

Quarterly Report

March 2025

Unit Price: \$1.140

The Bristlemoon Global Fund returned -3.2 percent for the March 2025 quarter, with a -6.5 percent return for the month of March 2025, net of fees. For the nine month period ending March 31, 2025, the Fund produced a 14.0 percent return, net of fees.

We are now seeing value creep back into the market, with a number of stocks beginning to look interesting. For prospective investors who would like to invest in the Fund, enquiries can be made at info@bristlemoon.com.

Key contributors to the Fund's performance in the March 2025 quarter included PDD Holdings and Tencent Holdings – two China-based companies that were top five positions in the Fund. Notable detractors were Xponential Fitness, PAR Technology Corporation, and AppLovin Corporation.

We'd previously written about Xponential Fitness, noting that while it wasn't the highest quality business, it was trading on a depressed multiple, and the business metrics were heading in the right direction. Unfortunately, there was more negative news in store when the company reported its Q4 2024 result. XPOF's FY25 adjusted EBITDA guidance missed consensus by around 10 percent.

That, along with some negative announcements around store closures and their studio licence pipeline, caused the stock to fall by around 38 percent.

Fund Returns (Net)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2024							(1.1)	0.6	7.4	6.8	0.2	3.1
2025	5.1	(1.5)	(6.5)									

Disclaimer

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Performance (%)

March 2025

Net return (6.5)

Portfolio Exposure (%)

(as at 31 March 2025)

% of NAV

Long 79.9

Short (2.3)

Net exposure 77.6

Number of long positions* 13

Number of short positions 1

* Excludes derivative positions.

Top 5 Long Positions

(as at 31 March 2025)

(Alphabetical order)

AppLovin Corporation

Hemnet Group AB

Meta Platforms Inc.

PAR Technology Corporation

Tencent Holdings

As our thesis was no longer valid, we exited this position at a material loss, accounting for a large portion of the Fund's decline in March. We got this one wrong and have applied the lessons to improve our stock selection process. Outside of XPOF, we felt that we managed the volatility of the quarter relatively well with a low-single-digit negative return.

We noted in our past investor communications that there is already ample coverage of macroeconomic events, and we have little incremental insight to add to the existing debate over the merits of President Trump's trade policies. The truth is, the world is now sailing in uncharted territory, and anyone who claims to know how things will unfold should be regarded with extreme scepticism. Rather than sharing our opinion of Trump's tariff regime, we felt it was more instructive to discuss how we had positioned the portfolio to deal with this highly uncertain environment.

Going into the April 2nd "Liberation Day" event, where Trump announced his tariff policies, we had increased our cash weighting and hedged some of our market exposure via index puts. We will discuss the thought process behind why we felt it was sensible to lift our cash weighting, as well as our decision to take advantage of the volatility to upgrade the quality of our investment portfolio. We also present our investment theses for Hemnet Group AB and PAR Technology Corporation, the two largest positions in the Fund.

Higher cash weighting during times of market uncertainty

During March, we increased the level of cash we held in the Fund to a circa 22 percent weighting. This was due to us reducing the concentration of the portfolio as well as wanting to retain optionality in an uncertain investment environment. We will explain both in turn.

At Bristlemoon, we believe that portfolio concentration is a sensible means to maximise the value from our investment insights. Truly great stock ideas are rare; when we find them, we seek to capitalise on them via larger position sizes. In our December 2024 quarterly letter, we detailed our position sizing framework and the criteria we require before sizing up an investment.

However, during periods of heightened market uncertainty – particularly when sentiment overrides fundamentals – concentration can increase the overall risk of a portfolio. The likelihood and severity of a single-stock sell-off increases during these "risk-off" environments, where even fundamentally sound businesses can suffer sharp price declines on the back of negative headlines or guidance misses.

Our approach to managing this risk is grounded in a "maximum loss" framework, where each position is sized based on the maximum potential loss we're willing to accept. If the downside risk on a position exceeds that threshold, we cap its size accordingly. The corollary of this is that as the distribution of potential outcomes changes – especially if the downside risk increases – we adjust our position sizes to reflect the new risk profile.

Given the current market volatility, we are less comfortable holding outsized positions. The likelihood and severity of a downside surprise – via earnings misses or valuation deratings – has increased. As a result, the maximum loss in a number of stocks we own has increased, prompting us to reduce those position sizes. This naturally has lifted our cash balance.

We were also willing to let our cash balance rise given the optionality it provides in an uncertain market. Cash is not just an idle asset; it provides the ability to capitalise on stock market bargains as they arise. With elevated volatility and rotations occurring beneath the surface of the market, this is an environment where the optionality of cash is more valuable. Looking ahead to Q1 earnings season – a period that often sees outsized stock price moves – we want to be in a position to act if attractive opportunities present themselves. A higher cash weighting allows us to do just that.

