCO's other major independent competitor. Both have been absorbed into their banks leaving RFC as the only entrepreneurial independent left in this market segment.

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- during the recent economic meltdown, three foreign banks: HSBC, Wells Fargo and AmeriCredit left the Canadian non-traditional auto loan market. They were writing $2 billion in loans in RFC's space.
- there are some $4 billion in non-traditional car loans written annually in Canada. RFC's market share is 1% so they can experience significant growth before poaching on any of the majors.

What is RIFCO's Appeal?

There are several ways to look at the company:

Growth: RFC offers Growth at a Reasonable Price (GARP). They forecast loan origination growth at 50% - 100% per annum moving forward. At under five times estimated earnings, RFC appeals to GARP investors.

Value: RFC is trading at a discount to book value of $.47 per share. As a finance company, if RFC ceased to operate, investors will likely realize cash equal to market value as loans are retired. RFC is a value investment.

Undervalued Intangible Assets: VFC and Travelers were acquired by TD and Scotia at nearly four and two times book value respectively. What did the banks see that the market missed? Obviously not car loans. They were buying VFC and TLC's lending platforms. They purchased the ability to generate high yield loans with relatively low loan loss ratios. This value is not on RFC's balance sheet but it's very real and valuable.

In summary, RFC is both a growth and value situation, within a market that has just abruptly expanded due to the elimination of competition.

For additional information call **Bill Graham**, President & CEO or **Lance Kadatz,** CFO at 403-314-1214 or visit *www.rifco.net/*