November 2022

Jim Collins (2019) – 'Turning the Flywheel': "A flywheel is an incredibly heavy wheel that takes huge effort to push. Keep pushing and the flywheel builds momentum. Keep pushing and eventually it starts to help turn itself and generate its own momentum."

European Wax Center (EWCZ)

- EWCZ is the franchisor of European Wax Center – the largest brand of hair waxing salons in the United States. GORA is a shareholder in EWCZ. This paper shares our fund's investment thesis.
- The US waxing salon industry is large and fragmented. EWCZ is the largest operator and has almost 10x the market share of the second. It has a greater share than every branded competitor we could find, combined.
- A flywheel effect has been created by EWCZ's scale enabling it to keep winning. Its scale affords it capabilities competitors can't match, allowing it to deliver superior customer experience and value. Its customer experience and value drives continued sales growth, which rewards franchisees through stronger salon-level profitability. Increasing franchisee profitability is driving a cycle of further salon development. Center development and underlying sales growth increases royalty revenues for the franchisor. These cash flows are reinvested back into further elevating the guest experience and deepening European Wax's already significant moats.
- The flywheel described above is an attribute we look for in every franchised brand investment we make. The steps to the flywheel form the blueprint to this investment paper.
- This investment is deeply attractive because the high growth in franchisor revenue created by the flywheel are then amplified moving down the income statement by EWCZ's fixed cost leverage. The result is EBITDA and FCF growth that will compound at rates beyond what is normally available in consumer equities. Because this growth is underwritten by a burgeoning pipeline of center development, we have unusually high visibility into this outcome.
- EWCZ has the right management team and franchisee community to execute this growth strategy. Critically, the European Wax franchisees are themselves believers in the management team at EWCZ corporate.
- Our research contained in this paper includes conversations with more than a dozen European Wax franchisees whose words we share directly, competitor analysis, market-by-market pricing, and a thorough examination of unit-level returns to demonstrate European Wax's superiority.

"I own the stock. I'm a believer in the brand." Franchisee, New York

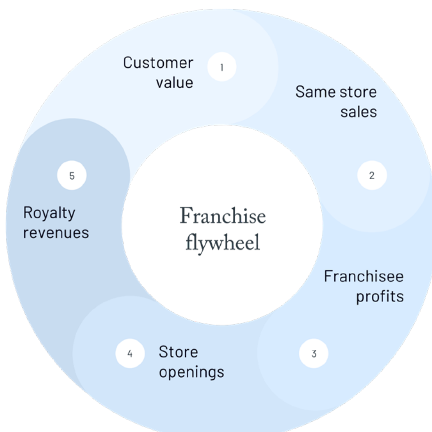
Executive Summary

This paper shares our fund's investment thesis on European Wax Center Inc. (EWCZ) – the largest brand of waxing studios.

European Wax possesses one of the greatest sets of competitive advantages over peers we have observed in any consumer category. We see these advantages feeding ongoing share gains in the highly fragmented waxing services market, within which EWCZ is already the largest brand by a factor near 10x. Share gains will accrue profitability to well-capitalized and experienced franchisees deeply committed to accelerating the brand's growth. Their growth through new development will drive increased royalties to us, the franchisor, sustaining our outsized earnings and free cash flow growth. This virtuous cycle comes full circle through reinvestments further elevating EWCZ's customer experience, thereby deepening its already significant moats.

Our Franchise flywheel diagram below is the visual representation of this strategy and forms the blueprint for our paper.

There exists risk with any long-term investment. However, we see a highly favorable skew at current prices. We do not attempt to assign a price target, believing that exercise futile. Better to be accurate than precise. Instead, we present valuation frameworks and a case study. Ultimately, if our research proves correct, the share price will simply go a lot higher.



In this paper:

Clear Customer Value

Durable consumer brands offer clear value to their customers. More than just low prices, customer value is a measure of product *relative* to its price.

European Wax delivers among the best customer value compared to competitors we have seen in any consumer category. We believe its clear customer value will sustain above-industry sales growth for the brand, driving the first step in the franchise flywheel.

Three examples of European Wax's customer value advantage are:

1. Quality of experience
2. Convenience
3. Price advantage through the Wax Pass

Quality of experience

European Wax is the expert in waxing services - its centers have a singular focus on waxing. All its Wax Specialists are licensed by recognized cosmetology schools and complete EWCZ's unique training. The brand's credibility within the industry is reinforced through its own waxing specialists teaching courses at schools across the country. It is the number 1 cosmetology industry employer on national recruitment platforms. The result is consistent high-quality service for the customer. At independent competitor salons, staff are often uncertified and required to perform services spanning not just waxing, but also hair, nails, massage, and other beauty services. Consistently high-quality service is therefore something customers can expect at European Wax but may not receive at the independent salons.

Service quality is matched by product quality. The company uses a proprietary and distinctive purple wax that is uniform across its network. It is designed to be more effective and less painful than commercially available products. The brand's hygiene standards require dedicated wax pots, single use wax strips, disposable gloves, and whole room sanitization before service. For the independent waxing network EWCZ competes against, product standards vary – at the low end, some are using rice cookers to heat wax. EWCZ's scale underwrites a higher quality, hygienic product experience.

"I don't worry about competitors. Once customers see the difference between us and them, they stay loyal to us" Franchisee, New Jersey

Scale is an advantage discussed throughout this paper, and it first demonstrates its importance in customer value. EWCZ's scale allows it to do things for customers competitors cannot. It has the scale to build a digital app offering seamless discovery of center locations, appointment bookings, check-ins, and loyalty point accruals. This digital ecosystem then funnels customers into the brand's Wax Pass program where they enjoy discounts for purchasing in bulk and incentivizing regular visitation. For example, Wax Pass customers enjoy Buy 6, Get 1 Free, or Buy 9, Get 2 Free - all delivered through the European Wax app. The effect for the customer is both ease of use and savings.

Even in its real estate, the European Wax experience is superior. Its network operates clean, visually appealing centers designed by a dedicated property team. Independent salons are run by sole proprietors who are responsible for every facet of their operation. Independents frequently select low-cost locations without emphasis on driving foot traffic. They don't evoke professionalism or cleanliness; they feel frugal and unclean.

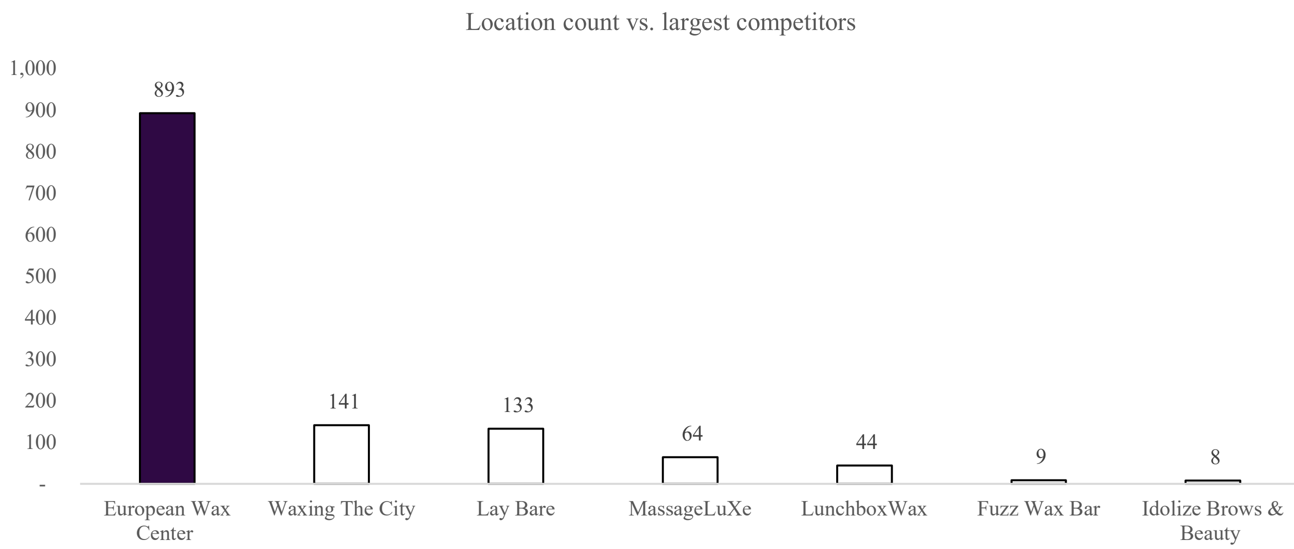
European Wax Center vs. Independent

European Wax Center vs. Independent

Convenience

European Wax's size provides customers unparalleled convenience of access because the brand has no peer anywhere near its scale. At almost 900 locations across the US, it is more than 2x larger than all the multi-store branded waxing chains we could find added together. Each year, the brand opens more new centers than there are total open centers for all but its two largest branded competitors. The advantage of its scale is amplified by its distinctive branding, making locations visibly recognizable, as well as enhancing search prominence.

