



**FAX CAPITAL CORP.**

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**PERMANENT · PATIENT · PARTNERED · PROVEN**

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**Annual General and Special Meeting · June 25, 2020**

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This presentation makes reference to the Company's book value per share as a measure of the performance of the Company as a whole. Book value per share is measured by dividing shareholders' equity of the Company at the date of the statement of financial position by the number of common shares outstanding at that date. The Company's method of determining this amount may differ from other companies' methods and, accordingly, this amount may not be comparable to measures used by other companies. This amount is not a performance measure as defined under International Financial Reporting Standards (IFRS) and should not be considered either in isolation of, or as a substitute for, net earnings prepared in accordance with IFRS.

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## FAX CAPITAL CORP. OVERVIEW (TSX: FXC)

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### DIFFERENTIATED STRATEGY

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- Flexible investment mandate able to invest across the capital structure, in both public and private companies and for minority or control positions
- Focus on smaller, high quality, well-run businesses, initially in Canada
- Highly disciplined, thorough and structured due diligence process
- Fully internal management structure with no management fee – motivated only by the returns of portfolio companies
- Raised \$190 million in November 2019

### HIGH QUALITY PORTFOLIO

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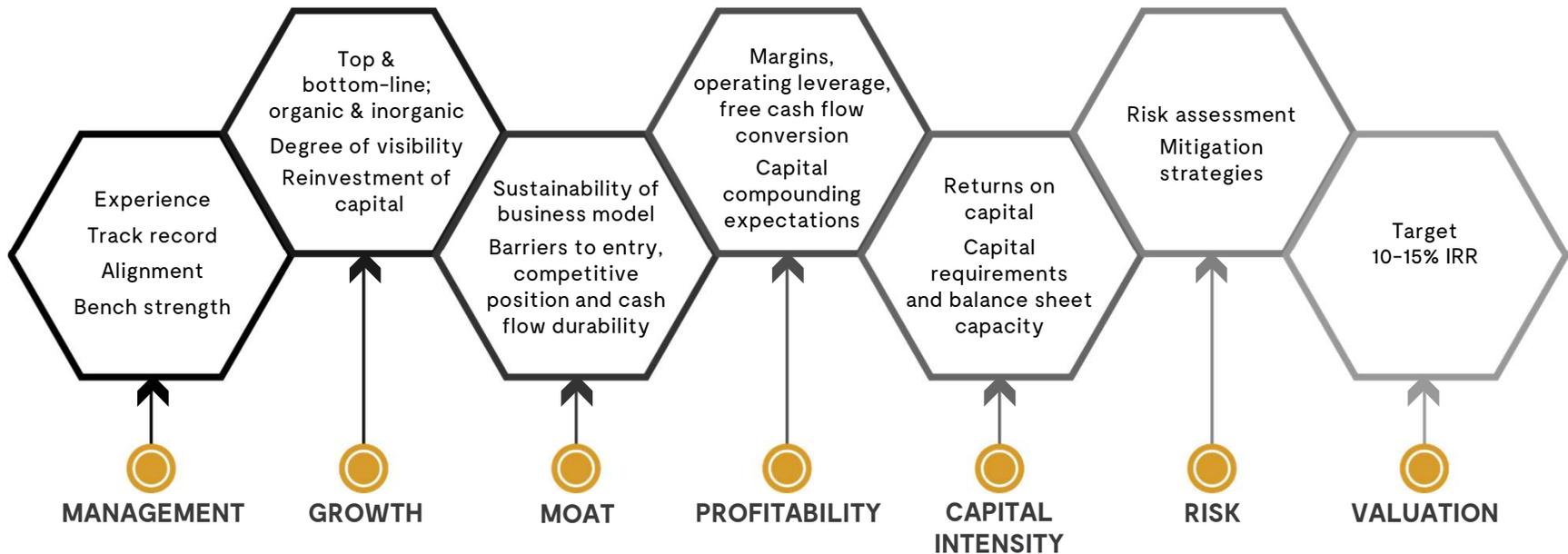
- Intention to have a portfolio of 10 to 15 companies
- Invested \$63 million into an initial portfolio of four public companies as at June 12, 2020:



# INVESTMENT APPROACH



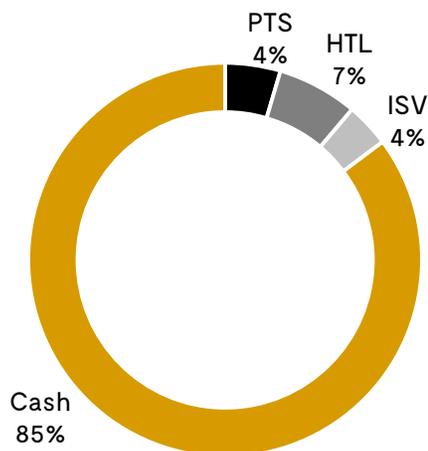
- Highly disciplined investment approach
- Deep and extensive due diligence process
- Comprehensive and structured investment criteria
- Focused on strength of management, durability and predictability of cash flows, growth opportunities and balance sheet strength



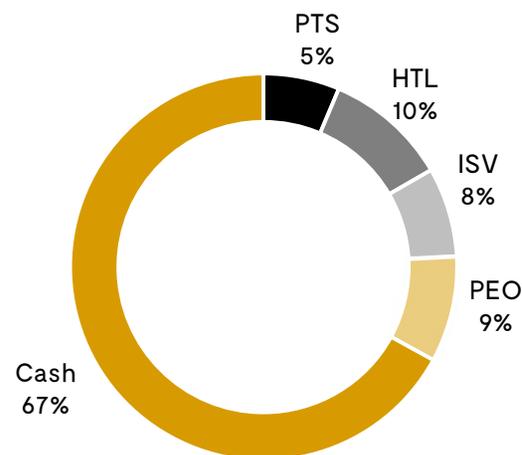
# PORTFOLIO SUMMARY



FAIR VALUE @ QUARTER-END  
(MARCH 31, 2020)



FAIR VALUE @ JUNE 12, 2020



	At March 31, 2020		
	Cost	Fair Value	Total Return
PTS	15,048	8,060	-46.4%
HTL	13,492	11,782	-12.7%
ISV	6,795	6,468	-4.8%
PEO	-	n/a	n/a
Cash	151,517	151,517	n/a
<b>Total</b>	<b>186,852</b>	<b>177,827</b>	<b>-4.8%</b>

	At June 12, 2020		
	Cost	Fair Value	Total Return
PTS	17,067	11,731	-31.3%
HTL	18,343	18,908	3.1%
ISV	14,031	13,815	-1.2%
PEO	13,204	16,237	23.0%
Cash	123,423	123,423	n/a
<b>Total</b>	<b>186,068</b>	<b>184,114</b>	<b>-1.0%</b>

Notes: Cash represents Cash less Due to broker for unsettled trades.

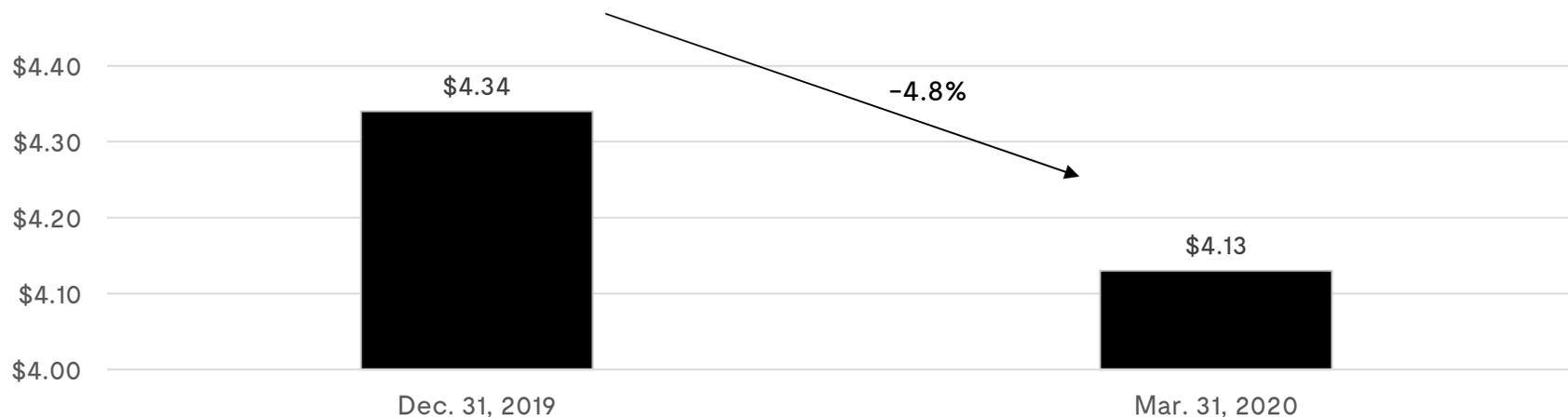
Total return includes the change in the fair value of the investment plus dividends earned.

