

A person in a blue jacket and backpack is climbing a dark, rocky peak. The background is a vast, snowy mountain range with jagged peaks and glaciers under a cloudy sky.


IVEY SCHOOL OF BUSINESS: VALUE INVESTING

July 17, 2018

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Forward thinking. Finding value.

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David Barr
President & Portfolio Manager



Who is Pender

Independent Investment manager with a family of funds

- A west coast Canadian, employee owned, investment manager established in 2003
- We offer a suite of small and nimble investment funds
- The funds employ a concentrated, value-based approach
- Portfolio managers are personally invested in their fund

GOAL: To create value for our investors by generating superior risk-adjusted returns, while protecting capital and minimizing downside risk.

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The Pender Way

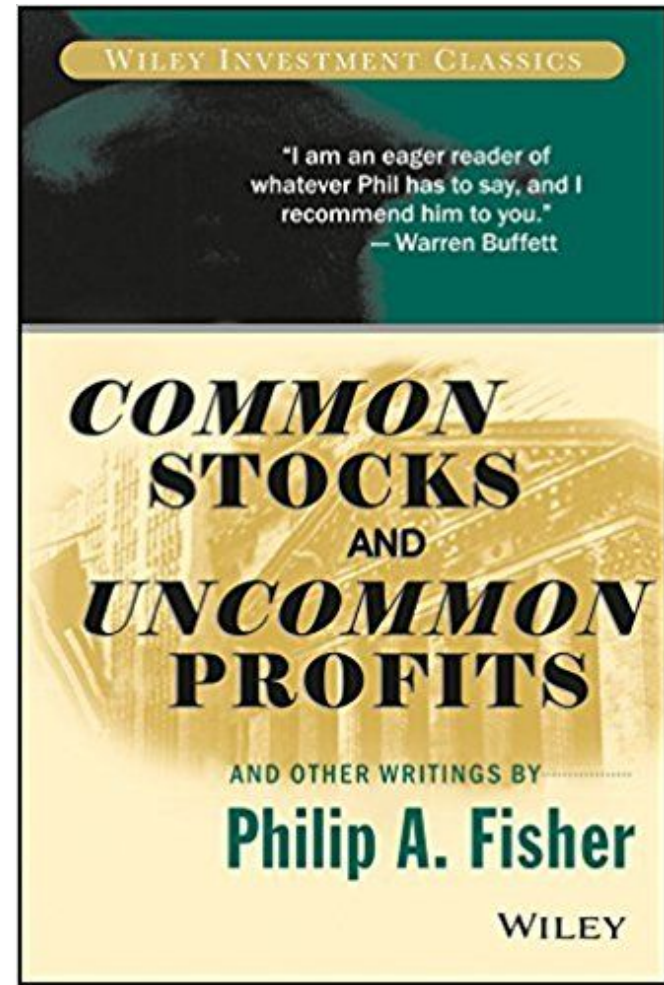
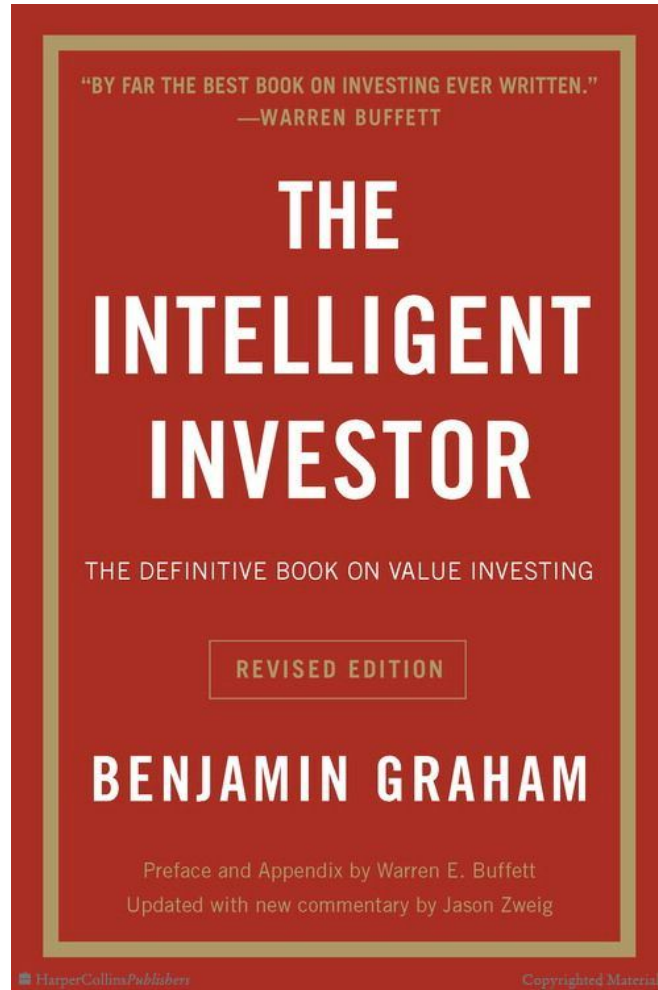
Key Differentiators

- We seek to obtain more value than we are paying for
- We take a private equity approach to public markets
- We are independent thinkers and patient opportunists
- We manage concentrated, idiosyncratic portfolios
- We are focused on owning businesses, not trading stocks
- We are occasionally contrarian
- We are aligned because we are investors in the fund too



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Why Are We Different?