"We're not just an 800lb gorilla, but head and shoulders above competitors" – Franchisee, Pennsylvania

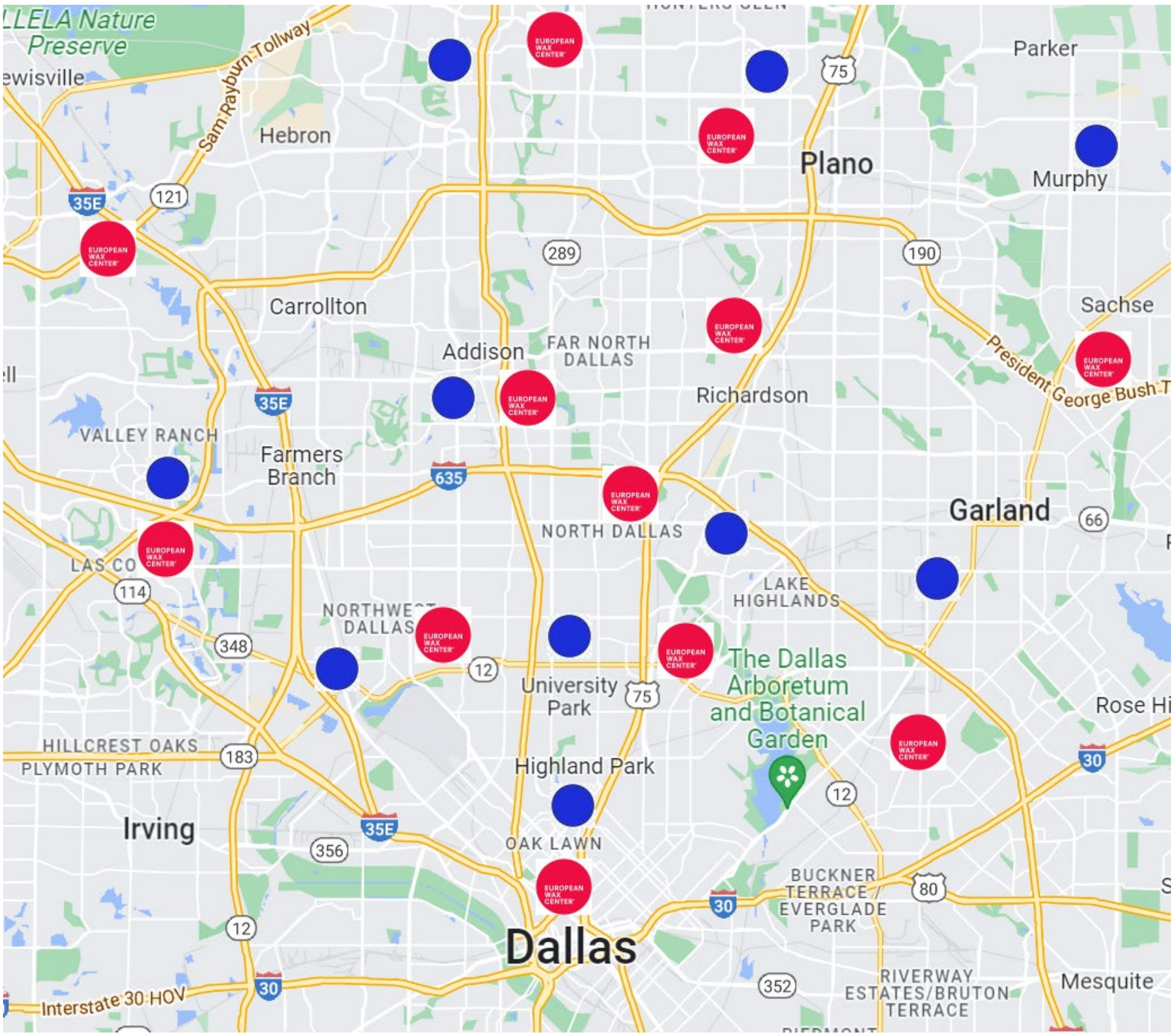


More tangibly, European Wax's scale rewards customers because its Wax Pass can be used at any of its ~900 locations, a benefit impossible for competitors to replicate. EWCZ's scale marries with its consistency of high-quality service to give customers who travel, or simply move around, convenient access to a product they know will be up to standard. There are network effects to this. The success of McDonald's in the late 20^{th} century was famously attributably to 1) the consistent quality of its fries and, 2) the convenience and brand awareness created by being in every town and spread across every city. European Wax is the McDonald's of its industry.

To illustrate the real-world benefit of EWCZ's scale, consider the map of Dallas below. It features European Wax center locations placed by their distinctive red logo. All the various independent waxing salon locations are marked blue.

Visibly, European Wax has developed a powerful hold over the Dallas market. It owns more than 50% of total waxing locations, and a far larger share of sales given the superior per store sales performance of EWCZ.

European Wax Center | Independents

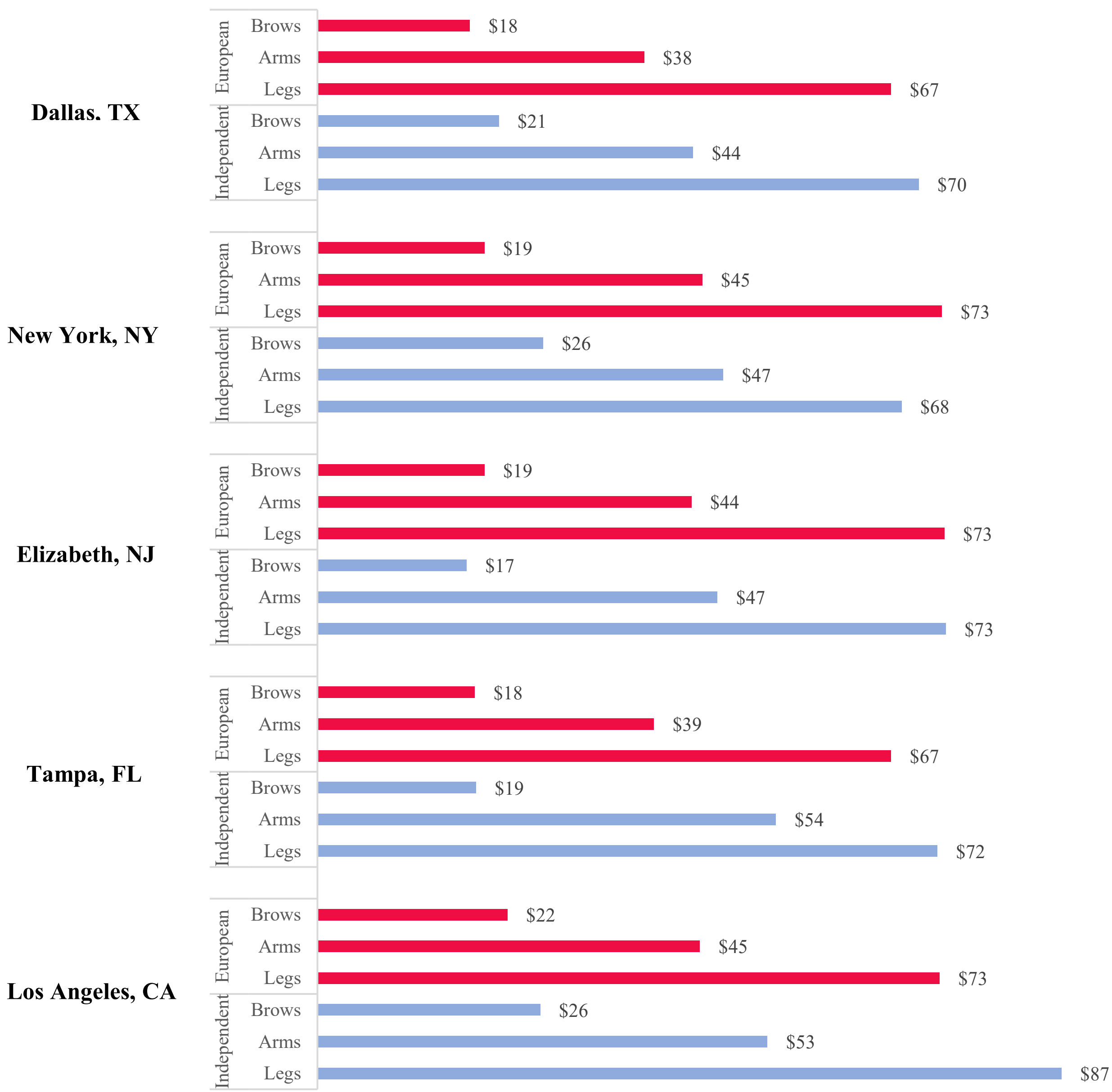


Price value through the Wax Pass

The Wax Pass makes EWCZ's superior service more affordable than the inferior service of independents. The Wax Pass, used in approximately 60% of transactions, provides ongoing discounts for bulk service purchases made in advance.

We show the avg price per service across five major markets. European Wax (red) and Independents (blue). European Wax prices are net of the Wax Pass discount. Customers save between 1% and 15%, on average, being a Wax Pass holder at European Wax relative to purchasing the equivalent service from an independent salon. Full survey details here.

