Prospecting for Value in the Great White North

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Canada's Strong Fundamentals

- Eleven consecutive years of budget surpluses prior to recent recession
- Lowest debt-to-GDP and fastest growth in G7
- World's strongest banking system for four straight years*
- No Canadian bank required bailout during financial crisis (or even cut its dividend!)

**Source: World Economic Forum*

Inefficient Market

Despite Canada's economic success, its stock market is less sophisticated than US's

- Value investing approach rarely practiced
- Investors obsessed with resource stocks
  - Comprise just one-third of issuers listed on TSX
- Investment industry much less developed
  - E.g. only 150 hedge funds in country

Investment Idea:
The Brick Ltd. (TSX: BRK, BRK.WT)

The BRICK®

<u>Specialty Retailer</u>

Furniture, Appliances, Mattresses and Electronics

Snapshot

Recent Price	Diluted Shares O/S
$2.45*	140 million

Market Cap	Free Cash Flow (FCF)
$340 million*	$55mm*

**All financial figures in this presentation are in Canadian dollars*

The Brick: Three Parts

Corporate Retail

Financial Services

Franchising

Why Should You Care About The Brick?

- 6.2x trailing FCF
  - Potential for substantial FCF growth in near/medium term
- 4.2x to 4.6x FCF given operational, capital allocation initiatives already underway
- Market valuing core retail chain <u>below zero</u>

Why Should You Care About The Brick?

- High-quality business
- Strong balance sheet
- Intelligent management, insider buying
- Excellent capital allocation

Recent History: Mismanagement and Financial Distress

- Excessive dividend under prior management: paid out all its cash flow from 2004 to 2008
  - Undercapitalized when recession arrived
- Suspended dividend, nearly went bankrupt before being recapitalized in May 2009
- Recap led by Fairfax Financial, Brick founder Bill Comrie

Recent History: Recapitalization and Turnaround

- Issued $120mm of 12% debentures, 120mm warrants; received new asset-backed credit facility from GE Capital
- Recruited turnaround specialist Bill Gregson as CEO
- Dramatic recovery: today The Brick has $100mm in cash, record profits and best same-store sales in its space

Notwithstanding operational recovery, stock continues to trade at depressed valuation

Why is It So Cheap?

- Still stigmatized by investors following near-death experience in 2009
- Illiquid due to large insider ownership
- Almost no institutional following
  - E.g. only had one caller during last quarter's conference call

None of these factors is related to business fundamentals

Corporate Retail

- 177 stores across Canada
- 7mm sq. ft. of retail and distribution capacity
- Trailing FCF: $29mm

Financial Services

- Extended warranties at The Brick stores
  - Coverage for one to four years after manufacturer's warranty
- Credit insurance on Brick Card purchases
  - Pays off partial/full balance in case of death, disability etc.
- Third-party credit insurance
- LTM FCF: $22mm

Franchising Business

- 58 stores in smaller geographic markets
- Revenue model:
  - Initial franchise fee
  - Ongoing royalty based on franchisee sales (2.5%)
  - Mark-up on inventory sold to franchisees (approx. 1.5% on average)
- Franchisees must spend minimum amount on advertising in local/regional market (4% of sales)
- LTM FCF: $4mm

Asset Quality

General

- One of most recognized brands in Canadian retail sector
- Significant scale: second-largest furniture and appliance retailer in country
- Outstanding economics of franchising, financial services operations masked by larger corporate retail business