Private Equity Approach

1. “Scuttlebutt” research and due diligence



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Why Are We Different?

Private Equity Approach

2. Work with investee companies



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Why Are We Different?

Private Equity Approach

3. Drive a liquidity event or exit

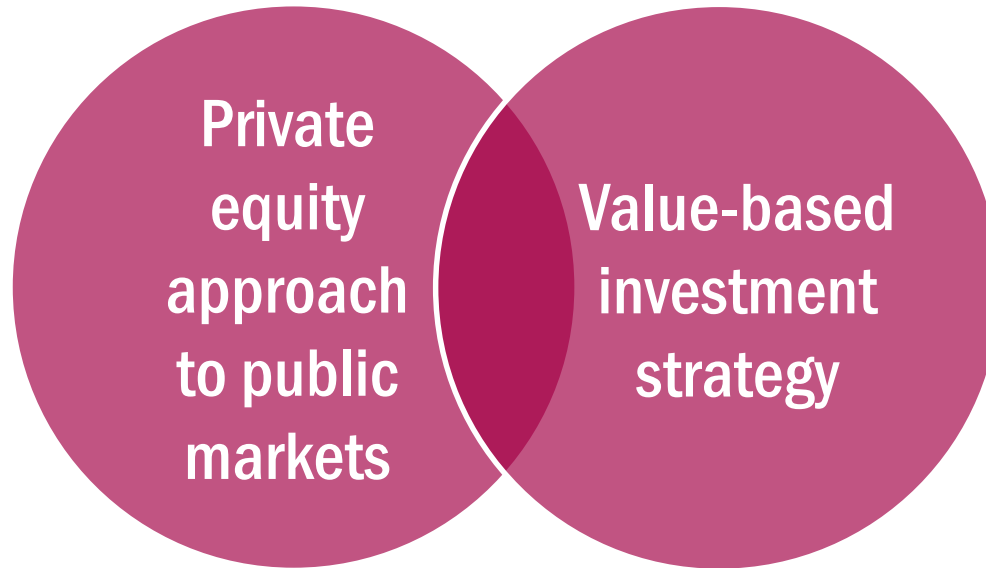


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Security Analysis

A “Scuttlebutt” Approach to Investing



1. “Scuttlebutt” research and due diligence
2. Work with investee companies
3. Drive a liquidity event or exit

Buy \$1 of value for 50¢



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Does Value Investing Work?

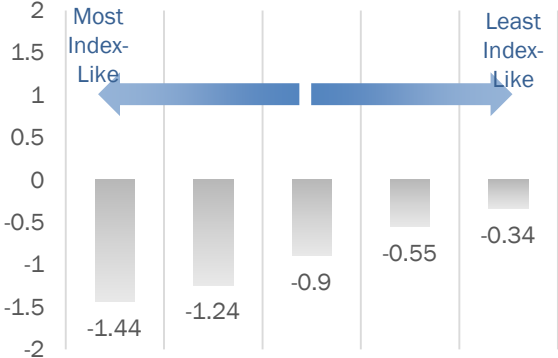


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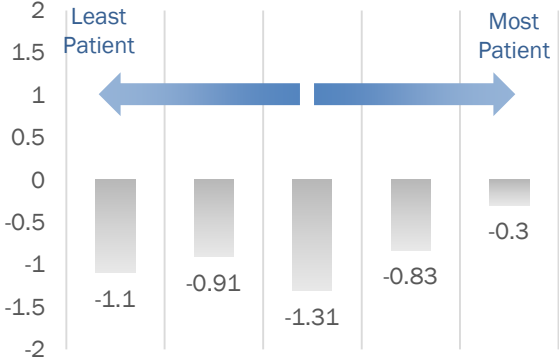
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Concentrated, Long-term Portfolios Outperform

**Active Share
in Mutual Funds
Net Return**



**Turnover (Patience)
in Mutual Funds
Net Return**



Source: Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently. Martijn Cremers, Ankur Pareek (December 2015)