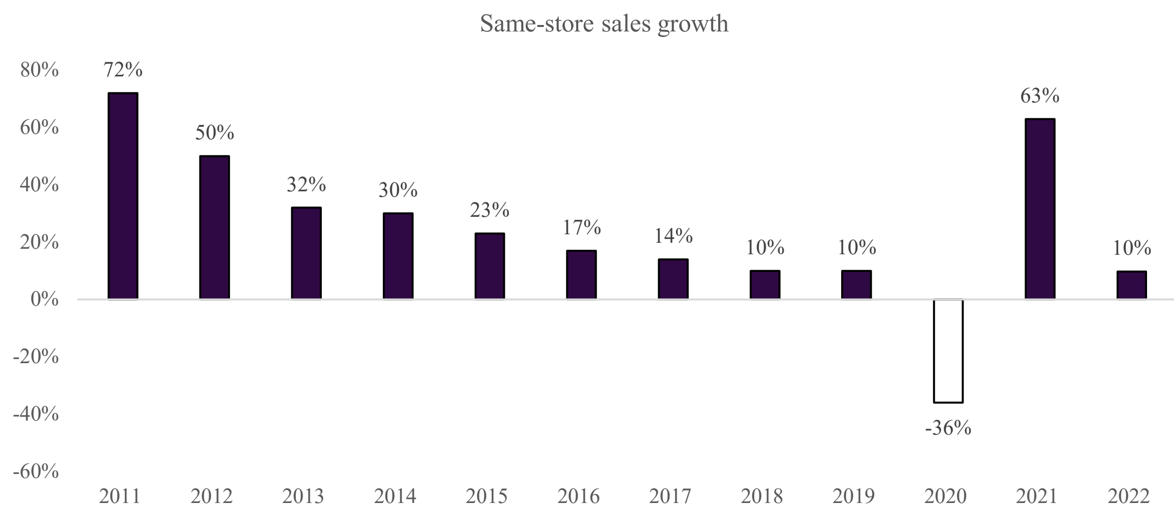
Service price comparison by major market



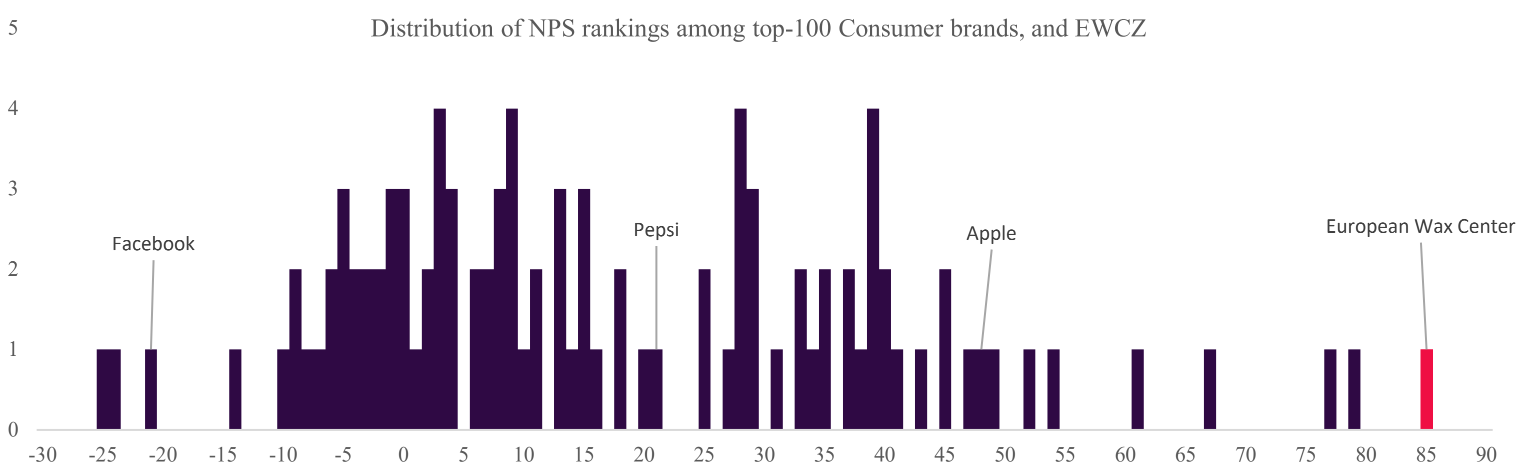
Customer value manifests in same store sales

We focus research on discovering companies that deliver clear customer value because customer value rewards the brands who deliver it with superior same store sales growth. Same store sales drives greater unit level profitability, which leads to a positive cycle of cash-flow reinvestment and growth, ultimately driving sustainably higher corporate-level profitability.

For the reasons discussed, European Wax has delivered one of the most impressive same store sales growth histories in all of consumer. Barring the pandemic-induced aberration in 2020, same stores sales have been positive double-digit for ten years.



The past doesn't necessarily augur the future. Perhaps the best evidence that EWCZ's superior customer value can sustain future sales growth is through the customer's own feedback. The European Wax brand has a higher Net Promoter Score (NPS) than all of the largest 100 consumer brands.



World-class Franchisee Economics

"The unit economics is the reason we continue to grow with European Wax." Franchisee, California

Franchisee profitability is our single most important metric in evaluating a franchisor investment. It is franchisees who build the brand through their labor and capital investments. For a brand to grow, its franchisees must earn healthy profits on stores they operate, underwriting both their ability and willingness to reinvest capital into new stores. Higher franchisee profitability leads franchisee investments to grow the brand. The bigger the brand, the more success we enjoy as franchisor shareholder.

Franchisee unit economics can be compared across all industries and brands by measuring store Return on Investment (ROI). ROI is simply the annual profit a location earns divided by its capital investment to open. It distills to a few key inputs:

1. Capital build costs (lower is better)
2. Sales (higher is better)
3. Cost of goods relative to average ticket (lower is better)
4. Store operating costs such as labor, occupancy (lower is better)

These four metrics feature for every franchised store. ROI can therefore be calculated and compared across all brands using the formula:

ROI % = (Sales – COGS – Operating costs) / Build costs

The best brands earn their franchisees annual ROIs in excess of 30%. Most earn between 15-25%. Brands that average below 15% typically stop growing because franchisees are not earning sufficient ROIs, so cease investing in new stores.

European Wax Center unit economics are among the best in any industry. ROIs are 60%+ once stores reach their 5-year maturity. Many franchisees we spoke with have units easily eclipsing that return level. More importantly, ROIs are positive and healthy even as new locations are maturing, minimizing execution risk.

The European Wax model offers franchisees advantages at every step of the ROI formula:

1. Build costs are low because the boxes are small, simple and don't require grade A locations.
2. Sales are high because its services are high ticket, take only minutes to perform, and are in high demand.
3. Cost of goods are low, consisting mostly of storable wax bought in bulk.
4. Operating costs are low because locations are small and without complicated store features.

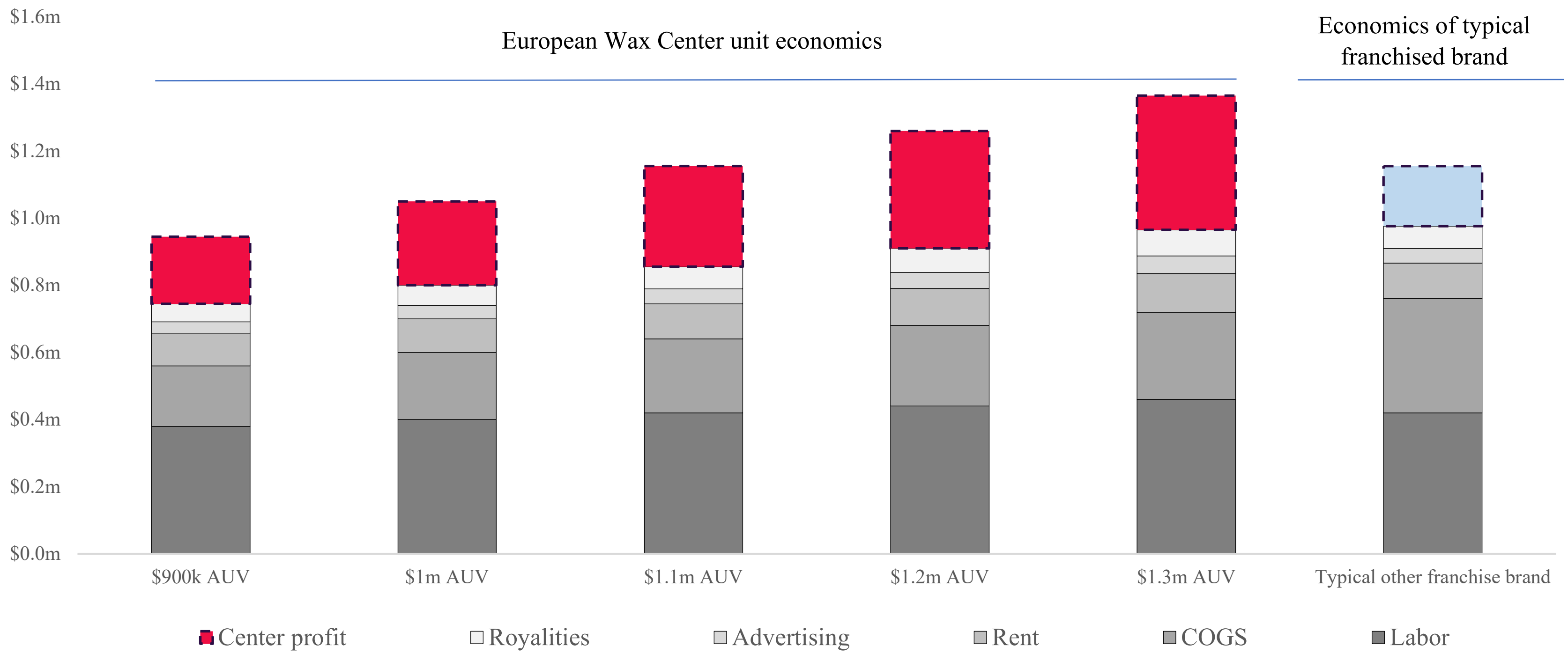
The result is EWCZ locations are profitable for franchisees soon after opening and generate significant returns with growing location awareness.