Some investors opt to remain fully invested at all times, reasoning that buying high-quality businesses at reasonable prices should deliver attractive returns over the long term, regardless of market conditions. While we respect this view, we believe it is more prudent to adjust our exposure based on the risk/reward of the opportunity set in front of us. We acknowledge that holding a higher level of cash could be construed as a directional call on the stock market. We are not forecasting a further market sell off – we don't claim to have that foresight. But we are observing a climate where individual stock blowups are more frequent and more severe. In that context, preserving capital and waiting for more favourable stock setups feels like the right approach.

Our decision to adopt a more defensive stance was also driven by the fact that, prior to the sharp market selloff triggered by Trump's tariff announcements, the S&P 500 was still trading only slightly below its level from November 2024, when Trump won the election. It certainly didn't appear as though markets were factoring in the damage that a widespread tariff regime could inflict. Fortunately, our defensive positioning helped us contain damage to the portfolio and leaves us well-placed to capitalise on emerging opportunities.

Upgrading our portfolio

Market volatility, while uncomfortable, also creates opportunities. Sharp price moves can quickly shift the risk/reward profiles of both stocks we own and those on our watchlist. As a result, the position sizes we held at the start of the quarter may no longer have been optimal, especially given the recent correction created wide divergences across sectors, factors, and individual stocks. For this reason, we took the opportunity to reassess our portfolio holdings. In several cases, we rotated out of relatively lower-conviction names – particularly those that hadn't sold off materially – and into higher-quality businesses that had de-rated more significantly.

Furthermore, in an environment where we see an increasing risk of a weakening demand backdrop, we prioritised the allocation of capital towards businesses with more resilient revenue streams – that is, businesses that are less reliant on discretionary consumer spending or cyclical end markets. We believe these actions have resulted in a net upgrade in the quality of our investment portfolio.

Post quarter-end, we exited two of the Fund's positions: Interactive Brokers and Pinterest. Interactive Brokers (IBKR) is a global electronic brokerage business that offers industry-leading execution at industry-low cost. The company has delivered phenomenal client account growth of 37 percent annualised over the past five years, exceeding 3.3 million accounts by December 2024. IBKR also grew client equity at over twice the rate of traditional discount brokerage and wealth management peers.

As far as business quality goes, IBKR ticked all our boxes: it earned a 22 percent return on equity, up from just 8 percent ten years ago despite being six times overcapitalised; it offers the lowest price and best execution for active traders yet has market-leading pre-tax margins of over 70 percent; it has a

technology and product breadth advantage built over decades; and its founder still owns 74% of the company.

The stock had been a quiet winner for us during our period of ownership and we added to the position as the stock sold off in March. However, following Trump's tariff announcement, the calculus quickly changed. IBKR earns a majority of its revenue from net interest income on idle client cash and margin loans. US recession odds and Fed rate cut expectations jumped following the much worse than expected "reciprocal" tariff rates. A sharp market selloff and even more extreme sentiment reversal would trigger margin calls and reduce demand for margin loans.

These developments would have the effect of accelerating IBKR's net interest margin compression while also reducing interest earning assets (margin loans). Account growth will likely decelerate as we saw during the 2022 bear market, while equity per account will also erode. We now expect negative EPS growth for IBKR this year, while 2026 will depend on whether the US enters a recession or not. Given our expectation of minimal earnings growth over the next two years, we elected to exit our IBKR position to preserve capital and raise cash for more prospective opportunities, notwithstanding the longer-term quality of the business.

We also exited our position in Pinterest (PINS), which had been a source of funding for us over the past two quarters. We wrote about Pinterest in our Q4 2024 quarterly letter in the context of lessons in position sizing, and our view on the business has not changed since then. Our decision to exit PINS was twofold: to upgrade the quality of the portfolio, and to reduce the Fund's overall exposure to digital advertising names. While the company delivered a good Q4 2024 result and a strong Q1 2025 guide, our conviction in the stock had declined over time due to execution issues.