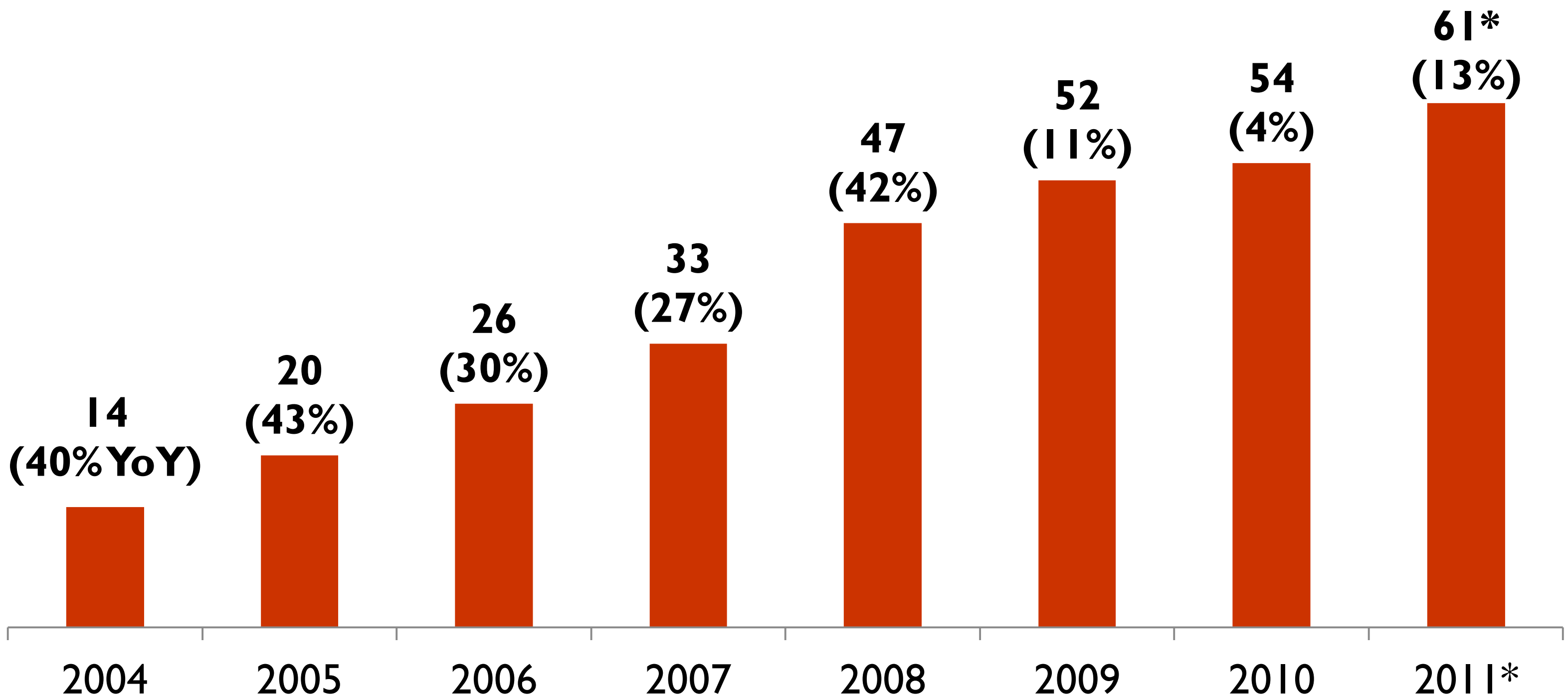
Financial Services

- Highly profitable: 40% pre-tax FCF margin
- Surprisingly resilient: warranty and insurance premiums written dropped less than 5% during recessionary 2009
- Low risk
  - Majority of defects occur during manufacturer's warranty period
  - Does not insure balances above $25,000
- Third-party insurance business growing rapidly

Franchising

- Significant demand: underpenetrated in small markets
- Highly profitable, recurring revenue stream
- Low capital requirements