"Once a location gets past $1.2-1.3m in annual sales, the profitability is incredible." Franchisee, Texas

European Wax Center illustrative unit economic model

We show our estimates for center profit and Return on Investment (ROI) of European Wax Center locations at different sales levels below. The combination of high sales, high gross margins, and low operating costs means EWCZ stores generate healthy cash flows even at modest sales. Low build costs magnify its ROIs. Their unit economics far exceed the economics typical of franchised brands.

Our estimates have been confirmed by franchisees and are consistent with EWCZ's investor presentations.



Center profit	$0.20m	$0.25m	$0.30m	$0.35m	$0.40m	$0.18m
Proifit margin	22%	25%	27%	29%	31%	16%
Center ROI	47%	59%	71%	82%	94%	26%

Understanding why European Wax locations are so profitable

To illustrate the power of the European Wax economic model, zoom in on their centers. They are small, averaging ~1,400 sqft. They are simply designed – offering a comfortable check-in/waiting area at the front, with usually seven waxing suites behind. Although aesthetically attractive, clean, and professional, locations are minimal. There is no need for special equipment, such as heavy-duty kitchen and HVAC systems, common to restaurants, or advanced product display and backroom storage, common to apparel. Instead, centers are small, simple, and therefore economic to build.

In short, European Wax is a low build-cost retail box, delivering high-ticket items in a short space of time, at high gross margins.

"The magic of European Wax is that the specialist can see four customers each hour, with each customer being up to a $60 ticket. Your center has seven rooms doing those volumes." Franchisee, New Jersey

Although surprising, the unit economic model holds up even against the very best brands. A European Wax box doesn't generate the sales density of the household brands below, but its lower sales are more than offset by lower build costs, creating a comparable return profile. We benchmark gross profit return on capital. This is an inferior metric to ROI (above), but more easily measurable for this group.

The EWCZ store is more versatile than these bigger brands. It doesn't need tier 1 real estate. It can go almost anywhere.

Economics vs. best-in-class		McDonald's	Mister	RH		EUROPEAN WAX CENTER
Sales per store $m	60.00	3.25	2.10	25.00	1.80	0.90
Gross margin %	45%	70%	85%	60%	85%	70%
Gross profit per store $m	27.00	2.28	1.79	15.00	1.53	0.63
Store build cost $m	20.00	2.25	1.50	12.50	1.25	0.45
Gross profit return on capital %	135%	101%	119%	120%	122%	140%

Accelerating Development

European Wax's customer value is driving its same store sales, which is building franchisee profitability. Franchisees are therefore willing and able to open more new centers. New center development is next step in the franchise flywheel.

We believe the system's level of center development is sustainably accelerating.

Healthy, sustainable growth

The EWCZ franchisee network has strengthened and can now support a higher level of center development. Its healthy network of franchisees comprises well-capitalized long-term operators, and private equity/family office style organizations that have developed experience with the brand and are now ready to accelerate their growth.

From the first group, we spoke with more than a dozen long-time franchisees. All are planning to grow their businesses. EWC Growth, founded by long-time franchisee Kal Kullapalli, is a platform entity built specifically to acquire centers from smaller operators. Its corporate headcount of ~30 staff, many with long tenor at the brand, suggests strong capabilities for growth.

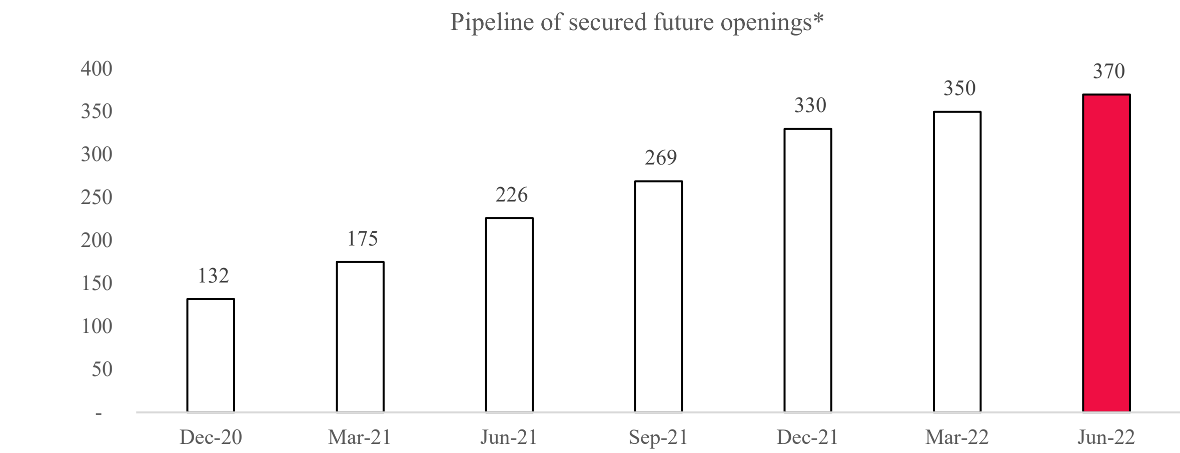
"The large franchisees are really going. We all think 100 locations could be our magic number." Franchisee, California

Among the second group, EWCZ management has spoken to "half a dozen private equity groups" in the network. This group is well-capitalized and showing determined interest in growing their own portfolios of European Wax centers. They typically sign multi-unit agreements with commitments to build out entire geographic regions. Below is a sample of these organizations:

Organization	*Background*	*Recent development updates*
Wax Center Partners	Partnership between the Steiber family and MKH Capital	25 now open with more under development
Sphinx Franchise Holdings	PE-sponsored owner-operator of locations across six states	Capitalization to drive further growth
Pacific Bells	Partnership between Tom Cook and Orangewood of QSR/EWC locations	Capital investment to fund 30 new centers
Artemis Wax Corp	Kaplan and Tucker co investment vehicle	

"The pace with which we are signing – these groups are signing multi-unit development agreements is accelerating. That really applies to the multi-unit developers and the self-funded franchisees in the private equity groups." David Willis, COO

The result for the franchisor (where we are invested) is a diversified group of franchisees possessing the *experience, capital,* and *motivation*, to accelerate EWCZ's growth in the coming years. The best metric illustrating this growing opportunity is a non-financial one: EWCZ shares its 'development pipeline' of centers committed to being opened by franchisees, but which have not yet been completed. These centers are not benefiting financial performance today but will in the future.

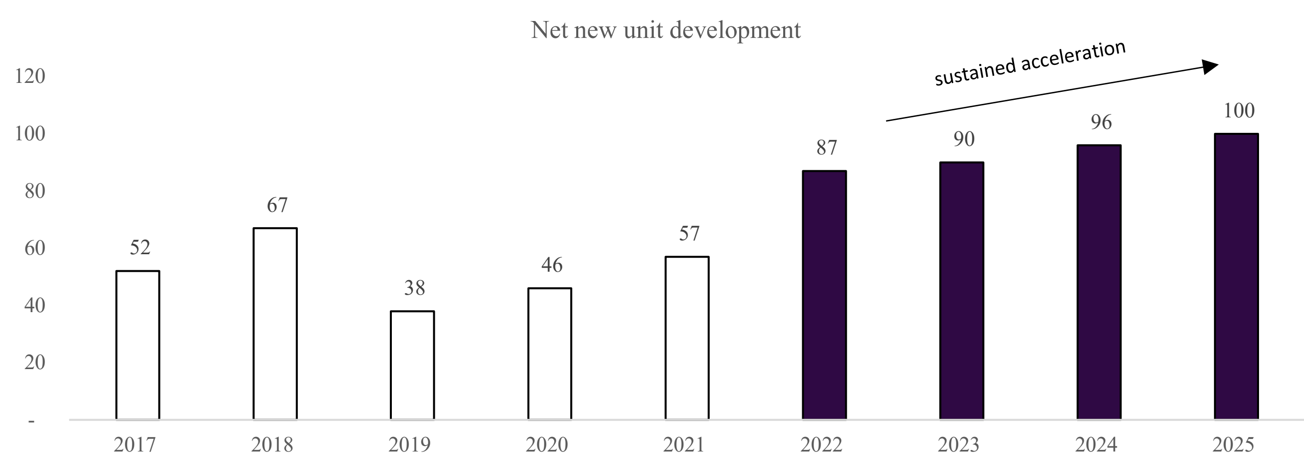


**March and June 2022 are estimates. Management did not share the precise figure, but stated the pipeline was "expanding"*

The current development pipeline already underwrites all expected new centers for the next four years. It is also another example of EWCZ's significant scale – its pipeline of committed future openings is *larger than its four largest competitors' total networks open today, combined*.

Existing franchisees make up 90% of the centers in the pipeline and two-thirds is contracted to large operators under multi-unit agreements, as described above. Most of the white space committed is within EWCZ's big-5 states (CA, TX, NY, NJ, FL) – its franchisees know these markets and their customers have high awareness for the brand. All these points minimize the execution risk of European Wax's growth and therefore increase its investment quality.

The consequence of these points is the potential for accelerating development. For 2022, EWCZ recently raised its initial center opening guidance of 70-72 to 83-85. We expect this level to form a new base and for annual development to continue accelerating, benefiting from a virtuous cycle of growing franchisee expertise and capital.



Scalability of the Financial Model

So far, this note has detailed European Wax's value to customers and franchisees. We deferred discussing its value to shareholders because no matter how lucrative a financial model appears for the franchisor; it will only be realized if the brand's customers and franchisees are satisfied.