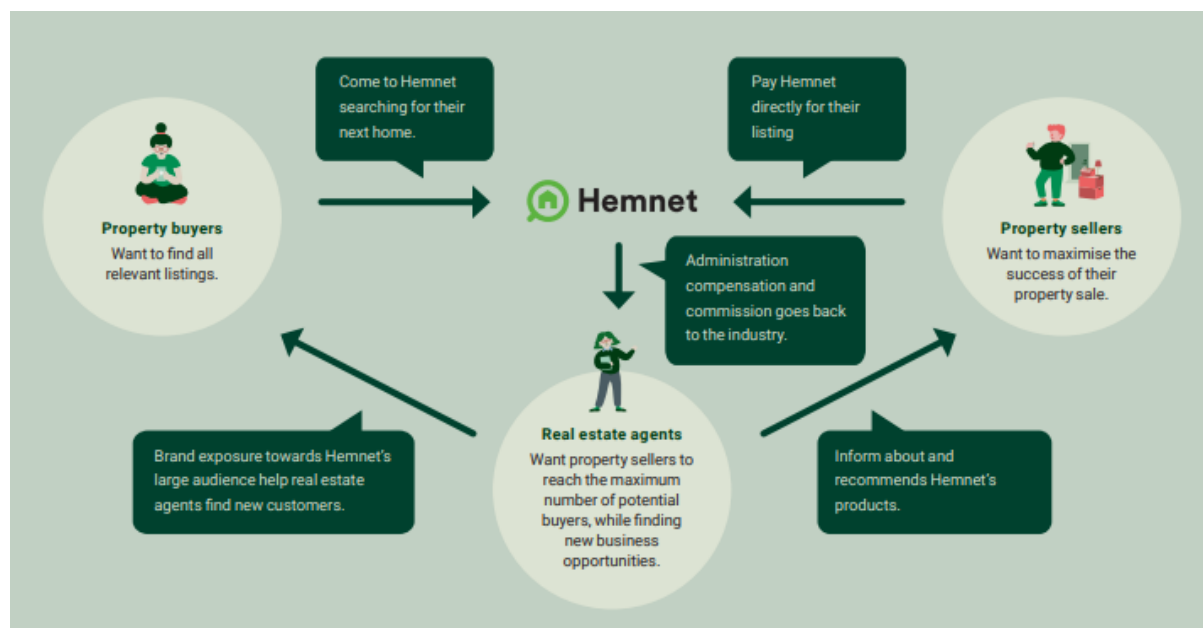
Pinterest is entirely dependent on advertising, and the current farcical reciprocal tariff regime could prove extremely detrimental to digital advertising demand. As an experimental channel, advertisers are likely to cut their budgets on Pinterest before they reduce their allocation to core channels like Meta. And given the extent of the selloff in advertising exposed names, we have a stronger preference for Meta and AppLovin at these levels as they have more resilient core businesses and greater optionality.

Admittedly, we were fully invested as the market began its sell off in mid-February, and were wrongfooted by both the speed and magnitude of the unwind. However, we were still able to raise our cash weighting before the much more significant market decline in April 2025 and are continuing to reallocate capital towards high-quality opportunities. Our goal remains unchanged: to own a collection of durable, high-quality businesses that offer attractive long-term returns. We believe the steps we've taken this quarter have strengthened our portfolio and positioned us well for the opportunities ahead.

We wanted to spend the remainder of this letter discussing the theses behind our two largest portfolio holdings: Hemnet Group AB and PAR Technology Corporation. This will give colour around the types of companies we invest in and why we've maintained large positions in these stocks rather than cutting risk indiscriminately across the board.

Hemnet Group AB (STO: HEM)

Hemnet is a Swedish property portal with a monopolist position for property listings in Sweden. The company has 90% share of listings for properties sold in Sweden and receives 16 times more views per property ad compared to the second largest player in the market. Hemnet is so dominant that 100% of its traffic derives from organic sources. In other words, Hemnet is the destination for property searches in Sweden and does not need to pay for traffic.

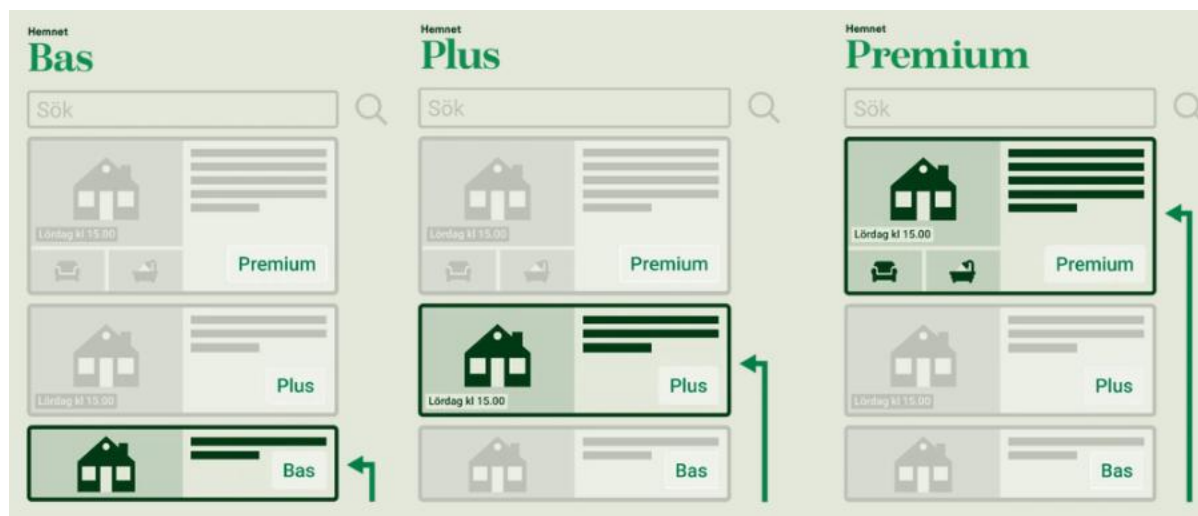


Source: Hemnet 2024 Annual Report

The company makes money by charging property sellers a fee to list their properties on Hemnet. Hemnet has four listing tiers: Bas (or Basic), Plus, Premium, and the recently introduced Max. As sellers move up the various tiers, they pay a higher fee for a more prominent listing, helping maximise the chances of achieving a better sale price as well as a prompt sale.