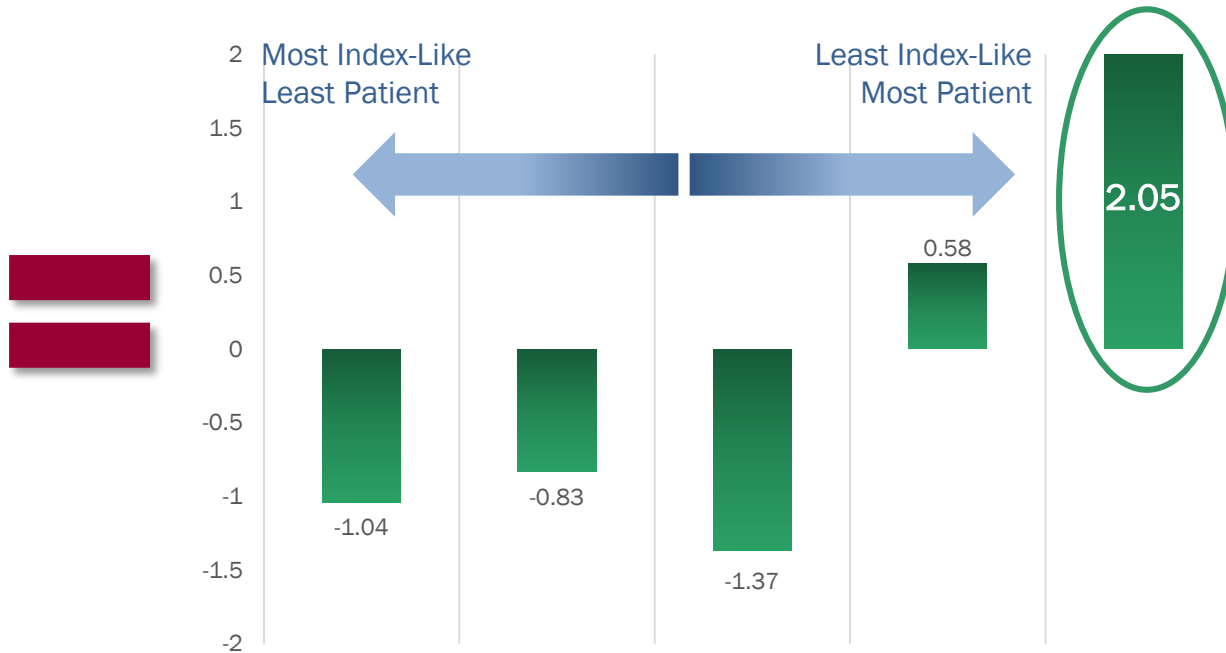


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Concentrated, Long-term Portfolios Outperform

High active + very patient funds outperform



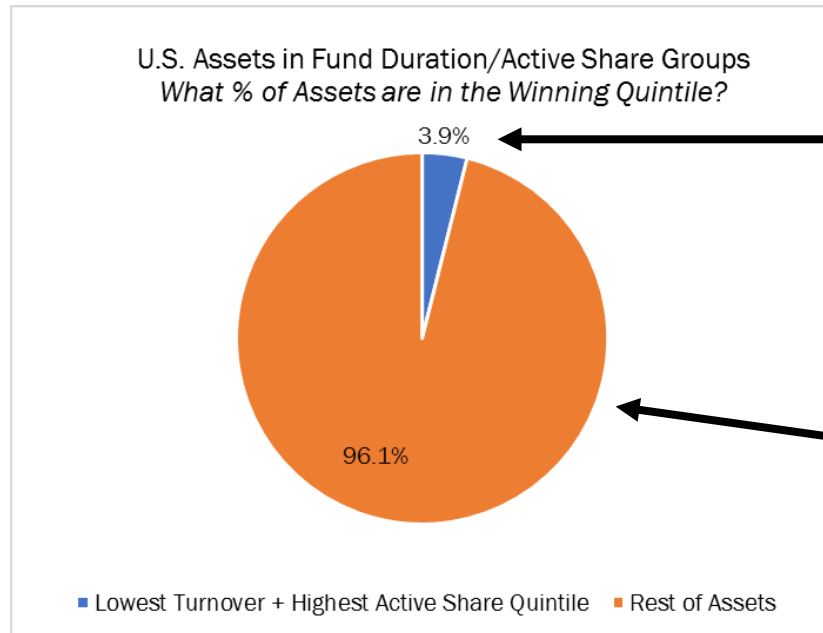
Source: Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently. Martijn Cremers, Ankur Pareek (December 2015)

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There is a Strategy that Works

But there is not much AUM following it



Low competition for a winning style

Investing in Businesses

- Only \$1 of every \$25 is invested in Mutual Funds assets that utilize very patient + very high active share investment strategies...

The Business of Investing

- most AUM is invested in index funds, closet index funds, or high turnover strategies.

Source: Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently. Martijn Cremers, Ankur Pareek (December 2015)

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Why Small Cap?

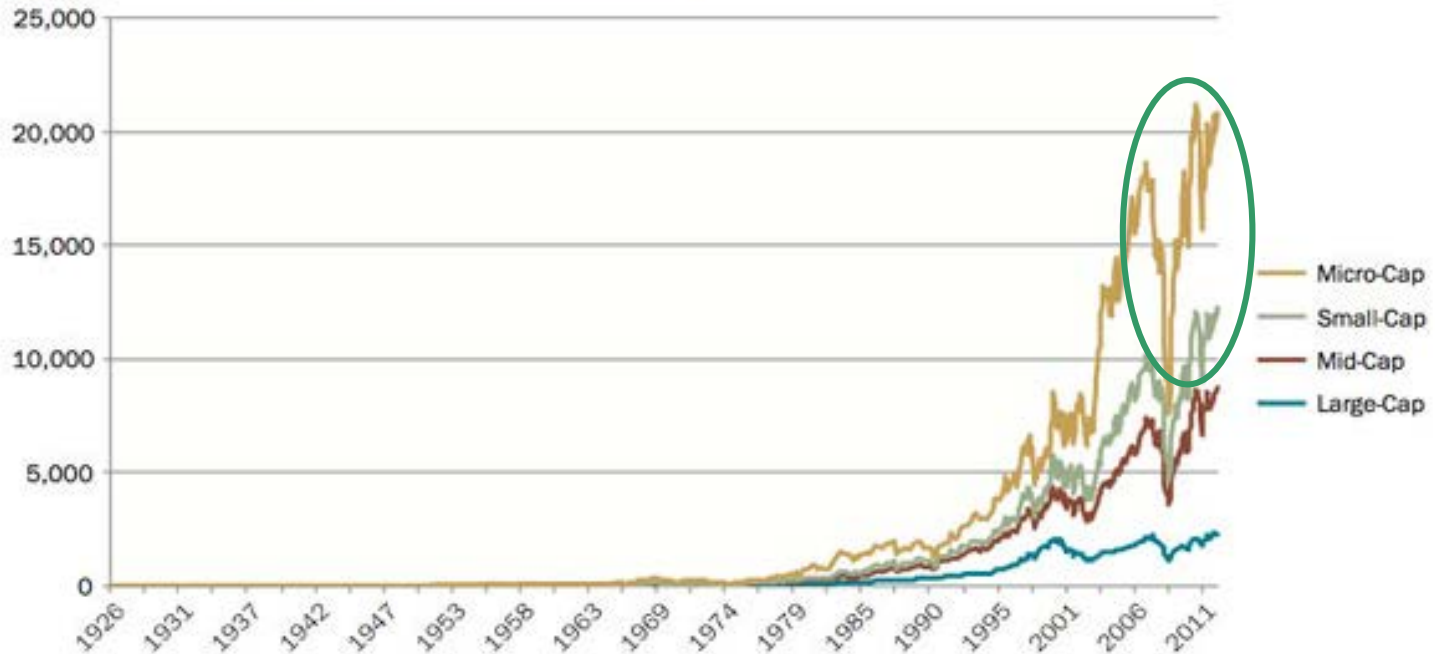
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Small Cap Strategies Outperform