Having established the brand's value to customers, which drives same store sales, and its value to franchisees, which drives center development, EWCZ's financial model becomes unlocked for shareholders. We emphasize two points:

- **Fixed cost leverage amplifies earnings growth:** EWCZ's unusually high rate of expansion, underwritten by its committed pipeline, drives outsized EBITDA and FCF growth relative to peers. This is especially attractive for its compounding effect.

- **Stability and visibility of cash flows**: High center development, low fixed costs, negligible variable costs, and capex - all combine to provide high predictability of cash flows. Even a scenario where same store sales are persistently below our model still sees EWCZ enjoy healthy EBITDA and FCF growth.

Fixed cost leverage amplifies earnings growth

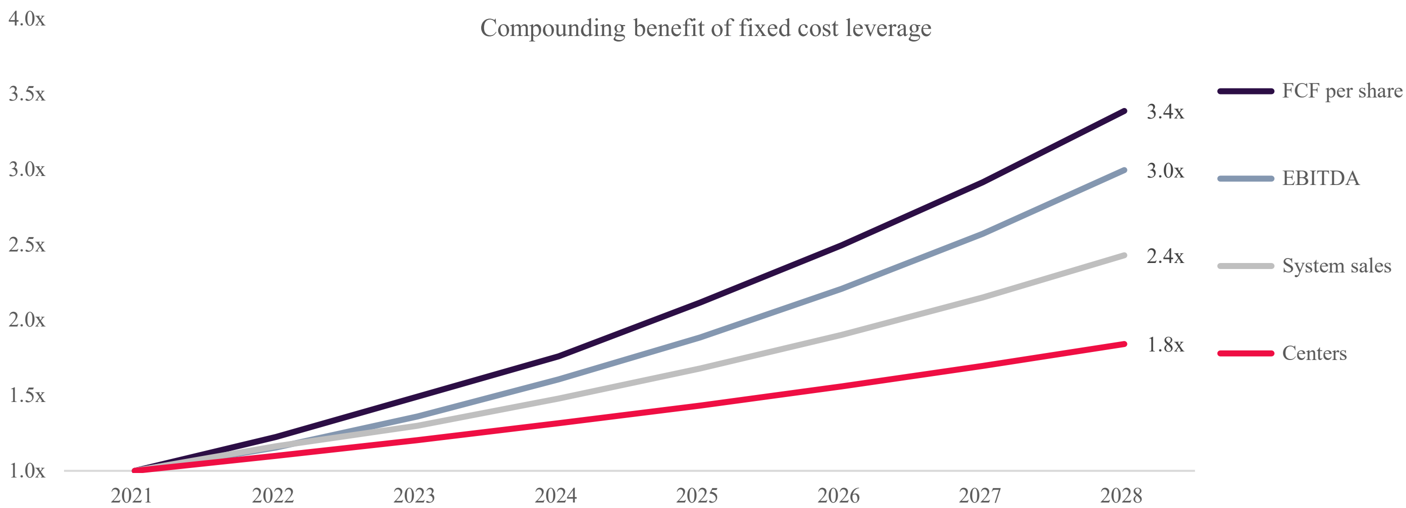
Franchised business models enjoy fixed cost leverage. EWCZ more than most. The natural fixed cost leverage of franchised business models is created by their receiving growing royalties on growing system sales, without bearing incremental unit operating costs, such as labor, occupancy. The effect is that even modest brand sales growth can drive higher rates of growth in franchisor earnings. Scale is rewarded again.

EWCZ has a superior earnings growth outlook than peers because its brand is growing faster, and this effect becomes magnified moving down the P&L. EWCZ's nascent center portfolio, its high demand from customers (same store sales) and franchisees (store development), combine to create system sales growth outlook at the top-end of public company franchised brands. Consider the white space opportunity of European Wax Center relative to McDonald's. Critically, EWCZ's growth is healthy – being undertaken by well capitalized franchisees with the experience and motivation necessary to grow the brand at sustainably higher rates than consumer brands can ordinarily achieve.

Our attraction to EWCZ as an investment is in part driven by an understanding that abnormally high brand growth doesn't necessitate abnormally high franchisor expense growth. Core expenses such as franchise support, marketing and real estate teams will grow, but at a lower rate than system sales and royalty revenue. EBITDA and FCF therefore grow faster than center development and system sales. Fixed cost leverage amplifies EWCZ's earnings model.

Annual growth rates	DrivenBrands	McDonald's	Wendy's	Wing Stop	Yum!	European Wax Center
Stores	6%	2%	4%	10%	4%	8%
Same store sales	3%	2%	2%	3%	3%	8%
System sales/revenue	10%	4%	5%	12%	6%	12%
EBITDA	11%	6%	7%	12%	8%	15%

EWCZ"s higher rates of growth will compound to a create a cumululive shareholder return surpassing peers. The compounding effect is best illustrated through the chart below. It shows how EWCZ's sustainable HSD annual center growth creates, by 2028, a network 1.8x larger than in 2021, but EBITDA and FCF per share will grow to 3.0 and 3.4x 2021 levels, respectively. Fixed cost leverage magnifies shareholder returns, which then compound at higher rates with time.



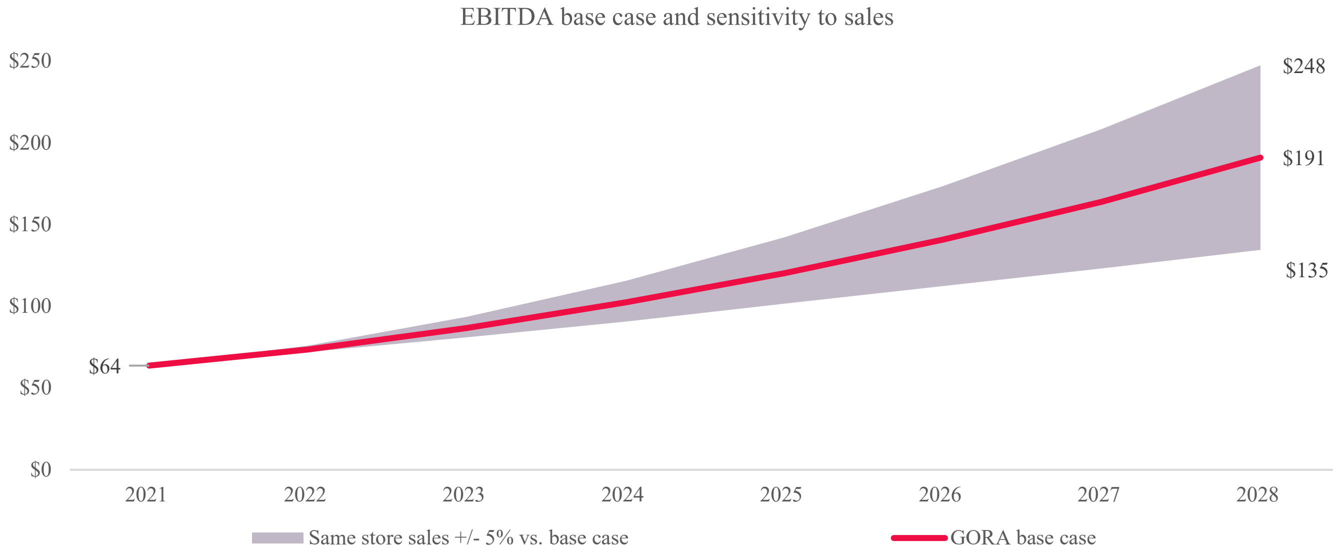
Stability and visibility of cash flows

The above may appear optimistic. Perhaps it is. A lot can go wrong in seven years. However, if it does, EWCZ's financial model also mitigates the downside to us, the shareholders. The stability and visibility of its cash flows is our second attraction to the EWCZ financial model.

Because EWCZ does not operate its centers, it is insulated from the unit-profit impact of swings in center sales. Franchisees bear this risk. Instead, EWCZ, as franchisor, has modest corporate expenses that are largely fixed, and therefore highly predictable profit streams. Even under a scenario where same store sales growth recedes to flat or negative, vs. the double-digit historic growth and high-single digit long-term guidance, EWCZ's financial model delivers value.

This advantaged position is reinforced by the pipeline of new center openings which means that total system sales, from which EWCZ's royalty revenue is derived, are almost certain to grow. With it grows royalty revenues and therefore franchisor earnings. We can think of no other consumer business providing such a high level of certainty into earnings growth.

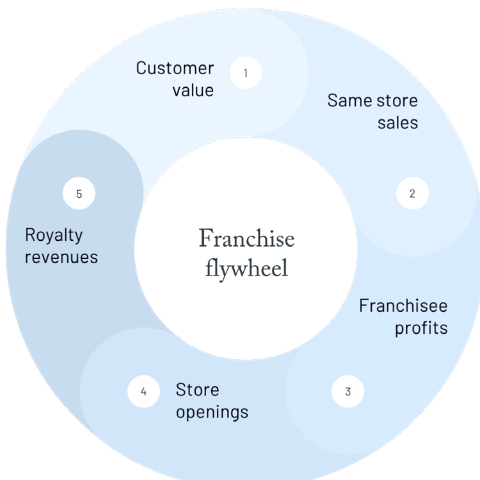
We illustrate this next attractive feature through the chart below. It shows our base case EBITDA forecasts through 2028. For these forecasts we use a same store sales growth forecast averaging 6%, slightly below management's long-term guidance of HSD. Our EBITDA forecasts are then bracketed by how forecasts perform under the assumptions that same store sales are persistently 5ppts above or below our base case i.e., 11%, or 1%. Under the dire outcome of 1% same store sales growth for the next seven years, far below conservative expectations, EWCZ still likely doubles its EBITDA by 2028.