This is included:	Bas	Plus	Premium	Max
Listing on Sweden's largest property portal	✓	✓	✓	✓
Prioritisation of listing cards	4th	3rd	2nd	1st
Size of listing card	Small	Medium	Large	X Large
Pictures in gallery on listing page	✗	3 pictures	5 pictures	5 pictures
Free Renewal	✗	✗	✓	✓
Free Raketen	✗	✗	3 days	5 days
Targeted outreach to potential buyers	✗	✗	✗	✓
Unique visibility of Hemnet's landing page	✗	✗	✗	✓

Source: Company Q4 2024 presentation



Source: Company website

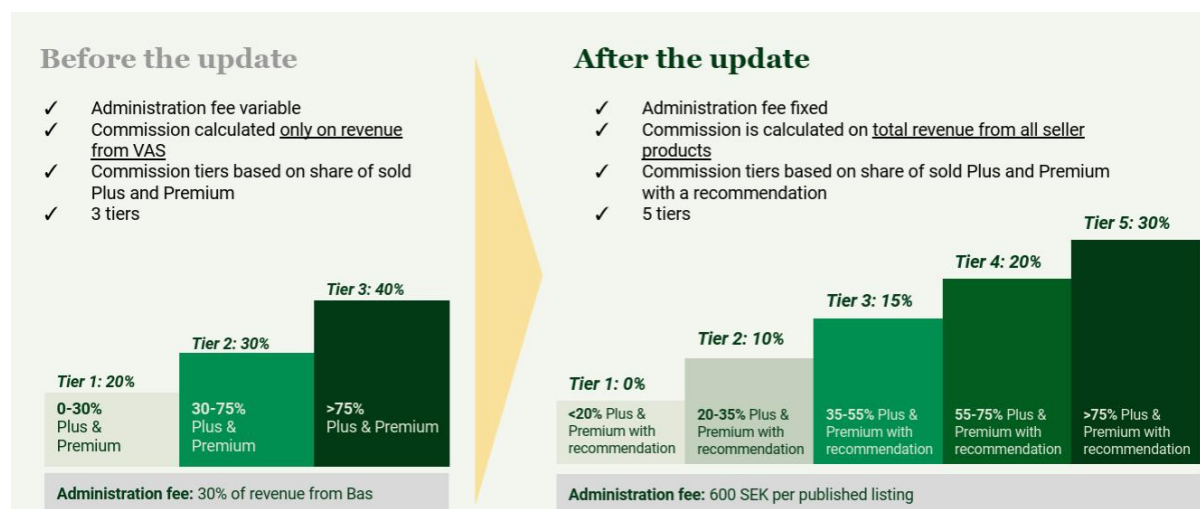
Sweden is an attractive market for property portals as it is a vendor-paid market (much like Australia). In a vendor-paid market, the property portal's listing fee is paid by the seller of the property, not by the agent. This supports Hemnet's ability to extract more value per listing. Think of it this way: sellers, who are looking to monetise what is likely their largest asset (i.e., their home), are the ones paying the listing fee, not the much more price sensitive real estate agents. For this reason, a vendor-paid model allows Hemnet's listing fees to be benchmarked against the sale proceeds of the home, and not against the much smaller pool of agent commissions.

We would note a key difference between the Australian property portals and Hemnet is the fact that Hemnet pays a commission to agents when they list a home on its platform (a consequence of Hemnet's beginnings as a real estate agent cooperative). This has the effect of aligning agents with Hemnet; the higher Hemnet's revenues, the more commissions that are paid out to agents. For this reason, real estate agents in Sweden function as an outsourced sales force for Hemnet, recommending the company's premium listing products to property sellers (note that three out of four sellers follow their agent's recommendation for upgrading their listing on Hemnet).

Why is Hemnet interesting now?

We have followed Hemnet for years but grew comfortable enough to invest in the business late last year following changes to the agent compensation model, and the subsequent spike in Plus and Premium listings.

In Q4 of 2023, the company announced changes to the agent compensation model that would come into effect on 1 July 2024. Essentially these changes strongly incentivised agents to recommend Hemnet's more expensive listing packages: Plus and Premium.