Hypothetical Growth of One Unit from 6/30/1926 to 12/31/2012



Past performance does not guarantee future results.

This is a hypothetical example for illustrative purposes only and does not represent the returns of any particular investment.

Source: Kenneth R. French, © Center for Research in Security Prices (CRSP), the University of Chicago, Booth School of Business.

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Why Small Cap?

- Big Target Markets
- Early Innings



Long Runways



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Freshii (TSX:FRII)

Since IPO, Jan 2017



Key Metrics

Recent Price:	\$6.62
52-week range:	\$5.28 - 12.89
Market Cap:	\$205
EV / Rev	6.7X

Freshii in Brief

- 400 unit Quick Service Restaurant
- Industry leading growth
- Led by founder Matthew Corrin
- IPO Jan, 2017 on TSX

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Source: BigCharts.com

* June 27, 2017 17



FRII Investment Thesis

- Founder/CEO with missionary characteristics
- Innovative menu that leverages health & customization
- Capital light model w/ impressive partner network
- Strong unit economics for franchisee
- Mass market appeal with ample runway
- Market giving little value to growth potential & optionality

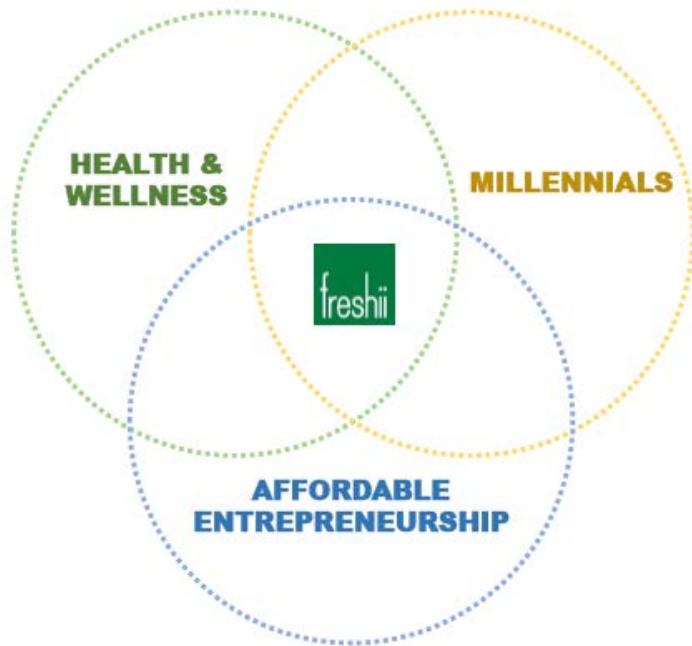


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Uniquely Positioned within the Restaurant Industry

Capitalizing on three big megatrends



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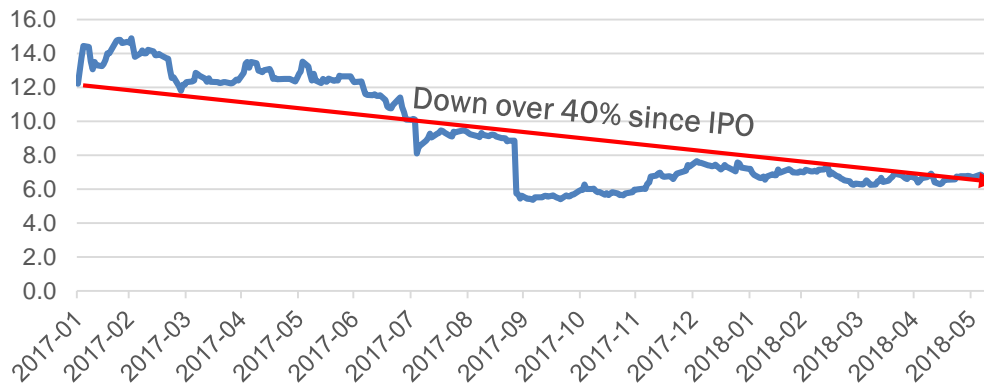
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The Bay/Wall Street View