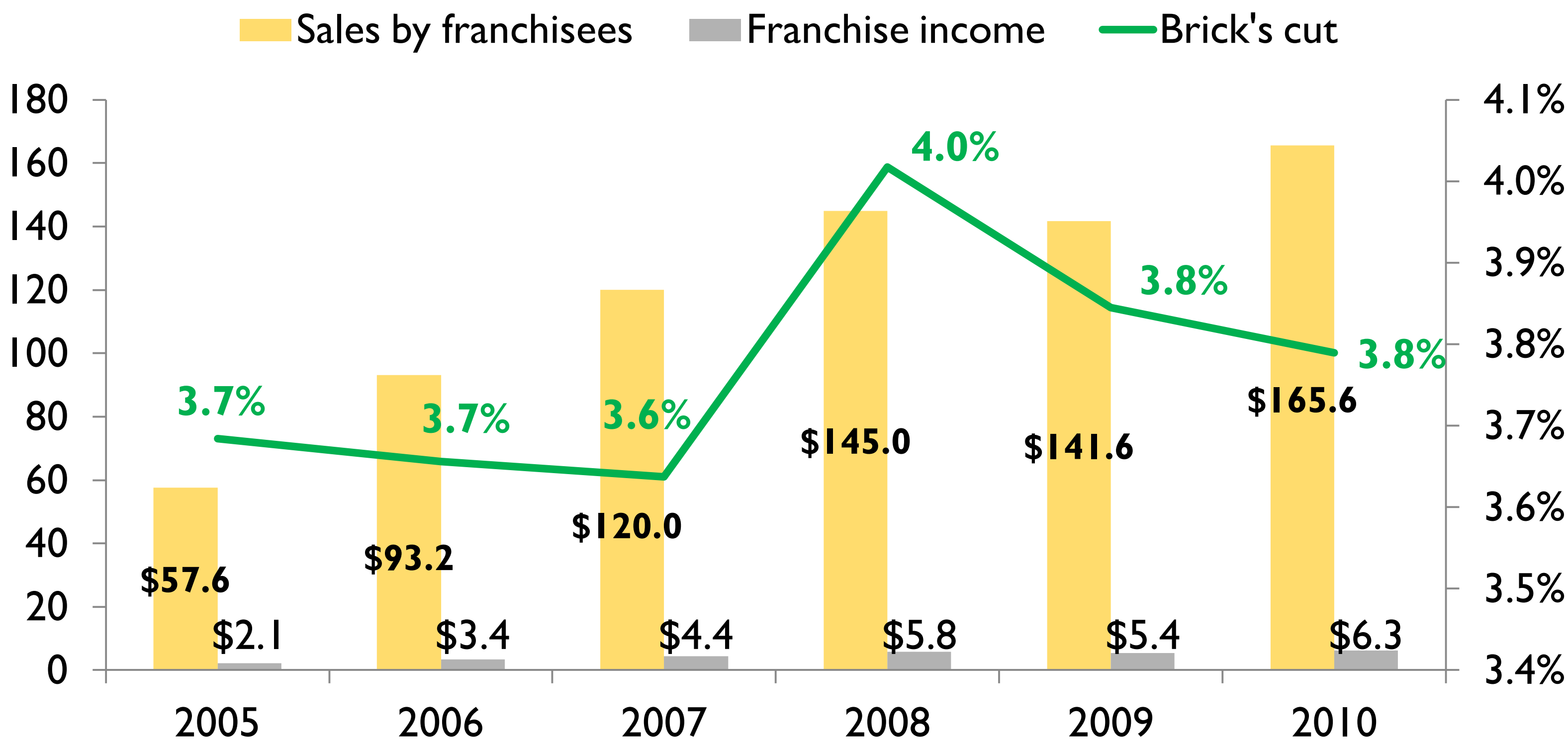
Franchise Store Growth



Maintained meaningful growth even during recent recession and company's financial difficulties; expansion set to accelerate

**Company estimate of franchise stores at year-end*

Franchise Income



Company collects close to 4% of its franchisees' sales with virtually no capital investment