Source: Company Q4 2023 presentation

For those familiar with the Munger aphorism, “show me the incentive and I will show you the outcome”, it is perhaps unsurprising what happened next. Since the new agent compensation model was put in place, we have seen a dramatic uptick in Plus and Premium listings. For some context, Hemnet previously shared that approximately half of all sellers upgraded to a Plus or Premium listing in 2023 (which was up significantly from about one in three sellers for Q4 of 2021, the last time the company provided a conversion update). If we then look at Q3 of 2024, the first quarter after the new agent compensation model was implemented, there was a significant conversion uplift: an average of two in three sellers upgraded their listing in Q3 of 2024, and primarily to Hemnet Premium (the most expensive listing package at the time).

This upgrade activity continued into Q4, although the company declined to quantify the Plus/Premium conversion rate. We estimate that Hemnet exited Q4 with around 75-80% of listings upgrading to Premium. While this is fantastic, it also presents the company with a problem: if too many sellers purchase the Premium listings, then it becomes harder for these sellers to distinguish their listings on the platform. This “problem” is typically solved by the introduction of a super premium tier, which is in effect a way to raise prices and extract more value per listing.

On the Q3 2024 earnings call, Hemnet management alluded to a new super premium tier, which was anticipated to be released in 2H 2025. Our thesis was that the significant upgrade activity meant there was a high chance that Hemnet would need to pull forward the rollout of its super premium tier. This is what happened when the company reported its Q4 result. In Q4 of 2024, Hemnet announced that it was expediting the rollout of Hemnet Max, its new super premium tier, from 2H 2025 to Spring of 2025 (later confirmed as April 1, 2025). Note that the last time Hemnet introduced a new ad package was in 2020; the Max rollout is a big deal.

From Hemnet’s website, we can observe that the Premium package is circa 2.1x the Basic package, and Hemnet Max is initially being introduced with a discounted launch offer at around 2.6x the cost of the Basic package. On April 14, 2025, the cost of Hemnet Max will be increasing to circa 3.3x the cost of the Basic tier. Below we can see a snippet from the listing fee calculator on Hemnet’s website, showing the company’s pricing schedule. It should be noted that Hemnet’s listing fees are not fixed; they vary based on the value of the home.


Our package options

Basic – starter package with the most important things

7,500 SEK

Or pay directly for a lower price: **6,975 SEK**

Upcoming ad included at no extra cost



Home road 12
Stallbacken, Mölndal Municipality
4,395,000 SEK 95 m² 4 room
2,945 SEK/month 46,263 SEK/m²

Balcony

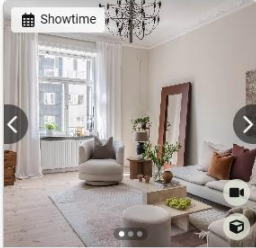
Example image of a Hemnet Bas ad

Plus – prioritized visibility with medium-sized images

11,500 SEK

Or pay directly for a lower price: **10,695 SEK**

Upcoming ad included at no extra cost



Home road 12
Stallbacken, Mölndal Municipality
4,395,000 SEK 95 m² 4 room
2,945 SEK/month 46,263 SEK/m²

Plus Balcony

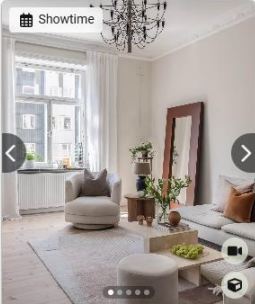
Example image of a Hemnet Plus ad

Premium – our most popular package

15,900 SEK

Or pay directly for a lower price: **14,787 SEK**

Upcoming ad included at no extra cost



Home road 12
Stallbacken, Mölndal Municipality
4,395,000 SEK 95 m² 4 room
2,945 SEK/month 46,263 SEK/m²

Premium Balcony

Example image of a Hemnet Premium ad

Launch offer


Max – unbeatable range and precision

19,680 SEK

Regular price 24,600 SEK . Valid until April 14.

Or pay directly for a lower price: **SEK 18,302** (ord. price SEK 22,877.50)