Franchise flywheel coming full circle

We close our discussion of European Wax's value to its three stakeholders - customers, franchisees, and us – the franchisor - by revisiting the flywheel. Its final step is the flexibility scale and profitability create to reinvest back into the customer experience. Brands with scale can continue improve their customer experience in ways not possible for smaller brands without scale. This was an idea we first presented in a past quarterly letter.

For EWCZ, this touches every facet of the customer journey. Its marketing fund, at ~$30m annually and growing, is bigger than the entire system sales of all but its largest competitors. Its iOS app has 8,800 reviews with a 4.4 average rating. Its only competitor to also develop an app, Waxing the City, offers just a fraction of the functionality EWCZ provides. Their app has 22 reviews at a 3.8 average rating. The cost per user to develop EWCZ's app is likely a small fraction compared to Waxing The City's. These are just two examples of the many ways scale comes full circle. The big get bigger, and the customer, franchisees, and franchisor all see the benefits.



Right Management for the Strategy

CEO David Berg and CFO/COO David Willis, 'The Davids', are the right pair to execute EWCZ's strategy. Both have the experience to balance supporting the many stakeholders in a franchise growth strategy and share the vision for the returns a well-executed franchised brand can deliver. Equally important, both are liked and respected by EWCZ's franchisee operators.

CEO Berg was hired in 2018 to lead EWCZ following its acquisition by General Atlantic. He brings senior management experience across retail, hospitality, and franchising. Berg most recently led Carlson Hospitality, as CEO. His time on the Board of Directors of Planet Fitness (PLNT) equips him with insights into the playbook of one of the most successful franchised concepts belonging to any industry. His resume also includes experience at household brands such as, GNC, Outback Steakhouse, and Z Wireless. We particularly value Berg's work within the hospitality industry for its emphasis on guest experience. We view European Wax's superior guest experience to independents, enhanced under Berg's leadership, as a driver for futures sales outperformance - see Clear Customer Value.

"David Berg has shown this strategy can be successful and is the right leader for our brand" – Franchisee, Florida

CFO/COO Willis has been with EWCZ since 2016 and therefore has deep experience with the brand at various stages of its growth. His experience with EWCZ runs deeper still because Willis was a European Wax franchisee prior to joining the franchisor through his time at Riata Capital Group, a financial sponsor that previously owned a portfolio of centers. He therefore knows intimately both the day-to-day challenges of operating centers and is known and respected among the franchisee community for his hands-on experience with the brand. He also understands the considerations of financial sponsors assessing an investment in a portfolio of European Wax locations. Given the brand's focus on development through this key channel of well-capitalized partners, he is a valuable asset – see Accelerating Development.

That both Davids are so well regarded by the European Wax franchisee community is one of the best insights from our research. Successful execution of a franchised growth strategy requires buy-in from franchisees. That buy-in occurs far easier if the relationship between franchisee and franchisor is strong. This value isn't visible in financial statements and can't be forecast but is one of our most significant considerations in assessing the viability of successful strategy execution.

For The Davids, approximately 70% of compensation is 'at-risk' and measured against KPIs creating long-term shareholder value. The focal points of this investment note mirror the metrics determining incentive compensation payment. We therefore view the incentive compensation plan as highly aligned with us, as shareholders, realizing long-term success:

2021 Incentive Comp Metrics	*Weighting in assessment*	*GORA view*
EBITDA	60%	Ultimate driver of cash flow and long-term shareholder value
New center openings	15%	Largest contributor to system sales growth and therefore royalty revenues
Same store sales	15%	Largest determinant of franchisee profitability the franchisor can influence
Completion of IPO	10%	With IPO completed in 2021, this metric will be removed

Wingstop Case Study

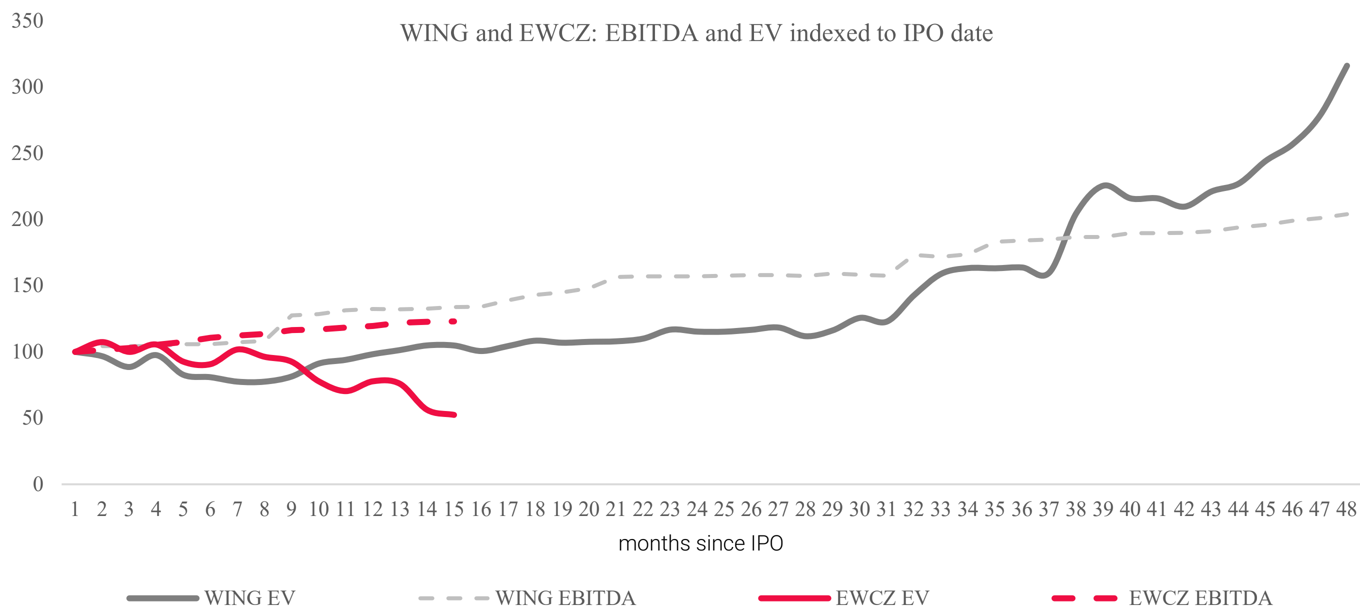
Wingstop (WING) provides a case study into EWCZ's potential future returns. WING's business-model is nearly identical to EWCZ: It is a fully franchised brand with strong unit economics. Wingstop sells takeout wings, instead of waxing services. Like EWCZ, WING IPO'd as a nascent concept with significant white space opportunity to grow. In its seven years as a public company, the brand has more than doubled its location count from ~800 to ~2,000.

WING is an interesting case study because while its strategy and execution during its time as a public company has been remarkably consistent, its market value has been anything but. Early in its public company life, investors were skeptical WING's unit economic performance could be sustained with the level of restaurant growth promised by management. Its valuation initially compressed because of this doubt. However, with consistent execution that showed little deviation from the long-term growth plan, investor doubts were assuaged. Its valuation expanded significantly.

WING trades at a far higher EV/EBITDA multiple today than at the time of its IPO, despite its growth prospects being more modest than in 2015 due to that since realized. WING is being rewarded by investors for the trust they have in its business. A trust that took time to earn but is highly valued.

We foresee a similar story for EWCZ. Investors today are new to the brand and many doubt its unit economic model can be scaled to the level EWCZ's management promises. The solution is consistent execution of the plan, which EWCZ has been delivering. We believe with further execution an inflection point will be reached where a critical mass of investors recognize both the opportunity, and the credibility of management delivering against it. We see upside to EWCZ's valuation when this inflection point arrives, as occurred with WING.

Below we visualize this opportunity. Our chart shows Enterprise Value (EV) and EBITDA for both WING and EWCZ, by month since their respective IPO dates. Note the sharp inflection in WING's EV despite only stable EBITDA gains over time.



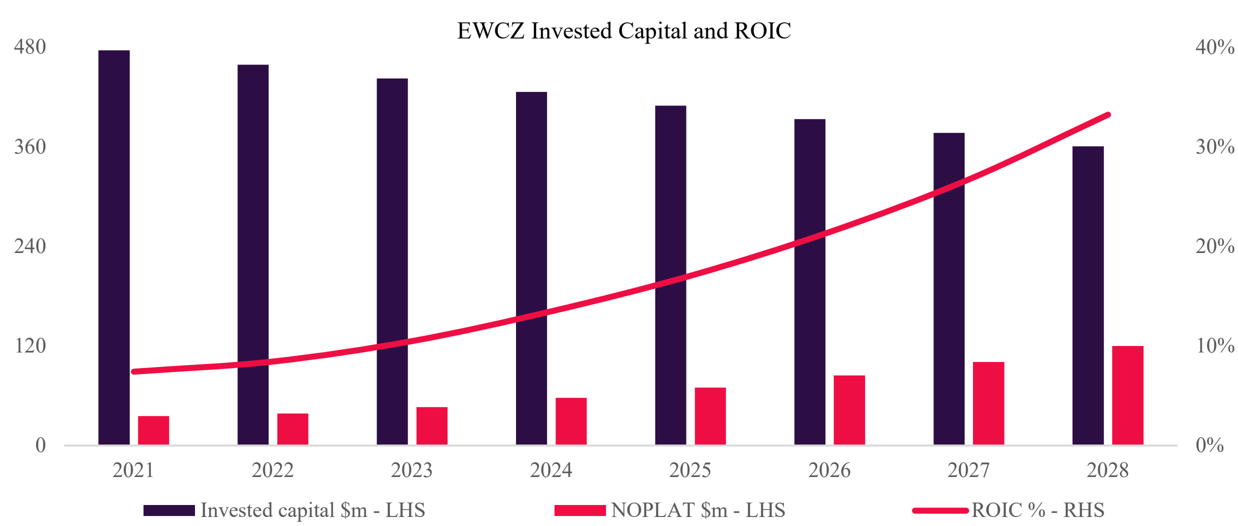
Valuation

EWCZ is an expensive stock on conventional metrics, but we believe always will be. In fact, we see room for multiple expansion with continued execution of its strategy – see Wingstop Case Study.