In the penalty box after over promising & under delivering at IPO

TSX:FRII - Stock Price



“... credibility questioned” – BNN

“Take a pass...” – Cantech

“Freshii stock goes sour...” – Globe & Mail

- Guidance mishap and over priced IPO led to investors fleeing for the exits
- We attribute the miss to inexperience in the public markets
- Matthew Corrin is more likely to under promise and over deliver going forward

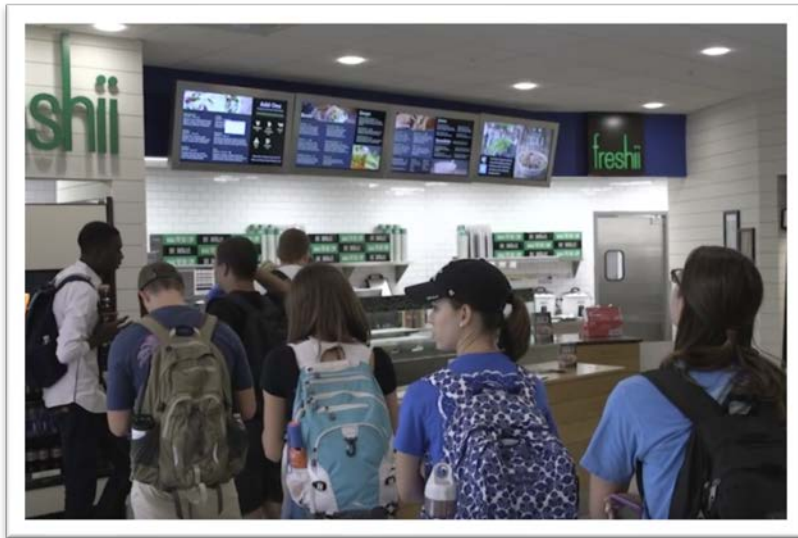
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The Main Street View

One of the best in class & consumers love the brand



University of Kentucky

Award winning:

May 2018 - Freshii named FastCasual's top brand of the year

Sept 2017 - 2nd Fastest growing multi-national chain

Sept 2016 - Best Workplace Culture at the Canadian HR Awards

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Missionaries Build Great Businesses