- Subsequent to quarter-end, we invested an additional \$27.3 million of capital, including a new initial investment in People Corp. and an additional investment of \$3.5 million in Hamilton Thorne by leading a non-brokered private placement on May 29, 2020

## COMPANY PERFORMANCE



### BOOK VALUE PER SHARE (BVPS)



### COMPANY COMMENTARY

- 4.8% decrease in BVPS quarter-over-quarter, primarily attributed to an unrealized loss on investments of \$9.1 million driven largely by the negative impacts from COVID-19
  - Unrealized loss primarily attributable to investment in Points International Ltd. (Points)
  - Market lows were set in late March 2020 but have rebounded so far in 2Q 2020
- The favourable performance of BVPS relative to the performance of the overall market was largely attributed to the significant portion of the Company's investable assets held in cash during this period

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## COMMENTARY & OUTLOOK

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- We continue to remain disciplined with our capital allocation.
  - Prior to March 1, 2020, which is an estimated date when market weakness from COVID-19 began, the Company had a modest ~\$15 million, or ~8% of total capital deployed
  - Following the steep market declines, we were much more aggressive, accumulating positions or executing new positions in portfolio investments at what we view as more attractive prices
  - On June 4, 2020, announced a Normal Course Issuer Bid to opportunistically buy back shares
- The extreme market volatility during the months of March and April 2020 provided us the opportunity to:
  - Accumulate our investments in the open-market at more favorable valuations to meaningfully lower our average cost base
  - Take advantage of the increased liquidity to accumulate investments quicker than originally expected, as many open-ended fund managers were forced to liquidate their holdings
  - Move “up-cap” with an initial investment in People Corp., a company that is roughly twice the size of our other investments
- Private Company Investments
  - The flexibility of the Company’s structure allows it to pivot towards the most attractive asset classes, which today resides primarily in the public markets
  - That said, we continue to seek out attractive opportunities in the private markets, where we ultimately intend to invest approximately 20% of our capital
- As of June 12, 2020, we have invested \$63 million
  - The trajectory of our capital deployment is on a healthy pace and within our original stated target to be fully invested within 12-18 months

### Transaction

- Investment Committee approval in February 2020
- Own 15,756,700 shares, 11.4% company ownership, as of June 12, 2020
- Open-market purchases; Non-brokered private placement

### Company Description

- Designs, manufactures and distributes equipment, consumables and software and services for the global Assisted Reproductive Technologies (ART) market
- Products sold in over 75 countries with 33% of sales in the Americas and the balance overseas, primarily in Europe and Asia

### Investment Thesis

- Global fertility market growing at 5-10% through the foreseeable future
- Industry exhibits recession resistant characteristics
- Regulatory product approval limits new entrants
- Mission critical nature and low cost but high value nature of the products create high switching costs for customers
- Opportunities for market share gains and margin expansion by leveraging growing product suite and internalizing salesforce
- Substantial M&A opportunities with well-defined playbook already partially executed
- Highly compelling financial metrics including ~55% gross margins, ~20% adj. EBITDA margins, ~60% free cash flow conversion, high and growing Return On Invested Capital (ROIC), and an under-levered balance sheet in a net cash position



### Transaction

- Investment Committee approval in January 2020
- Own 958,067 shares, 5.5% company ownership, as of June 12, 2020
- Open-market purchases

### Company Description

- Primary business is the operation of the Saskatchewan land, property and corporate registry under an exclusive 20-year Master Service Agreement (MSA), expiring in June 2033
- Services business provides software and services to legal and financial firms by accessing registry and public data sources