Upcoming ad included at no extra cost



Source: Hemnet website

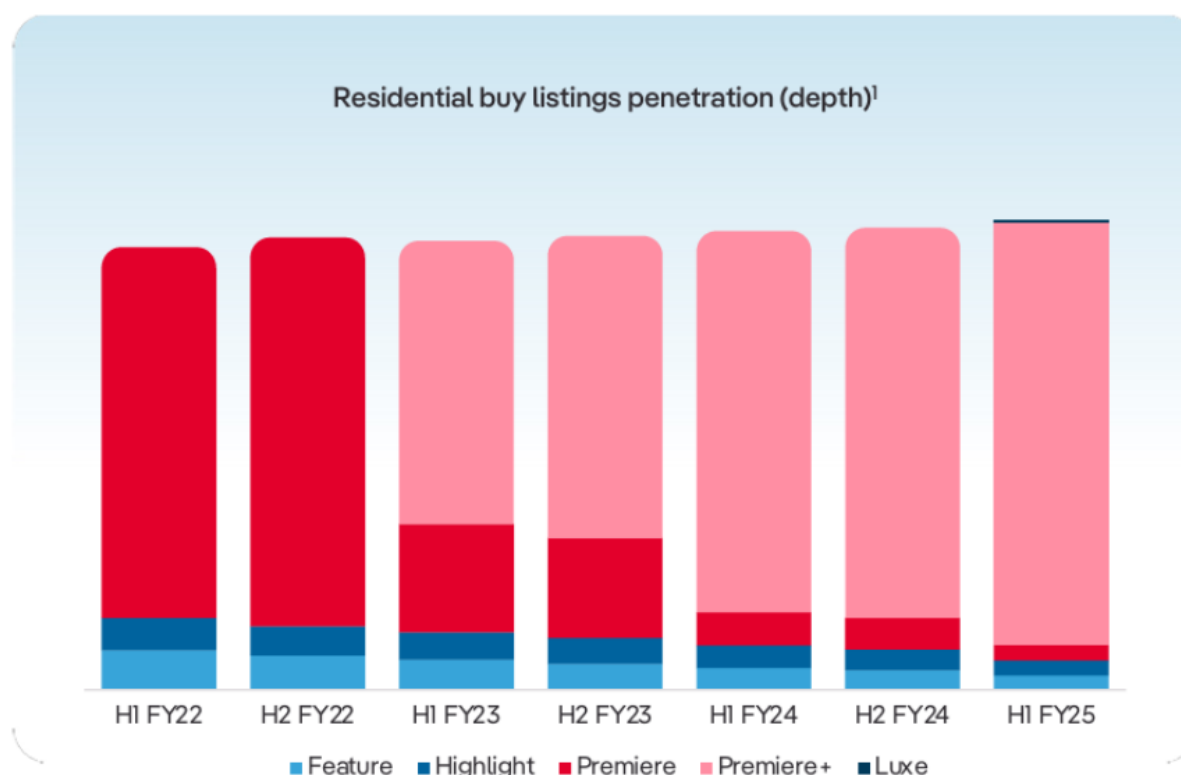
While this might seem like a decent pricing uplift for Max, we believe there is a strong chance of further upward pricing adjustments for Hemnet Max in the coming weeks, as well as potentially for the other listing tiers. Our reasoning is as follows:

- The undiscounted Hemnet Max pricing is still only a 25% premium over the cost of the Premium package. There is precedent for property portals achieving much higher pricing for new tiers.
- Given the already very high and rapid take up of Hemnet's Plus and Premium tiers, there is already a pipeline of demand for the Max tier, which bodes well for Hemnet's ability to price this new tier at a significant premium to the existing tiers.
- In our conversations with Hemnet's management team, they expressed concern about a scenario where there is rapid take up of the Max product, with a preference for a more gradual, steady increase in demand for the Max tier. The key lever to curb the demand for Max is to raise prices.
- A Hemnet Max listing includes the real estate agent's name and picture in the image gallery. This is free marketing for agents in an industry that's notoriously competitive. All the agent needs to do to get their name and picture appear in the listing image gallery is to recommend the property seller to upgrade to the Max package. It also doesn't hurt that the agent receives a higher commission from Hemnet if they succeed in getting that seller to upgrade to Max.

Think of it this way, it's an additional SEK 4,920 (A\$815) for a property seller to select the Max package rather than Premium, based on an SEK 6 million (circa A\$1 million) house in Stockholm. So, if the more prominent Hemnet Max listing can generate wider interest in that seller's property, and thus more potential buyers, then the seller would only need to achieve a price that's 8 basis points higher in order to justify the additional cost of Max. This seems like pretty easy math for someone who is selling their largest asset. This should be a compelling product for agents to upsell to property sellers, and we expect the take up of Max to be very strong.

We do not believe that the sell side is properly modelling the benefits to Hemnet's average revenue per listing in FY25 from the abovementioned changes. Consider the following:

- Hemnet raised prices across its listing tiers by 12-15% on January 1, 2025.
- We believe there will be a strong upgrade rate to Hemnet Max, underpinned by a quasi-sales force of agents that are strongly incentivised to recommend sellers to purchase the Max package. Notably, more of 2025 will benefit from this positive mix effect, given that Max is being rolled out in April rather than later in the year. We believe it's possible that Max could reach 30% of Hemnet's listings mix in 2025. There's precedent for this, with REA's Premiere+ product achieving a more than 50% penetration rate in its first full year (see the chart below).
- More expensive properties typically have a higher conversion rate to premium listing packages. We also know that more expensive properties carry higher listing fees on Hemnet. For example, it is 14% more expensive to list an SEK 4.5 million home in Helsingborg, Sweden on Hemnet than it is to list a home in the same city that is worth SEK 3.0 million. This dynamic has a positive mix effect on Hemnet's average revenue per listing that we do not think is properly being captured by investors.