CEO & Founder Matthew Corrin – young & tenacious

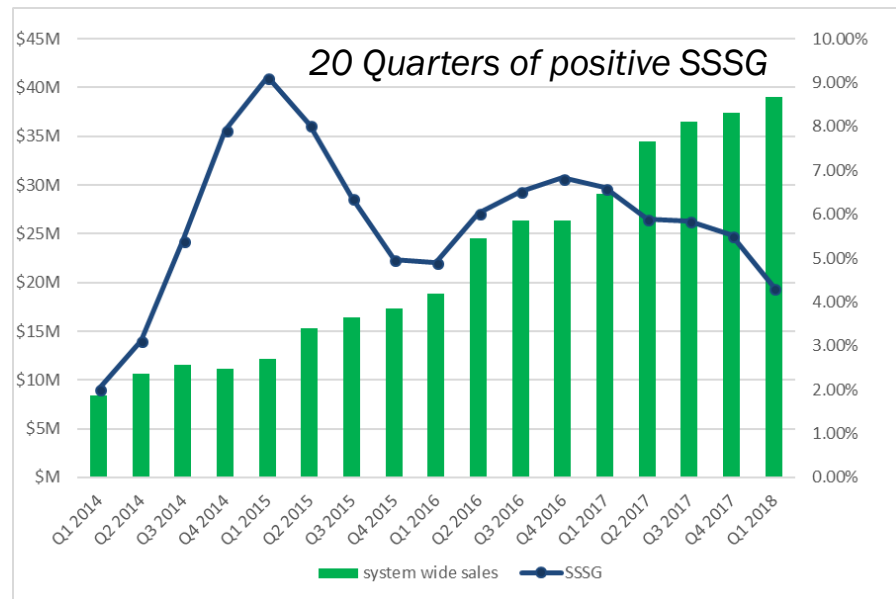


Reaching unit growth milestones faster than many other elites



Rapid Sales Growth & Top Quartile Metrics

Top quartile same store sales growth + unit expansion

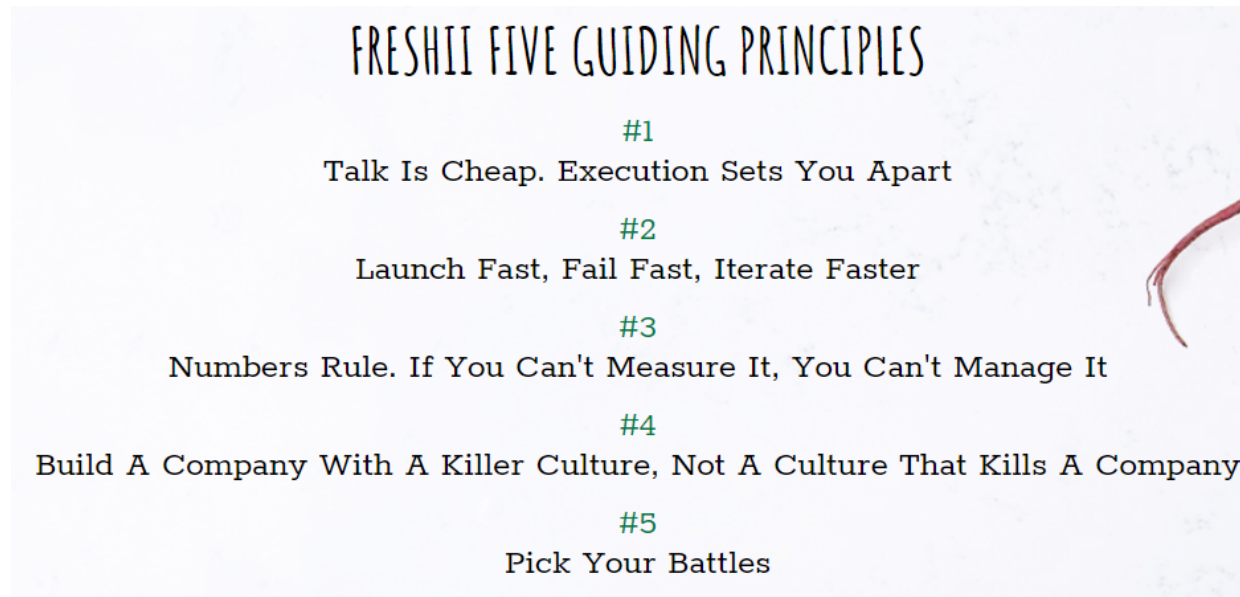


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Consultants Don't Create Culture

Missionaries do



FRESHII FIVE GUIDING PRINCIPLES

- #1
Talk Is Cheap. Execution Sets You Apart
- #2
Launch Fast, Fail Fast, Iterate Faster
- #3
Numbers Rule. If You Can't Measure It, You Can't Manage It
- #4
Build A Company With A Killer Culture, Not A Culture That Kills A Company
- #5
Pick Your Battles



Commonalities with a Successful Playbook

The established moats



Commonalities:

- Missionary led
- Food innovators
- Superb unit economics
- Large runways w/ mass market appeal
- Many embraced franchising

**Other Pender Investments in restaurant sector (Panera was taken private in 2017)*

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Commonalities with a Successful Playbook

How to build a QSR moat



Worlds largest QSR by store count

~ 40,000+ locations

Convenience: Low upfront capex allows for store ubiquity

Healthy perception: Affordable health in comparison to the competition

Mass market appeal: Spans demographic and geographic barriers

Ability to customize: Consumer choice is empowering, trend accelerating

Dual pronged franchising: Caters to solo entrepreneurs and master franchisors





Serving Millennials What They Really Want

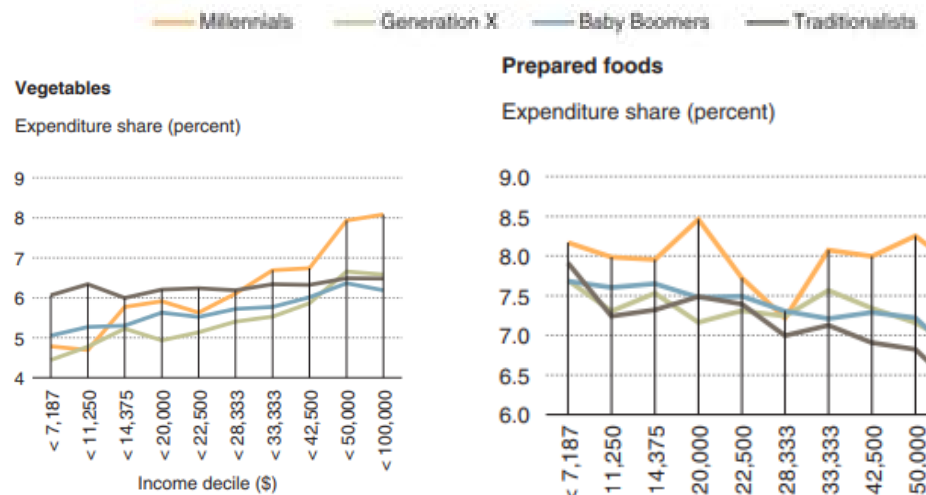
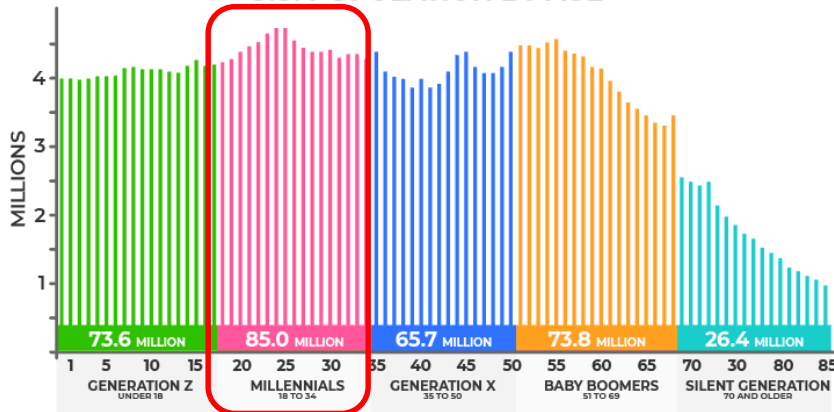
A huge opportunity for this Millennial-led firm

Millennials = largest generation
(with growing economic clout)

More likely to eat their veggies
(health & wellness)

Want it made for them
(want to eat out & customize)