Franchised brands trade at elevated valuations due to their high-quality of earnings and defensive business models. Compared to peers, EWCZ's valuation looks modest given its superior growth. We show below traditional metrics for EWCZ and peers.

As of Nov. 2022,	EV/EBITDA			LT EBITDA growth	Price-earnings			LT net income growth
	2023	2024	2025		2023	2024	2025	
DRVN	13.4x	11.9x	10.8x	11%	24.9x	22.9x	20.1x	15%
MCD	17.2x	16.3x	15.3x	6%	24.1x	22.3x	20.0x	9%
WEN	12.1x	11.5x	11.0x	7%	20.0x	17.7x	15.6x	11%
WING	37.1x	21.1x	27.6x	12%	73.9x	59.6x	49.3x	15%
YUM	17.4x	15.9x	14.9x	8%	21.8x	19.2x	16.2x	12%
Peer average	**19.4x**	**15.3x**	**15.9x**	**9%**	**32.9x**	**28.3x**	**24.2x**	**12%**
EWCZ	**15.2x**	**12.9x**	**10.9x**	**15%**	**30.7x**	**24.4x**	**18.6x**	**18%**
EWCZ vs. peer avg	*-4.2x*	*-2.4x*	*-5.0x*	*6ppts*	*-2.2x*	*-3.9x*	*-5.6x*	*6ppts*
EWCZ vs. peer avg ex WING	*0.2x*	*-1.0x*	*-2.1x*	*7ppts*	*8.0x*	*3.9x*	*0.6x*	*6ppts*

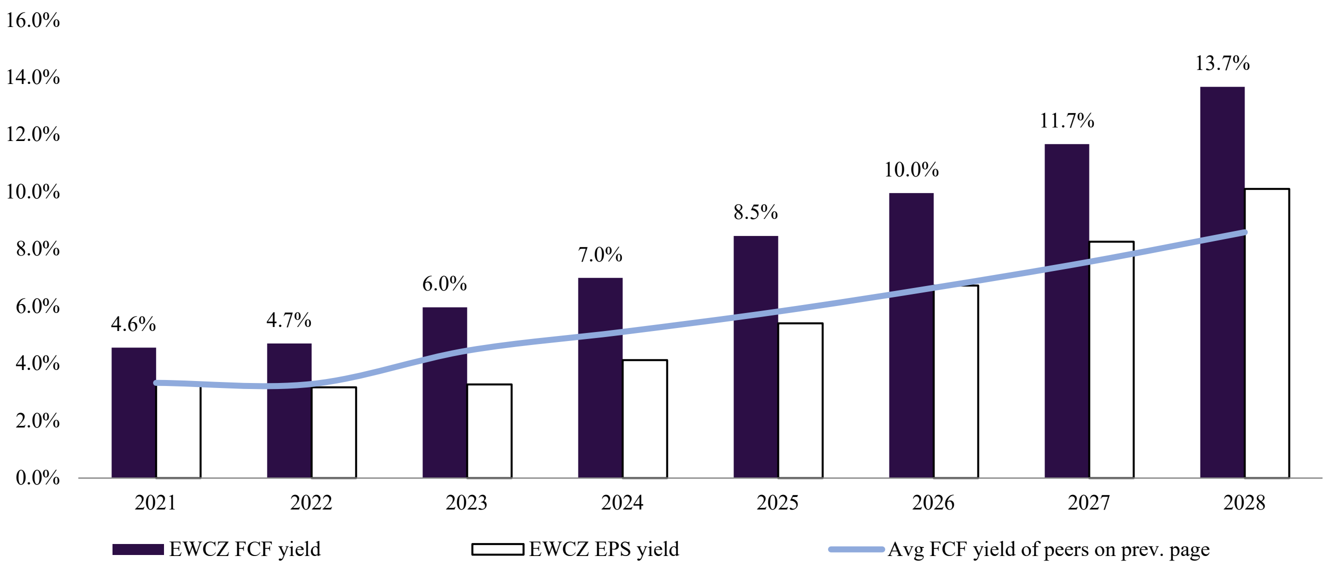
We expect EWCZ's valuation premium to be sustained. EWCZ offers an increasingly rare whitespace opportunity allowing outsized growth over long-term horizons. This runway is reflected through its improving ROIC profile through 2028. We believe its ROIC trend will allow EWCZ's current year valuation premium to sustain year after year.



FCF is higher than earnings

EWCZ's FCF per share will be ~1.5x earnings per share for the foreseeable future. The company is required to amortize certain Area Development rights that were reacquired from franchisees in 2019 and 2020. This amortization creates a non-cash accrual expense of almost $20m per annum that weighs on earnings, but which has no economic impact. Price-earnings ratios therefore give the appearance of a company more expensive than its true valuation, based on cash flow.

Ask McKinsey or Warren Buffet the intrinsic value of a company and they will point you to its cash flows.



Dividend as valuation backstop

A corollary of EWCZ's outsized cash flow is the creation of a good problem. It generates far more cash than it needs.

The primary use of EWCZ's cash flow is a healthy stream of regular and special dividends. EWCZ can support annual dividends per share slightly above annual free cash flow due to the natural deleveraging created by its EBITDA growth. At current prices, the likely dividend payments offer investors a yield of almost 9% in 2023 and eclipsing 10% by 2025.

Despite initially holding an aversion to repurchases due to the stock's low natural liquidity, the Board in November 2022 deemed shares sufficiently undervalued to authorize a share repurchase program. A $40m cash return through share repurchases brings another buyer into the market and further accelerates EPS growth.

EWCZ cash flow and dividends	2021	2022	2023	2024	2025	2026	2027	2028
FCF per share	0.64	0.66	0.84	0.98	1.19	1.40	1.64	1.92
Dividend per share	0.00	3.30	1.25	1.35	1.45	1.55	1.65	1.75
Dividend yield	**0.0%**	**23.4%**	**8.9%**	**9.6%**	**10.3%**	**11.0%**	**11.7%**	**12.4%**
Leverage - net debt/EBITDA	2.1x	4.6x	4.3x	3.9x	3.5x	3.0x	2.6x	2.2x

Catalysts

1) Consistent execution demonstrated through earnings events

We believe EWCZ is materially undervalued by the market because it is either not yet on the radar of institutional investors, or some investors are skeptical of its growth promises. We anticipate consistent execution of its strategy will cause a share price re-rating exceeding the fundamental earnings growth rate. This will come when a critical mass of investors accept the quality of its growth strategy, likely amplified by a short squeeze on those betting against the company.

We cannot predict when this might occur but look to the sharp re-rating of WING, which appreciated ~4x in value between its 2nd and 4th years as a public company – see Wingstop Case Study.

2) Same store sales reacceleration

Same store sales is the most KPI in retail. We have observed share prices of retailers constrained during periods of decelerating same store sales, only to have their full intrinsic value quickly materialize in markets once this KPI reaccelerates.

EWCZ's same store sales decelerated during summer 2022. The primary cause was a pause in discretionary spending by households in response to high inflation on essentials, as well as the lowest consumer sentiment ever recorded. All retail brands we follow experienced the demand slowdown. Our macro-observations point to an April/May nadir, with modest recovery since.

Beyond macro, we see idiosyncratic causes for same store sales reacceleration:

- **California**: COVID-induced statewide processing delays of cosmetology licenses restricted supply of wax specialists in that state. EWCZ franchisees operating in CA therefore haven't been able to meet the demand due to staffing shortages. The effect has been a drag of up to 5ppts on sales nationwide, at its peak.

  Since January 2022, the CA government has shown improving leniency in approving licenses. CA is EWCZ's largest state market, both for current centers and new center development. We expect outsized sales growth in CA due to normalization of wax specialist availability.

- **EWC Rewards and Personalization**: In the past 12 months, EWCZ's customer funnel has been enhanced by the introduction of its EWC Rewards program and personalized marketing through internal data collection. EWC Rewards provides a further 5% discount to customers, in addition to the ~18% discount available through Wax Pass enrollment. Personalized marketing is a highly effective conversion mechanism, particularly through owned-market channels, such as EWCZ's app.

- **Wax Pass redemptions**: Wax Pass sales are only recorded within same store sales upon each service redemption, not when the customer purchases the bulk package ahead of redemptions. This dynamic can cause discrepancies between customer receipts and same stores sales. EWCZ will soon begin lapping a period where this accounting dynamic created a headwind to same store sales that should reverse. The effect will be a tailwind to reported same store sales.

