

**Far View Capital Management**  
225 North Mill St- Suite 110  
Aspen, CO 81611  
646-838-4401  
info@farviewcapitalmgmt.com

January 16, 2019

Dear Partner,

Welcome to the performance update of Far View Partners L.P. for the half-year ended December 31<sup>st</sup>, 2018.

### **Portfolio Performance**

During H2 2018, Far View Partners generated a return of -17.03% net of all fees and expenses, which comprised -3.54% in Q3 2018 and -13.99% in Q4 2018. For the full year 2018, Far View generated a net return of -17.50%. Since inception on July 1, 2011, Far View Partners has generated a cumulative net return of +122.09%.

While Far View suffered losses in several portfolio positions, the majority of the Partnership's 2018 loss was driven by our investments in Majestic Wine, Freshii, and EZCORP (discussed below). Offsetting these negative results were profits in Radisson Hospitality (please see the presentations on [www.farviewcapitalmgmt.com](http://www.farviewcapitalmgmt.com) to review the theses I distributed earlier this year) as well as smaller gains in Lawson Products where the company's margins began to expand as expected, and CommerceHub which was taken private in H1 2018.

On December 31, 2018, the Partnership's portfolio consisted of long equity investments in North America, Europe, Australia and South Africa as well as a small borrowing in Swedish Krona (SEK). This small SEK borrowing partially hedges the Partnership's long exposure in the ongoing, low-risk tender of SEK holding Radisson Hospitality.

### **2018- What Went Wrong**

While periods of poor performance are inevitable in the investing business, Far View's results in 2018 were disappointing. Over the Partnership's 7.5 year history, 2018 was the first year of negative returns, and those returns were materially negative. I continue to focus on long-term performance, not the results of any single year, but I think it is important to examine the drivers of poor performance to improve Far View's future process and to explain that process in greater detail to the Partnership's investors.

Far View's negative returns were generated by 3 factors: (1) mistakes made by me, most notably Freshii, (2) the portfolio's international and small-cap exposure as international markets and small-cap stocks generally underperformed, and (3) significant losses generated by positions that I believe still have long-term upside, especially EZCORP (EZPW) and Majestic Wine (WINE). I will further discuss my mistake investing in FRII and my decision to add to our EZPW and WINE holdings because I want my partners to understand the thought process behind investing in these three companies.

## Freshii

My most notable mistake in 2018 was investing in Freshii (FRII), which had the second-largest negative impact on Far View's 2018 performance. FRII is a Canadian-listed, global franchisor of healthy quick-serve restaurants. In early 2017, FRII was a highly-touted IPO due to its strong restaurant performance and significant unit growth runway. However, in late 2017, the company was forced to lower its unit growth expectations due to an under-resourced corporate staff and slower than expected development from its franchisees. This guidance reduction disappointed the company's growth-oriented shareholders, causing the stock to decline to half its IPO price and leading me to research the company.

Broken IPO growth stories are attractive because their fast-money shareholders can overreact to any disappointment, creating the potential for a mispricing. I found FRII particularly interesting because a successful franchisor business can trade at a high valuation due to its capital-light nature which provides the potential for rapid growth and high margin streams of cash flow. Furthermore, while the FRII corporate team was struggling to manage the chain's growth, its restaurants were still performing well with solid same-store sales and attractive franchisee economics, suggesting that the core business remained healthy. In multiple conversations, franchisees supported this view of the healthy core business and confirmed the company's strong brand and the stores' attractive unit economics.

I had faith that management was capable of fixing FRII. The company was led by its founder Matthew Corrin who had started the chain from the ground up and remained the company's controlling shareholder. Through conversations with multiple franchisees, early-stage investors in FRII, and Matthew himself, I developed the opinion that he was a long-term thinker and strong marketer was capable of solving FRII's problems.

Based on my analysis, I viewed FRII as an asymmetric risk-reward. If the company succeeded in reaccelerating unit growth over the next few years, its earnings and multiple would expand, yielding significant upside for the stock. If the company could not reaccelerate unit growth, downside would be protected by the solid performance of the existing store base and the company's large net cash position.