U.S. POPULATION BY AGE



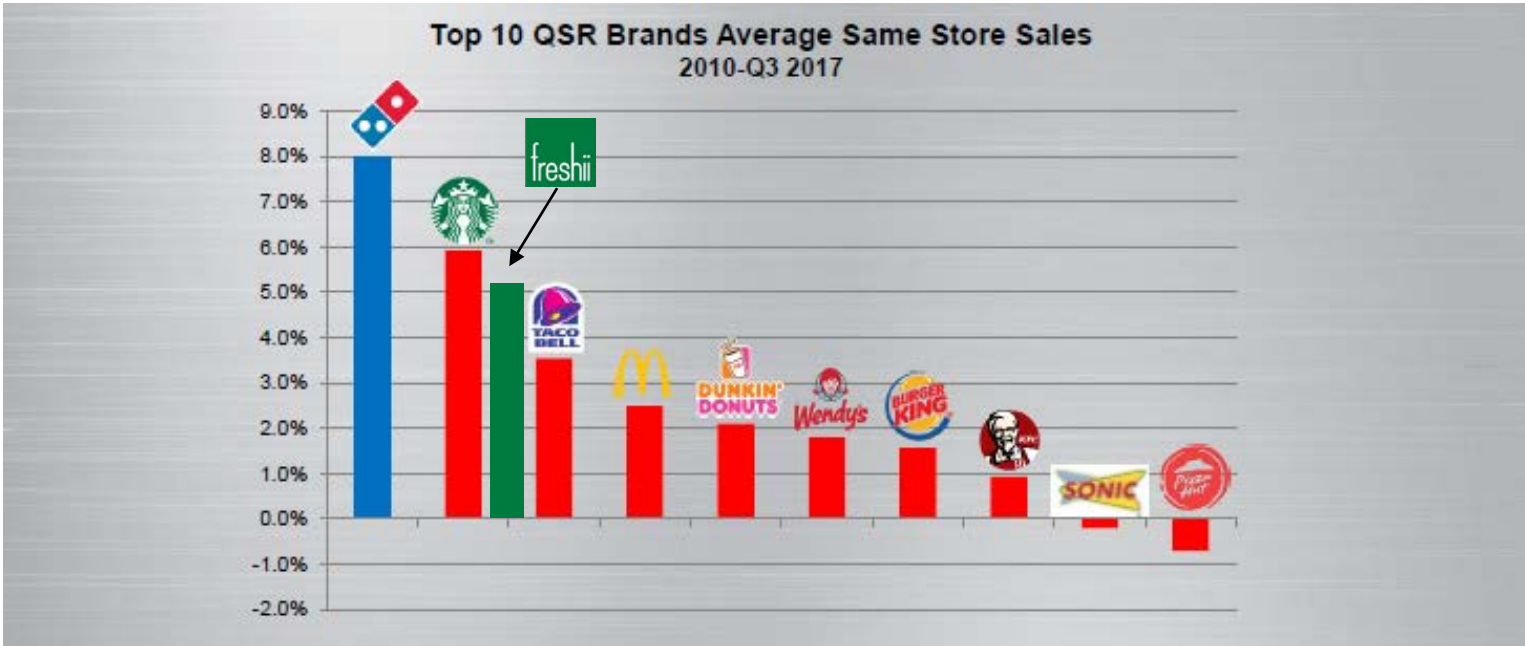
2/3 of franchise partners and 90%+ of HQ staff are millennials

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Amongst Some Elite Company

Customers have been voting with their wallets



Top quartile SSSG augmented by top quartile unit growth of 30%+/year

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Sources: Domino's 2018 Investor Day, Pender: Freshii's SSSG from FY 2017-2018. Forward thinking. Finding value.



Superb Unit Economics

In an industry plagued by mediocrity

No Expensive Kitchen Equipment
 No Oven No Grill No Vents No Fryers No Hoods No Freezers No Microwaves

\$260K
 Target Cash Build-Out Cost²
 (North America)

	Typical Restaurant	Freshii	Difference
Capital outlay	\$1M+	\$250K+	¼ Cost
Typical store	Fixed, 1500 sq+	Flexible, 400 sq+	1/3 the size
Unit economics	15%	40%+	2.5X the return

- Which would you prefer? 7,000 applicants per year vote Freshii
 - (but only 150 accepted last year)
- 30%+ of new franchises are opened by existing franchisees
- Low sq. ft and no kitchen equipment is essential in driving store level returns

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Impressive Master Franchise Agreements

Early innings with needle moving potential

- Impressive roster of Master Franchise Partners.
 - Primarily utilized outside North America and for non-traditional locations
 - Essential for penetrating Airports, Schools etc.
 - Anil Patil, first franchisor of Starbucks is rolling out UK
 - 90%+ of locations still in North America

- Examples:



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Beyond Traditional Unit Growth

Optionality #1 - Unique partnerships drive brand awareness



2017



2017



FREE THE CHILDREN

2017



2017



2017

AIR CANADA



2018

Shell

- 43 Non-traditional stores as of Q1 2018
- Served on Air Canada Flights
- Over 1M meals donated to WE Villages since 2014



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Innovation a Core Competency

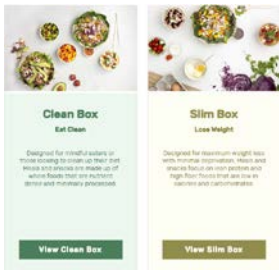
Optionality #2 - Boxes, Breakfast, Catering, Online, And...?