Source: REA Group H1 FY25 results presentation

If there is sufficiently strong take up of Max, causing management to raise prices of this new tier, we foresee a scenario where Hemnet's average revenue per listing growth in FY25 could exceed 50%, which is far above what we believe both the sell side and buy side are anticipating.

What does the long term opportunity look like for Hemnet?

We frame the longer term opportunity for Hemnet by looking at the company's listing fee take rate as a percentage of the average house price in Sweden. In 2024, Hemnet was charging on average 21 basis points of the SEK 3.7 million average home value in Sweden. We think that this can reach 30 basis points in 2025. In Australia, where people will typically advertise on both REA and Domain, a property seller is forking out a combined 40 basis points of the average home price to list their property on these portals. This says to us that there's upside for Hemnet to continue expanding its take rate, which could conceivably exceed 40 bps within the next five years and would underpin healthy revenue growth for years to come.

We would note that Hemnet's take rate expansion has been particularly rapid: the company will have gone from taking 6 basis points of the average home price in Sweden in 2019 and 2020, to around 30 basis points in 2025, just five years later. REA, on the other hand, took 30 years to get to a 25 basis points take rate. Given Hemnet's unmatched ability to provide home sellers in Sweden with buyer liquidity, we believe the company is still in the early stages of fully monetising its listings.

The beauty of Hemnet's model is that there are minimal incremental costs associated with its pricing-driven growth, resulting in very high incremental margins. Consider that the company has a little over 150 employees that support a revenue base of around SEK 1.4 billion (A\$220 million), with the company requiring negligible additional headcount to support the strong revenue growth in recent years. While Hemnet achieved a circa 52% EBITDA margin in FY24, and management has a longer term target for 55% EBITDA margins, it is worth noting that REA Group is achieving 70% EBITDA margins for its Australian Property & Online Advertising business¹. We expect Hemnet to over time achieve a margin profile that exceeds 60%.

As it stands today, Hemnet is paying agents 30 cents of every dollar of property seller revenue. While this has come down from north of 50 cents just six years ago, we believe that the commissions Hemnet pays agents will be a significant source of margin release for the business in future years. Note that Hemnet has a history of changing the agent compensation model, and we believe the company is well-placed to make additional changes to the model to support future margin expansion.

While Hemnet optically does not look cheap, trading at 44x FY25 earnings, we would note a few things: 1) we believe sell-side earnings numbers are too low for the reasons cited above, and this has the effect of inflating the earnings multiple; 2) 44x earnings is not an unreasonable multiple to pay for a business that we think can compound earnings per share at north of 30% per annum over the next five years; and 3) REA Group, the Australian property portal that is expected to growth materially slower than Hemnet, is trading on 47x CY25 earnings (note that REA has a June 30 year-end), a premium to Hemnet.

¹ Although notably 15% of Hemnet's revenues in FY24 came from non-listings related revenues that carry a different margin profile.

PAR Technology Corporation (NYSE: PAR)

PAR Technology Corporation (NYSE: PAR) is a \$2.1 billion market cap company based in New Hartford, New York. The company sells hardware and software products to enterprise restaurant chains (PAR is in half of the top 100 restaurants in the U.S., including Burger King, Arby's, Dairy Queen, and Wendy's). However, the attractiveness of PAR as an investment comes from it selling mission-critical products into this highly durable customer base of enterprise restaurants. Not only that, but it is currently charging customers a pittance relative to the value it's providing. We believe the company has enormous latent pricing power, which we discuss below.

PAR's unified platform – a mission critical software layer for restaurants

PAR's core product is its point-of-sale (POS) software. This is what allows restaurants to make sales. Basically, all transactions flow through the POS, and it acts as a system of record within the restaurant. PAR's POS product is mission-critical for its restaurant customers: without the POS, a restaurant cannot make sales.

PAR has expanded beyond just POS software and has created a unified platform of best-in-class software solutions across a range of modules, including payments, online ordering, loyalty, as well as back-of-house operations and reporting. Through mostly bolt-on M&A, PAR has built out a comprehensive product suite that is resonating with enterprise restaurants and allowing the company to gain share from legacy POS incumbents such as Oracle, NCR and Xenial. Increasingly we are seeing new deals won by PAR coming in as multi-product deals. In fact, all eight POS deals in Q4 of 2024 were multi-product deals.

For us, the major proof of PAR's unified platform strategy working, and what initially attracted us to the business, was when PAR won the Burger King deal in 2023. Every major foodservice vendor was on that RFP and our understanding was that Oracle offered Burger King a lower price at the eleventh hour and PAR still won the deal. It is encouraging that Burger King recently added PAR's Data Central product, suggesting that the initial rollout of PAR products is going well.

M&A strategy

While we are typically sceptical of roll-up strategies (we have shorted M&A rollup stories in the past), PAR's approach stands out as disciplined and product-led. As CEO Savneet Singh has emphasised, the focus isn't on acquiring revenue to manufacture growth, but on buying strategic, enterprise-grade assets that enhance the value of PAR's platform. These acquisitions are aimed at filling product gaps, supporting expansion into new verticals or geographics, and they ultimately accelerate ARR growth through cross-sell opportunities.