Unfortunately, my investment thesis was flawed. Firstly, the performance of the existing store base began to worsen in the middle of 2018, culminating in a large earnings miss in Q3 2018. FRII also withdrew unit growth guidance for future quarters, and, more problematically, announced the company's first decline in same store sales in 22 quarters. This quarter invalidated my investment thesis regarding downside protection from the company's existing store base.

In addition, Matthew's reactions to the company's underperformance suggested that my assessment of him was incorrect. On the Q3 2018 conference call and on a later call with me, Matthew attempted to brush off the weakening results with a discussion of the company's prior successes and chose not to substantively discuss relevant details of the weak sales. His unwillingness to acknowledge and honestly assess the company's struggles was a major red flag for me. I began to question whether Matthew was willing to objectively assess the company he had built and make the tough decisions necessary to fix it. As the controlling shareholder, he was unlikely to be replaced by a manager more willing to fix the company's underlying problems. Without a strong turnaround plan, I feared that the results of the existing store base would continue to deteriorate.

One of my goals as an investor is to quickly accept when my thesis is broken and exit the position. Given my worsening assessment, Far View sold its FRII position at a large loss, with the small benefit of a short-term tax loss to offset short-term tax gains from transactions earlier in 2018 including the CommerceHub buyout.

## EZCORP

EZCORP (EZPW) operates pawn stores in the U.S. and Latin America. Far View initiated a position in mid-2017 on the belief that the company's improvements in operational performance and continued accretive acquisitions could drive significant earnings growth and improve the share's large valuation discount to its close comparable FirstCash (FCFS).

Despite pawn stores' unsavory reputation, they provide a critical service for the large portion of U.S. and Latin American households that are underbanked. Because these loans are secured by saleable goods, pawn loans do not trap customers in a cycle of debt as the good is forfeited if the loan can't be repaid. For investors, pawn stores provide a steady, recession-resistant stream of cash-flow as demand for pawn loans tends to be negatively correlated with the economic cycle.

EZPW initially generated attractive returns for the Partnership as operations continued to improve and the company made accretive acquisitions in Latin America. However, in May 2018, the company announced a poorly-received offering of convertible debt which hurt investor confidence in management's capital allocation capabilities and the company's corporate governance. These concerns combined with the temporary EBITDA impact of Hurricanes Irma and Harvey on 60% of the company's store base and fears about actions taken against the banking industry by the incoming Mexican government of Andres Manuel Lopez Obrador (AMLO). As a result of these factors, EZPW shares declined over 35% in H2 2018.

While the company's capital allocation and corporate governance remain far from ideal, they have improved since early 2018 when the stock traded significantly higher. EZPW's CEO has discussed no longer issuing convertible debt and the company has improved disclosure about the attractive returns it is generating on completed acquisitions. Furthermore, as a result of investor pressure, management's incentive compensation for FY 2019 will for the first time include per-share metrics.

Some investors have been concerned about AMLO's banking reforms, but they have ignored the fact that pawn shops are regulated by the Mexican equivalent of the Department of Commerce, not the banking regulators. Furthermore, the pawn industry is not as attractive a political target as the big banks because it is viewed as a necessity by the >60% of the Mexican population that is unbanked.<sup>i</sup> The Mexican government actually runs a pawn store chain called Nacional Monte de Piedad, which was established in the 1770s and is recognized as a national charity in Mexico.<sup>ii</sup>

As the company continues to execute and marginally improve its corporate governance, the overhangs of 2018 should begin to lift. If EZPW trades at 8-9x 2020 EBITDA, then the stock would be worth ~\$15-17 per share, compared to ~\$8 today. Close peer FCFS trades at ~11x 2020 EBITDA. While FCFS boasts better corporate governance and capital allocation, EZPW has been outperforming FCFS operationally which has led to much faster same-store sales and earnings growth.

Additional upside could come from continued organic EBITDA growth, further accretive acquisitions of Latin American assets and the long-rumored potential sale of EZPW to FCFS which could be highly accretive even at a significantly higher EZPW share price. Downside should be protected by the company's strong free cash flow generation (~90c in FY 18), the asset value of its existing pawn stores, and the counter-cyclical nature of the business. Given this potential, I believed EZPW represented an attractive risk-reward and added to the position in Q4 2018.