### Investment Thesis

- Saskatchewan registry business is a regulated, essential-service monopoly, with a demonstrated baseline of business, CPI-based pricing escalators, and material upside on an eventual Saskatchewan recovery
- Services segment is #1 or #2 in the markets it participates in, exhibits high switching costs and pricing power, has been growing organically at 20%, and provides a platform for accretive M&A
- Very high free cash flow conversion and strong margins with substantial operating leverage
- Expected high-teen ROIC with minimal capital requirements for growth
- Net cash position with substantial debt capacity for M&A / MSA extension
- Consistent dividend for 7 years yielding 5.4%, as of June 12, 2020

### Transaction

- Investment Committee approval in April 2020
- Own 1,720,000 shares, 2.4% company ownership, as of June 12, 2020
- Bought deal; Open-market purchases

### Company Description

- Leading provider of group benefits, group retirement and human resources consulting services in Canada
- Processes and brokers over \$2 billion of employee benefit premiums or ~4% of the Canadian market through its brokerage and Third Party Administrator, which has a 40% market share

### Investment Thesis

- Industry growing at 4% annually due to increasing age in the workforce and increasing healthcare costs
- High visibility business with 96% of the business recurring and a 98% retention rate
- Historically grown organically at 10% (6% above historical industry growth) from increased scale, expansion into new jurisdictions, broadening of product/service offering
- Outperforms in a recessionary environment from exposure to recession-resistant sectors and ability to manage cost structure
- Demonstrated track record of value creation through M&A, having executed 25 acquisitions for \$300 million
- 27% Adj. EBITDA margin and 40%+ free cash flow conversion, with a path to grow margins by leveraging scale
- Double digit ROIC and a manageable net debt load of ~1.5x Adj. EBITDA



**(TSX: PTS) (NASDAQ: PCOM)**



### Transaction

- Investment Committee approval in February 2020
- Own 853,755 shares, 6.5% company ownership, as of June 12, 2020
- Open-market purchases

### Company Description

- Leading global provider of e-commerce and technology solutions to the loyalty industry, connecting loyalty programs, third party brands and consumers across a global transaction platform
- Unique offering of products and services that allows loyalty programs to sell more loyalty points to customers
- Commercial agreements with 60 leading loyalty brands globally

### Investment Thesis

- Strong but misunderstood business that has been temporarily impacted by travel disruptions as a result of COVID-19
- Key provider of ancillary revenue to airline and hotel loyalty programs
- Founder-led management team that has grown business from nothing to \$60 million of gross margin
- Long operating history with no competitors, other than in-house IT departments of their customers
- Capital light business model with high levels of free cash flow generation
- Well capitalized with \$105 million of cash, \$40 million of debt and variable cost structure to withstand prolonged travel downturn
- Will be a leading beneficiary of eventual recovery in air travel

**PUBLIC VS. PRIVATE  
OPPORTUNITIES**

**FAX**

CAPITAL

## WHERE WILL FAX FIND INVESTMENT SUCCESS?



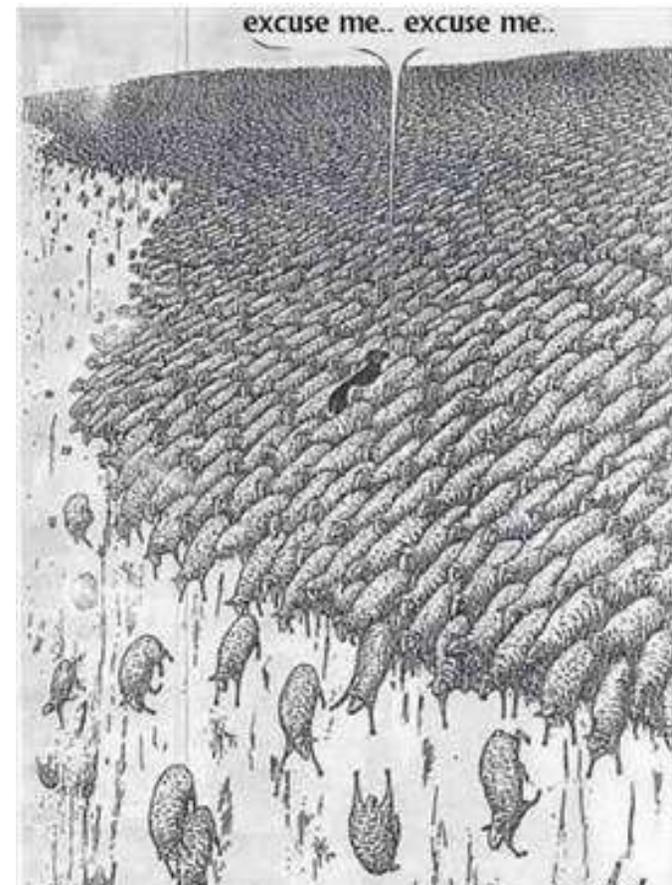
- > **Less crowded sectors provide opportunities for investment outperformance**
- > **We are focused on the best ideas in public and private small cap opportunities**

