

# P O R C H L I G H T

## E Q U I T Y

Dear HCF Ren's LLC Investors,

Ren's Pets performed slightly ahead of budget for the second fiscal quarter ended October 2017, continuing its YTD trend of comparable store growth, margin expansion, and new store ramp/openings. Financial results for the quarter included revenue of C\$12.7 million, +3.2% ahead of budget and +16.9% ahead of prior year. Comparable store sales for the quarter were +6.8% and new store sales outperformed budget by +8.9% (primarily driven by the new store in Downsview opening earlier than budgeted). Gross margins are up +88 basis points versus prior year, which was in line with budget. Adjusted EBITDA was C\$1.3 million for the quarter, slightly ahead of budget (C\$23K outperformance).

Ren's generated an adjusted EBITDA margin of 10.5% for the quarter, generally in-line with budget but slightly down from last year's 11.5%. The prior year margin was driven by promotional buying across various categories that did not repeat in FY2018. The Company's major initiatives during the quarter include (i) promotional activities associated with National Dog Week, the Canadian Pet Expo and the September retail sale, (ii) the opening of its Downsview location in the Greater Toronto Area, and (iii) other initiatives such as investments in payroll and eCommerce systems/infrastructure to ensure scalability as the Company grows.

### 2Q '17 Financial Summary

(C\$ in millions)

	<u>2Q 17</u>	<u>2Q Bud.</u>	<u>Var. %</u>		<u>YTD 17</u>	<u>YTD Bud.</u>	<u>Var. %</u>
<b>Revenue</b>	<b>\$12.7</b>	<b>\$12.3</b>	<b>+3.2%</b>		<b>\$25.1</b>	<b>\$23.8</b>	<b>+5.2%</b>
Gross Margin	\$5.1	\$4.9	+4.4%		\$10.1	\$9.3	+8.5%
GM%	40.5%	40.0%			40.4%	39.2%	
<b>Adj. EBITDA</b>	<b>\$1.3</b>	<b>\$1.3</b>	<b>+1.8%</b>		<b>\$2.7</b>	<b>\$2.3</b>	<b>+17.5%</b>
EBITDA%	10.5%	10.6%			10.7%	9.6%	

Ren's management was satisfied with the consumer response to its marketing and promotional activities during the quarter around National Dog Day in Canada (which Ren's extended into "National Dog Week"); however, margins were negatively impacted during the month of August as a result. The September retail sale performance was flat to prior year, but given an incremental 2 stores, the comparable base was down. This was a result of the Company utilizing a heavier digital couponing strategy versus relying more on its traditional print-driven advertising model; as a result, less customers were exposed to the sale and foot traffic suffered. Note that Canada remains a market still driven by print advertising and foot traffic through brick-and-mortar locations, and the Ren's evolution to digital marketing and eCommerce must be thoughtful and measured. The Company is still testing and learning across a variety of marketing programs to refine its promotional strategy. We are supportive of the Ren's team in the implementation of quantitative marketing and ROI-based initiatives. Despite the lesson learned, financial performance remained solid and on-budget from an EBITDA perspective, which

gives us confidence that the team was able to find ways to hit its numbers despite some marketing mis-steps.

Ren's opened a new store in Downsview, a dense suburban neighborhood outside of Toronto, during the month of October. Downsview is a "bullseye" location for Ren's and we anticipate it to ramp consistent to prior units, with only minimal cannibalization to other stores. In addition, the Company recently opened its second Ottawa location in Barrhaven (although this occurred after the closing of Q2 during November). The management team worked hard during the quarter to prepare for this opening, which is positioned to be the centerpiece of the store cluster strategy in the Ottawa marketplace. With a slightly larger footprint, the team was creative in showcasing a variety of areas of the Ren's Pets business that differentiate the concept, such as a grooming suite and raw food walk-in freezer.

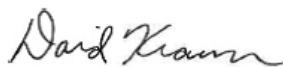
From a real estate perspective, Ren's management continues to build the pipeline to position the business for continued growth in existing, contiguous, and new markets. Management remains disciplined to only focus on properties with underwritable profit characteristics and an attractive ramp/payback profile.

The team remains focused on driving comparable store sales and cultivating human resource talent at the Company, so that the business has a deep bench of resources to realize on its new unit growth initiatives. As the business scales, the Company is likely to implement a Market Manager program to leverage senior management and continue to enable associates at the store level to show career progress. The culture of success and growth for Ren's employees remains a critical aspect to the business and a differentiator versus many other retail concepts.

Lastly, the Company will be making systems investments to enable scalability. Ren's has begun the process of implementing a new payroll and human resource management system to free up store managers to focus on service at the store level and eliminate back office manual processes. In addition, the Company is in the final stages of selecting an eCommerce platform and implementation partner to begin an overhaul of this aspect of the business. While eCommerce is a small part of the market today, we believe the time is now to invest for the future with respect to Canadian online commerce and participate in profitable growth in this area. The key functional areas we will prioritize are (i) click-and-collect, (ii) content generation, (iii) auto-ship/subscription capabilities, and (iv) reverse logistics/returns.

We are happy with the Company's performance this quarter and will continue to update you on progress. Please let us know if you have any questions or comments.

Best regards,



Peter and David