

Introducing the ZIPSS: Zillow, IAC, PAR Technology, Stitch Fix, Square

This article is excerpted from a recent Manager's Commentary by MOI Global instructor David Barr, President, CEO and Portfolio Manager at PenderFund Capital Management, based in Vancouver.

David is a featured instructor at Best Ideas 2021.

We have been talking a lot internally about a group of holdings we call the "ZIPSS". This is a group of technology companies that have some similarities to the business models of the popular high flying big five tech names like Amazon and Facebook, but which we believe have much longer runways of growth ahead which have not been fully appreciated by many investors. With the digital transformation that we are witnessing, further accelerated by the global pandemic, we believe these companies are poised to create a lot of value for patient shareholders in the years ahead.

The pack is represented in the Pender Value Fund by a group of five companies that are amongst the disruptive breakout leaders in their industry. Zillow Group Inc. (ZG) is disrupting how property is bought and sold in a world where consumers are increasingly demanding the same types of convenient online experiences and efficiencies they have become accustomed to in other industries. IAC/InterActiveCorp (IAC) is poised to transform a whole host of services "from search and entertainment to finding work and home repair". PAR Technology Corporation (PAR) is gaining momentum and benefiting from the massive tailwinds caused by the sudden need to re-platform and digitize the restaurant industry. Stitch Fix Inc. (SFIX) is an online apparel company focused on hyper personalizing proper fit and style of clothing in order to delight consumers, and finally Square Inc. (SQ), a leading fintech that has become a significant disruptor in the payments and banking industry.

All together, we have coined these companies the "ZIPSS". And there are others in our portfolio with similar models, but for simplicity's sake, we wanted to keep the acronym describing this theme short and "zippy". Collectively, these companies have vastly outpaced the returns of the FAAMGs (big five tech companies) during the pandemic and we anticipate continued momentum ahead.

What excites us about these companies is that they have promising economic models to drive profitable growth as they scale, they are amongst the breakout leaders in their respective categories that benefit from positive feedback loops which tend to make the strong even stronger, and they target industries with massive total addressable markets. The ZIPSS are already disrupting traditional incumbents and with the pandemic driving people online, demand for their service platforms has dramatically increased.

The trick for investors is to be patient and to hold as long as the companies continue to execute on their vision and valuations remain reasonable in the context of their potential future value creation. Each of these companies has seen the value of their shares drawdown in various periods, through a lack of confidence and other short term concerns, but if you sell during the dips because you are more worried about near term price action than the long-term value creation potential, you may miss out on longer term gains. Our goal is to hold onto core positions as long as our investment theses remain intact.

Ever wish you had bought into the FAAMGs when they were in the early stages of their value creation journey? We believe the ZIPSS of today have the potential to be the FAAMGs of tomorrow.

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