### Public Small Cap

- There is less competition in small cap public companies given continued capital outflows and desire by investors seeking no mark-to-market
- FAX will enhance investment return through Active Ownership
- Orphaned companies present take private opportunities to enhance return and originate ideas for FAX's private company portfolio

### Private Small Cap

- Private equity is highly competitive given increasing amounts of capital allocated
- We intend to leverage our strengths to differentiate from other players in this space:
  - > Transaction flexibility (minority/control, across the capital structure)
  - > Broad approach (mile wide, inch deep) to uncover best opportunities
  - > Utilize domain knowledge from public companies
  - > Avoid competition (no broadly marketed processes) and leverage FAX network



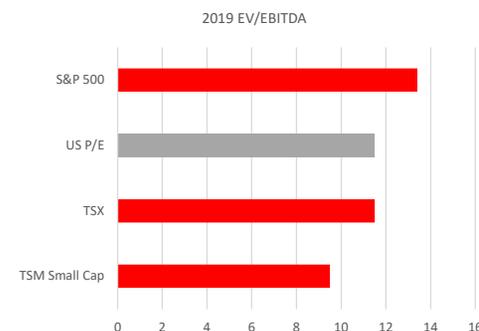
**Avoid the herd**



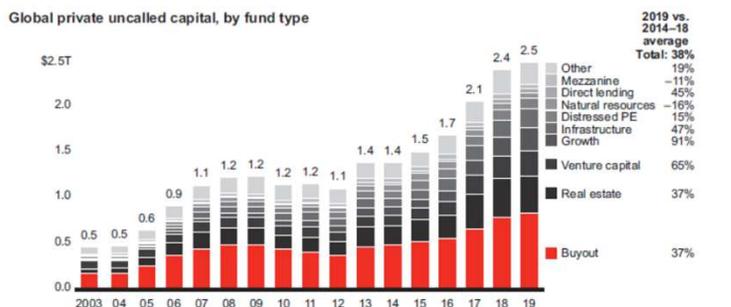
# PUBLIC V. PRIVATE OPPORTUNITY

> Private valuations continue to be above public equivalents and with a glut of private capital still unspent, this is unlikely to change and likely to lead to long-term private market underperformance, which is already happening

• Private market valuations have expanded materially and are now above relevant Canadian public benchmarks



- There is currently \$2.5 trillion of unspent private capital globally, which is likely to continue to keep private valuations high
- Higher relative valuations and a glut of capital is likely to continue to pressure private market performance



Source: Bain Capital, Bloomberg.

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## **PUBLIC OPPORTUNITIES RELATIVELY MORE ATTRACTIVE**

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- > **FAX's initial portfolio highlights the relative attractiveness of small cap public companies compared to private market transactions**
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### **FAX acquired Hamilton Thorne at 13.9x 2020E EV / EBITDA with net cash balance sheet<sup>1</sup>**

- FAX was shown a private de novo investment opportunity in the fertility treatment sector at a similar valuation multiple but with very high financial leverage

### **FAX acquired Information Services Corp. at an implied unlevered IRR of ~11% and an implied multiple of ~8x EBITDA<sup>1</sup>**

- Private infrastructure assets priced at ~6% levered IRR<sup>2</sup>
- Teranet acquired in 2008 at 10.3x EV / LTM EBITDA and believed to be valued at 12x EV / LTM EBITDA with 10x debt / LTM EBITDA