## Majestic Wine

Far View suffered its largest loss in U.K. listed Majestic Wine PLC (WINE). WINE operates two main businesses: an online subscription club in the U.S., U.K. and Australia called Naked Wines and a U.K. wine retail business called Majestic. The share price suffered throughout 2018 along with that of other

U.K. retail stocks as investors became increasingly concerned about the potential negative impact of Brexit on U.K. consumer confidence.

WINE's stock further declined after the release of its H1 2019 (4/2/19 fiscal year) results on Thanksgiving Day, when the company announced worse than expected results for its U.K. retail division as well as confusing metrics around the customer lifetime value (LTV) ratio for its Naked Wines division. Confusion about the LTV ratio combined with the continued Majestic weakness and skittish U.K. investor sentiment, especially regarding the retail sector, caused WINE to plummet over 30% in November and December, contributing to a more than 40% decline for 2018.

I believe that Naked Wines is less exposed to British consumer concerns and that investors have misunderstood WINE's LTV ratio. In my estimation, Naked Wines is a good business with attractive subscription economics that is valued inexpensively at current share prices and could generate material upside for WINE with minimal value ascribed to the U.K. retail business. Because I believe this scenario provide the opportunity for significant upside, I increased Far View's shareholdings in WINE in Q4 2018.

I have posted my WINE investment thesis on Far View's website ([www.farviewcapitalmgmt.com](http://www.farviewcapitalmgmt.com)) so that my partners can better understand the logic of our investment. This detailed write-up provides an overview of WINE's business, explains why I believe investor concerns about the LTV ratio is unwarranted, and presents my view of upside and downside scenarios for the stock. Please contact me if you would like to review this write-up but do not know how to access Far View's website. For investors who enjoy getting a great deal on good wine, I recommend visiting the Naked Wines website ([www.nakedwines.com](http://www.nakedwines.com)) to learn more about their offering.

### **The Partnership**

I remain very optimistic about the long-term future of Far View Partners. Given that I am the largest investor in the Partnership by a substantial margin and my investment represents the vast majority of my net worth, I certainly feel the pain of Far View's losses alongside my partners.

While I am frustrated by some of the mistakes made in 2018 and the poor performance of other investments, I remain confident that Far View has an attractive, repeatable process for uncovering mispriced investments. Periods of weak market performance should create a greater pool of opportunities for the Partnership to generate attractive long-term results. I am excited about the potential returns from the current portfolio as well as the improved opportunity set, and I look forward to seeing my investment theses play out over the next few years.

Thank you very much for your trust and confidence. Please reach out if you have any questions or concerns or would like to discuss any of the ideas that I have mentioned.

Sincerely,



Brad Hathaway  
Managing Partner

## **Disclaimer**

This letter is provided on a confidential basis for informational purposes only and does not constitute the provision of investment advice.

Certain information presented herein constitutes “forward-looking statements” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “continue” or “believe” or the negatives thereof or other variations thereon or comparable terminology. Any projections, market outlooks or estimates in this letter are forward-looking statements and are based upon certain assumptions. Due to various risks and uncertainties, actual market events, opportunities or results or strategies of the Fund may differ materially from those reflected in or contemplated by such forward-looking statements and any such projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur.

This letter includes indications of past performance of certain investments of Far View Partners L.P. (the “Fund”). Past performance is not a reliable indicator of, and is no guarantee of, future results. Investment returns will fluctuate with market conditions and every investment has the potential for loss as well as profit. The value of investments may fall as well as rise and investors in the Fund may not get back the amount invested.

All performance figures are estimated and unaudited. A partner’s actual returns may vary due to, among other things, the timing of a partner’s investment and any special terms granted to a partner.

The source for all information included in this letter is Far View Capital Management, unless stated otherwise. While all the information prepared in this letter is believed to be accurate, Far View Capital Management may have relied on information obtained from third parties and makes no warranty as to the completeness or accuracy of information obtained from such third parties, nor can it accept responsibility for errors of such third parties, appearing in this letter.

This letter does not constitute the offer of any securities or interest in the Fund.

---

<sup>i</sup> World Bank - Demircuc-Kunt et al., 2018. Global Financial Inclusion Database, World Bank

<sup>ii</sup> [https://en.wikipedia.org/wiki/Nacional\\_Monte\\_de\\_Piedad](https://en.wikipedia.org/wiki/Nacional_Monte_de_Piedad)