Note: amounts in millions

Insiders and Capital Allocation

Terrific Lead Shareholder

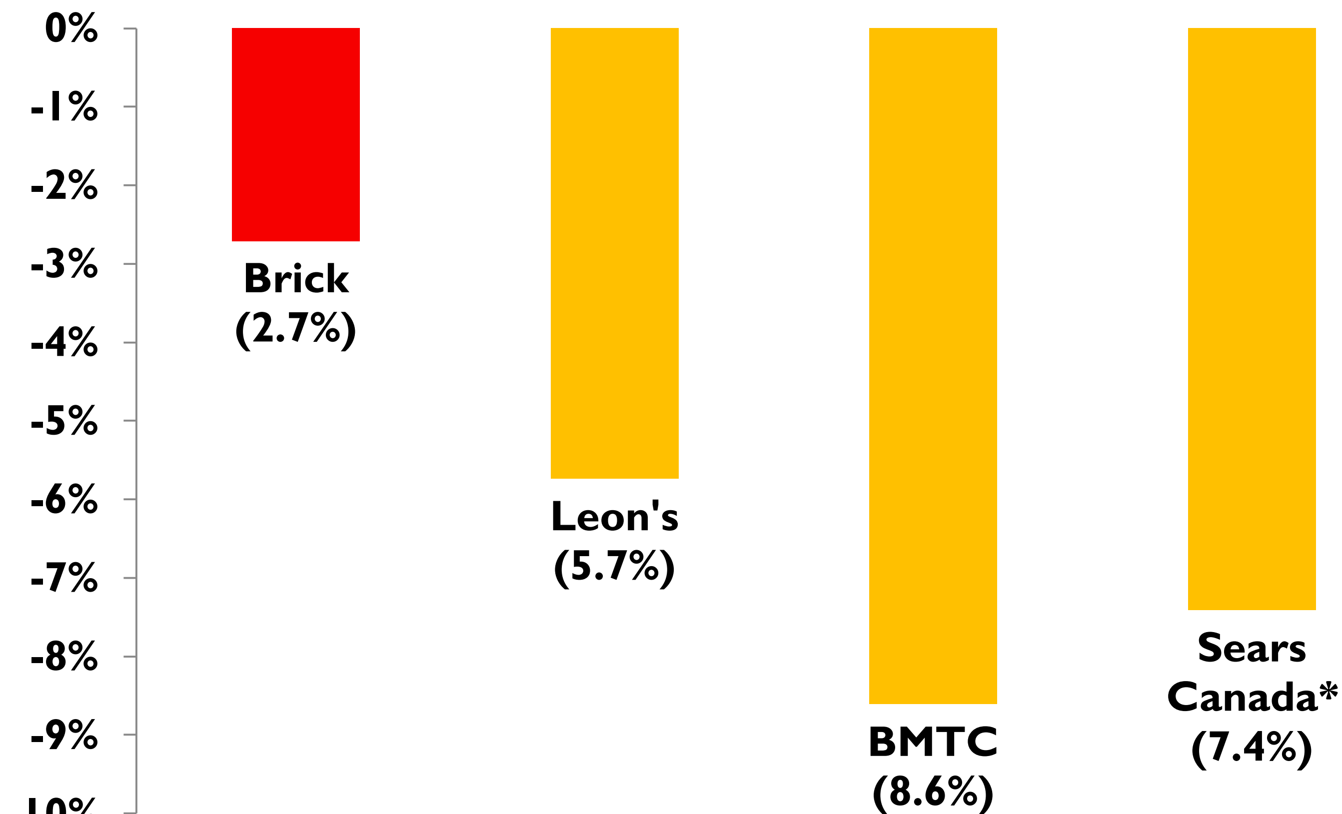
- Fairfax Financial led recap, owns 33% of company
- Compounded book value per share at 25% per annum over 25 years under CEO Prem Watsa
- Generated annualized returns of 17.9% on common stock portfolio in decade ended 2010 vs. 1.4% for S&P 500
  - Includes massive gain in 2008 due to large CDS position
- Watsa: renowned value investor, dubbed "Warren Buffett of Canada"

Fairfax's involvement ensures that The Brick will continue to be run for the long-term benefit of shareholders

Disciplined, Shareholder-Friendly Management

- Bill Gregson (CEO since 2009) has history of successful retail turnarounds
- Management emphasizing efficiencies, profitability rather than corporate store growth
  - Improved gross margins by over 300 bps
  - Reduced inventory requirement by $25mm, improved turns
  - Achieved by far best same-store sales in its space this year
- Focused on balance sheet strength and reducing share count rather than rushing to reinstate dividend