Meal Boxes

\$1 Coffee Initiative

Fitness Entrepreneurs Program

Online / Third Party/
Mobile



- Lunch is 50%+ of sales
- Breakfast low hanging fruit to drive increased store volume
- Catering / Online less than 10% and set to grow with relaunched app

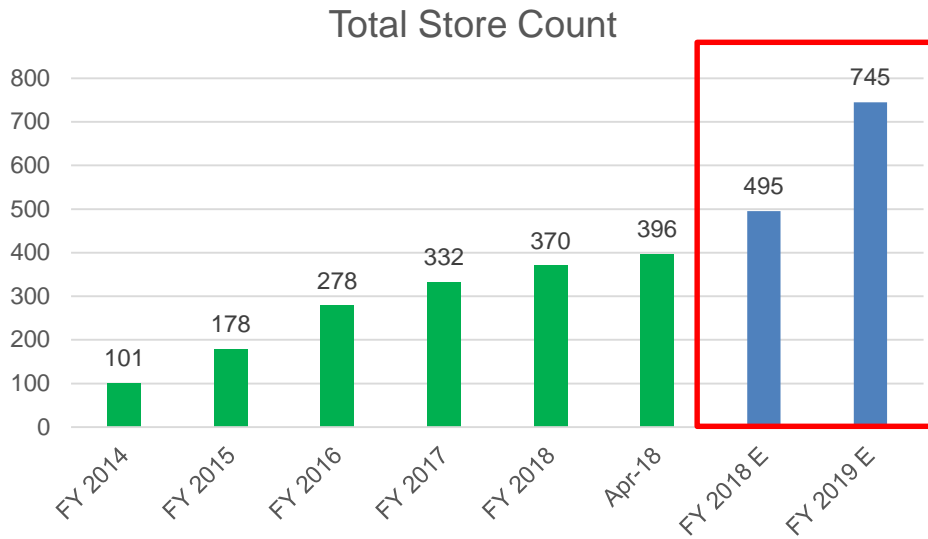


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Near Term Growth in Hand

Mitigates risk of missing guidance



330-350 new stores guided by end of 2019

What gives us confidence?

150 stores in process of opening

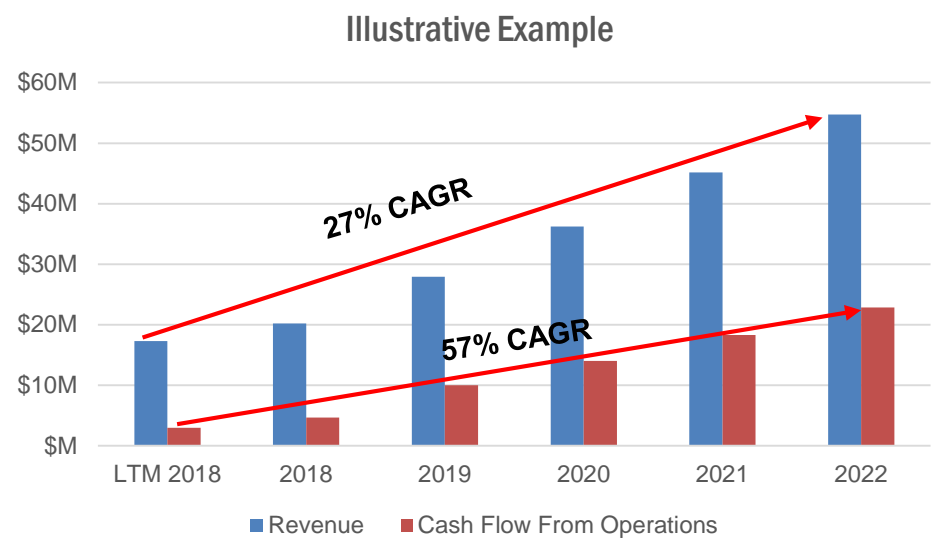
375 new stores committed w/ fee



Operational Leverage in Sight

Every \$1 of revenue = ~ 50 cents to the bottom line

Incremental Breakdown per store 2019 Run-rate		
Metric	\$USD	% AUV
AUV w/ growth	\$535K	
Royalty Revenue	\$34.8K	6.5%
Vendor Fees	\$10.7K	2.0%
Revenue/store	\$45.5K	
SG&A (incre.)	\$21.4K	4.0%
Operating Income	24.1K	
Incremental Margin % Per Store	53%	4.5%



*Conservative assumptions; 150 stores added to network/year
Included 100% of franchise fee/year*



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Reasonable Valuation

Trading at less than 8X 2020 EBITDA Est vs. other US high growth comps at 20X+

1000 new stores in 5 years very achievable

Combined with:

- 90% cash flow conversion
- 50% incremental margins

45% - 300% upside



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The Trinity of Risk

- Balance Sheet/Financial Risk (low)
 - Net cash, Cash flow is positive
- Valuation Risk (moderate)
 - Expensive in rear view, but attractive with growth factored in
- Business/Earnings Risk (moderate)
 - Fickle consumer preferences always hard to navigate
 - Extremely competitive industry
 - 12 years, 400 units and industry leading metrics mitigate risk
 - Nearly no incremental capital needed to grow the business





Summary

- Missionary CEO led Compounder
- Temporary headwinds, lessons learned
- Proven innovator in QSR
- Demand driven by secular trends
- Growth in hand with significant value w/ optionality



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Indicated rates of return are the historical annual compounded total returns including changes in net asset value and assume reinvestment of all distributions and are net of all management and administrative fees, but do not take into account sales, redemption or optional charges or income taxes payable by any security holder that would have reduced returns.

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Prime Broker: TD Securities

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