### **FAX acquired People Corp. at 11.0x 2020E EV / EBITDA<sup>1</sup>**

- Atlas Partners minority investment in Hub International at 15.5x LTM EBITDA (with 7.5x Debt / LTM EBITDA)<sup>3</sup>
- Hub acquired benefits practice of Morneau Shepell – low growth, 15% of PEO sales and 500bps lower margin – for 10.5x EV / LTM EBITDA<sup>3</sup>

### **FAX acquired Points at 6.1x 2020E EV / EBITDA or 3x net revenue (gross profit)<sup>1</sup>**

- Hopper (US\$25 million net revenue) recently raised private capital at 40x net revenue<sup>2</sup>
- Plusgrade (US\$30 million net revenue) raised private capital in excess of 15x net revenue<sup>2</sup>

(1) FAX estimates at the time initial investments were made.  
(2) FAX estimates. Public disclosures.  
(3) Street research estimate.

# AREAS OF FOCUS FOR PRIVATE COMPANY INVESTMENTS

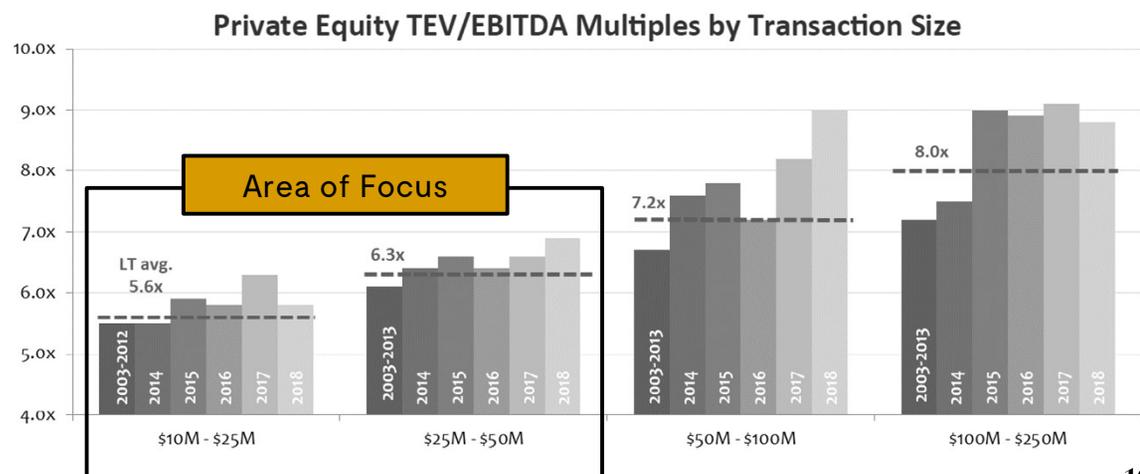


> FAX is focused on three areas within the Private Company investment strategy

Family Owned Businesses	Pre-IPO Growth Equity	Take Privates
<ul style="list-style-type: none"> <li>FAX intends to be a home for high quality family owned businesses</li> <li>We are looking to partner with owners for the long term and not necessarily looking for the highest price (often private equity with high financial leverage and aggressive cost cutting)</li> <li>Utilize FAX network to avoid broad auctions and focus on proprietary transactions</li> </ul>	<ul style="list-style-type: none"> <li>FAX intends to provide growth equity financing for companies that are not mature enough to go public</li> <li>Typically minority investments. Mitigate risk by seeking governance rights or covenants, if using debt</li> </ul>	<ul style="list-style-type: none"> <li>Orphaned public companies that present attractive take privates</li> <li>Quality of companies an issue; FAX will continue to maintain high standard: 1) strong management, 2) durable and predictable business, and 3) growing</li> </ul>

The sub-\$50 million market is attractive because of:

- i. lower entry multiples;
- ii. less competition;
- iii. more opportunities for value creation through the institutionalization of small businesses; and
- iv. optionality for platform creation.



Source: Crosbie & Co.



**Attractive Opportunity  
in Small Cap Canadian  
Companies**



**Competitive Advantage**

**Investment Approach**

- Long-term view
- Active ownership
- Flexible mandate

**Structure**

- Permanent capital
- Public currency
- No management fee

**Management Team**

- Supportive shareholder
- Proven investment team
- Alignment of interests

**PERMANENT. PATIENT. PARTNERED. PROVEN.**