3) Pipeline expansion

EWCZ's pipeline represents the number of centers franchisees have contractually committed to opening in the future. It is an excellent lead indicator of future center development, which flows into system sales, then royalty revenue & EBITDA for EWCZ.

The pipeline has more than doubled in the past two years driven by sophisticated, well-capitalized operators committing to develop new centers and so reap the returns of the brand's unit economic model. These operators have begun signing larger multi-unit development agreements, sometimes spanning dozens of center commitments in a single contract.

We anticipate more large, multi-unit development agreements to come, driven by the favorable reinvestment cycle sophisticated operators enjoy from harvesting the FCF generated by their existing portfolio of centers reinvested into new openings. We expect that as public markets investors notice EWCZ's burgeoning pipeline, they will more comfortably underwrite EWCZ's own earnings growth outlook - see Accelerating Development.

4) Capital management - special dividend

EWCZ's capital-light model generates significant FCF and has almost no capital needs. Its expected capex of $2.5m in 2022 is the lowest of any consumer company we follow. As a result, its FCF can be returned to investors.

Despite its the low natural liquidity in EWCZ shares, in November the Board deemed shares sufficiently undervalued to authorize a repurchase program of $40m. In addition, the company will continue paying healthy dividends. We model the company delivering a $1.50 annually, representing an ~8% dividend yield at current prices – see Valuation (dividend).

5) Secondary sales of General Atlantic stake

General Atlantic (GA), the financial sponsor that acquired European Wax Center in 2018, continue to own just over 50% of its total economic interest. Its large ownership greatly restricts the trading free float in EWCZ shares.

During its first 12 months as public company, GA have twice undertaken secondary shares sales in EWCZ, each equivalent to ~10% of total shares outstanding. We expect more secondary sales to fviollow until GA exits its investment in EWCZ, in full.

The eventual sale of GA's remaining stake in EWCZ can act as a catalyst for the share price due to the additional liquidity it will create. Currently, EWCZ trades ~$8m in value per day, just below the critical $10m per day threshold often applied by large institutional fund managers. Upon GA's exit and the additional free float this would create, we estimate EWCZ shares are likely to trade around $20m per day – a level inviting interest from fund managers of all size.

We have spoken with existing shareholders who are currently constrained from adding to their position size in EWCZ because of its low liquidity. A GA secondary would be welcomed by these investors as an opportunity to add to their positions.

6) Short interest

Short interest in EWCZ is high. It has approximately 11 days volume of shares short (days-to-cover) and has a StarMine short squeeze ranking above 80% of US listed companies. We believe investors short EWCZ see its high valuation, recent deceleration in same store sales growth, and likely forthcoming secondary offering from GA as compelling reasons to be short.

We view these thesis points as highly short-term. Investors dissuaded by its valuation are underappreciating both the quality of its business model and its sustainable future growth. As we detail in Scalability of the Financial Model, EWCZ's growth profile far exceeds peers. Further, due to the sustainability of its high earnings growth rate, we expect EWCZ will retain or even expand its earnings multiple with consistent execution – see Wingstop Case Study.

EWCZ's high short interest creates the potential for outsized moves higher in the share price on the realization of our positive thesis points.

Risks

1) Subdued macro

Inflation is deterring households from discretionary purchases, including at EWCZ. Should inflation persist and the economic backdrop worsen, same stores sales will likely remain below the company's long-term guidance of high-single-digit growth.

Despite the risk to same store sales of a soft macro environment, we see negligible risk to center openings, given their attractive economics, and EWCZ profitability, given its low-cost base and high fixed cost leverage – see Scalability of the Financial Model.

2) Cannibalization

A natural risk created by accelerating development is cannibalization of center sales, whereby existing centers lose customers to new centers more conveniently located. We view cannibalization as a long-dated risk, but unlikely to affect performance in coming years due to EWCZ's small present market share. We are further comforted by two points on cannibalization:

- Franchisees, who bear the greatest financial impact from cannibalization, are not yet concerned by it.
- EWCZ's current development is concentrated in state markets where it has its largest existing center presence. Franchisees continue seeing strong returns on new and existing centers in these geographies. The halo effect of high brand recognition is more than offsetting any detrimental effect from cannibalization in states such as California, Florida, and New York.

"We've found areas that we didn't think could support a location comfortably can. Cannibalization is not a concern now, but could be five years from now" – Franchisee, New Jersey

3) Competitive encroachment

There will be others observing the returns on EWCZ locations that may be encouraged to replicate its model. Their expansion would present a competitive threat to EWCZ to the detriment of brand sales.

We view competitive encroachment as one of the lowest risks to EWC. The brand has a large head start over peers – see Clear Customer Value (Convenience), and it is extremely difficulty to scale a concept beyond 100 centers – EWCZ has 893.

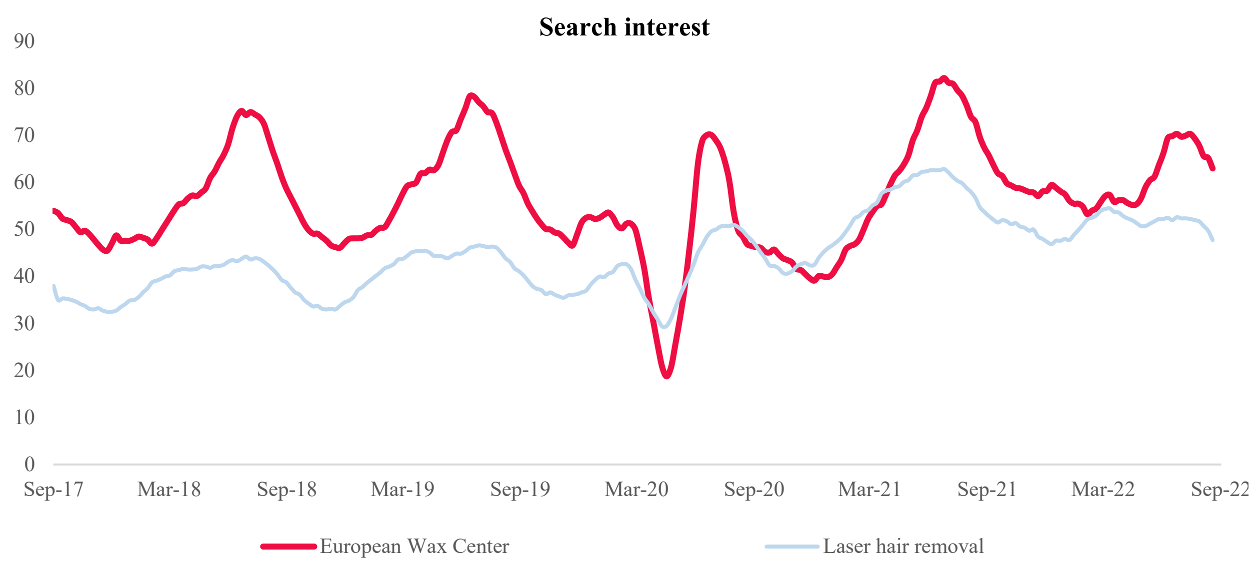
Waxing the City (WTC) is EWCZ's largest competitor and reached its 100th center in 2018, when it revealed a target of opening its 200th center by 2020. As of Sept .2022, WTC has 141 centers. Its geographic presence in EWCZ's core markets is small. From its 2019 FDD, the most recent available, the average WTC center generated only 70% of the revenues made by the average European Wax and WTC's highest revenue location is still lower than the average European Wax location.

4) Laser hair removal

Laser hair removal permanently removes hair and could therefore be a viable long-term alternative for repeat EWCZ customers.

Today, laser treatments remain expensive, require repeat sessions, and work effectively with only certain skin/hair colors. For example, this Manhattan laser clinic charges $2,800 for laser treatment of legs and requires 8 sessions. That outlay is equivalent to 38 sessions for Manhattan Wax Pass holders.

Although data is not available assessing substitution into laser hair removal, our own analysis of search interest data suggests negligible share loss to this product during the past five years.



5) General Atlantic overhang

General Atlantic (GA), the financial sponsor that acquired European Wax Center in 2018, continue to own just over 50% of its total economic interest. GA's remaining interest will come up for sale through secondary offerings in the future. Some market participants are likely avoiding investing in EWCZ until after this sale has occurred. Further, when secondary offerings from GA are announced, it is likely the share price will initially fall.

It is unlikely GA would be a seller below $20, the current share price level. GA is a large private-equity fund and therefore, we believe, not under pressure to crystallize gains on a single investment, such as EWCZ. This is particularly true at a value below intrinsic value.

We have spoken with EWCZ shareholders wanting General Atlantic to deliver shares to market through a secondary offering. These investors view the current limited liquidity as a constraint on their investment potential for the stock. More shares coming to market would likely be treated favorably by many investors.

6) Rising interest rates

EWCZ's high margin franchise business model presents bond-like characteristics. Some investors therefore use bond yields as a valuation framework when assessing public franchisor equities. Rising bond yields can therefore be seen as a deterrent from investing in franchisor equities.

The relationship between bond yields and franchisor equities has never demonstrated a meaningful relationship in practice. This is especially true for high-growth brands, such as EWCZ. Instead, valuations for these equities correlate with same store sales growth, earnings growth and earnings surprise.

We view EWCZ as further insulated from this valuation risk due to its high free cash flow enabling a HSD dividend yield at current prices, attractive relative to most bonds.

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