Unlike other acquisitive companies such as Constellation Software and Roper Technologies, which primarily rely on cost synergies, PAR can justify paying higher multiples for acquisitions due to meaningful revenue synergies – particularly the ability to cross-sell acquired products into its existing customer base. For example, PAR during its 2024 Investor Day referenced an enterprise QSR customer who started with PAR's POS product in 2019, and was later upsold Data Central in 2020, then Punch in 2021 (all of these products were acquired and then integrated into the PAR platform). As a result, PAR's ARR from that QSR customer went from roughly \$2 million to \$18 million in the span of just five years, a 9x increase (see below). Not only that, but customers that adopt multiple PAR products become much stickier and have higher LTVs.



Source: PAR 2024 Investor Day

Some of this customer's ARR uplift would have come from opening new restaurant units. But this a feature and not a bug: PAR is a picks and shovels play to the extent that the company compounds along with its customers as they open additional restaurants. Notably, PAR has gotten in early with chains such as Sweetgreen and Cava, which have had fantastic restaurant unit growth.

PAR's M&A approach benefits from equity multiple arbitrage: PAR is using an 8x ARR currency and buying things at 4-6x ARR. Once integrated, that asset then re-rates within PAR to the company's 8x multiple. This strategy has been highly successful to date: ARR has gone from \$11 million in 2018 to \$276 million today (a 25x increase in just six years) and ARR per share has increased by 10x over the same period. While M&A is an important part of PAR's growth, the company is still achieving robust organic growth: around 45% of the incremental ARR dollars over this period were from organic growth, and the company is expected to grow organic ARR at between 20-30% per annum going forward.

A resilient customer base

Not only is PAR selling a mission-critical software layer, but it is selling it into one of the most robust customer bases that exist. PAR's churn levels are around 4%, and most of these are just store unit closures as opposed to logo losses. During the pandemic churn levels spiked to 14% but by the end of 2020 it was back down to 7%. Almost all of PAR's customers came back, speaking to the strength of the company's value proposition.

Selling products to a resilient customer base is particularly important during times of economic softness. In addition, PAR's customers are faring better than the restaurant industry overall, growing comparable sales by low-single digits in Q4 of 2024 (which is respectable but down from 5.5% in Q2 of 2024). While the comparable sales growth of PAR's customers might slow in coming quarters, we would make a number of points that suggest that PAR will be able to continue growing through a weaker demand environment:

- PAR comprises a miniscule portion of a restaurant's cost base.
- Restaurants are relatively durable businesses and unlikely to experience a level of financial downside that would force them to shelve their technology investment plans.
- A number of PAR's value-oriented fast casual restaurant customers benefit from trade down activity in a more difficult economic climate.
- PAR has shifted their go-to-market motion to focus on communicating the ROI of PAR's software suite, helping customers drive revenue during tougher economic periods.

Low priced product with pricing power

PAR sells its core POS product for around \$2,500 to \$3,000 per store, per year. For a restaurant unit that's doing \$2 million per year of sales, they are paying PAR just 0.2% of their sales. We believe there's potential for this to move higher over time through like-for-like price increases, as well as selling additional modules within the current installed base. For a restaurant that adopts PAR's full product suite, the ARR increases to \$10,000 to \$12,000 per year, a 3-4x increase over the core POS ARR. Note that for restaurants with PAR's POS product, only 30% of them had two PAR products, signalling a strong upselling opportunity that can help the company achieve a higher ARR per store. We also think there's enormous latent pricing power in this business which over time should see the cost of PAR's entire product suite move up to \$20-30k/store/year.

Is there value in PAR?

Admittedly, PAR's value might not be immediately clear to those who just glance at the stock. The business doesn't screen well – it has historically been loss making, there has been turbulence with the margins of their software business due to investments and other one-time items, and the acquisitive nature of PAR creates further noise in the financials.

We believe PAR should be able to achieve \$330 million of ARR in FY25, and can grow this at a mid-20s percent annual rate over the next few years. We are also seeing increasing evidence that the company is rapidly inflecting towards profitability, and that the true underlying economics of PAR's software business are attractive. For example, the company has been growing its organic ARR at a mid-20s percent rate yet its organic operating expenditure growth has been in the low-single-digits. This signals that there are very strong incremental margins for each additional dollar of ARR the company brings in – something that in recent years has been obscured by the heavy investments PAR has been making. We expect the true underlying economics of PAR's software business will begin to emerge over the next 1-2 years, and it should be possible for the company to achieve \$100 million of adjusted EBITDA in FY26, compared to consensus estimates of just \$43 million. From this strong EBITDA ramp, we can underwrite a 23% IRR out to 2028, equating to a 2.3x multiple of money over this period.