YTD Same-Store Sales: The Brick vs. Main Competitors

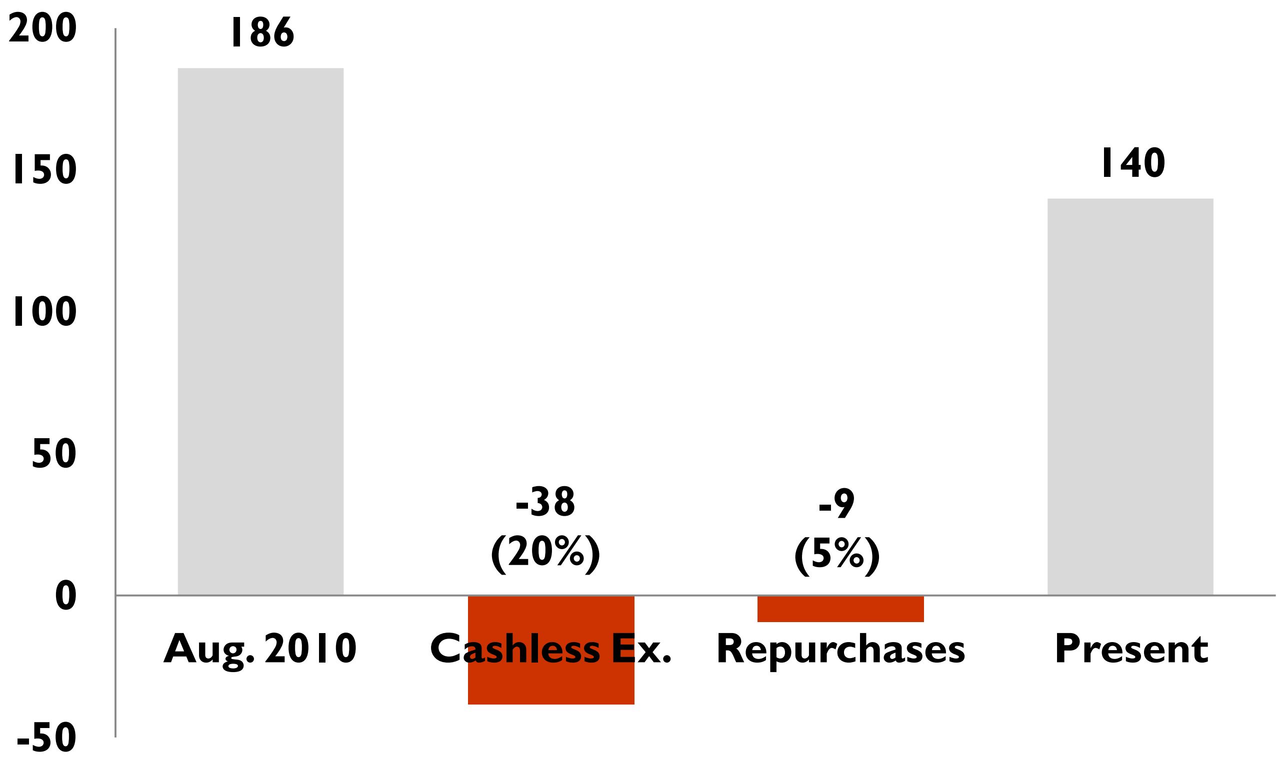


**Represents consolidated same-store sales; furniture and appliance SSS have likely been even worse*

Substantial Share Reduction

- Cleverly reduced diluted shares outstanding by 20% through "cashless exercise offer" for warrants
  - Allowed warrant holders to exercise without paying strike price in exchange for giving up portion of their warrants at predetermined ratio
  - Required no cash outlay by The Brick, preserving its financial strength
- Initiated first buyback in August 2010 after repairing operations and balance sheet
  - Retired 5% of outstanding shares and warrants in 10 months
- Recently authorized another 5% repurchase; on pace to complete in mid-2012

Decline in Share Count Since Aug. 2010



Reduced diluted shares outstanding by 25% in 14 months, ample capacity for continued aggressive repurchases

Note: amounts in millions

Insider Buying

- 6.1mm shares* purchased by insiders since May 2010
  - Average cost: $2.35 per share*
- Fairfax: 5.7mm at $2.33/share
- Gregson: 195,000 in June and August 2011 at $2.61/share
- 13 senior executives and directors in total have bought on open market

Those "in the know" are voting with their wallets

**Shares and cost per share adjusted for share equivalents related to warrant purchases*

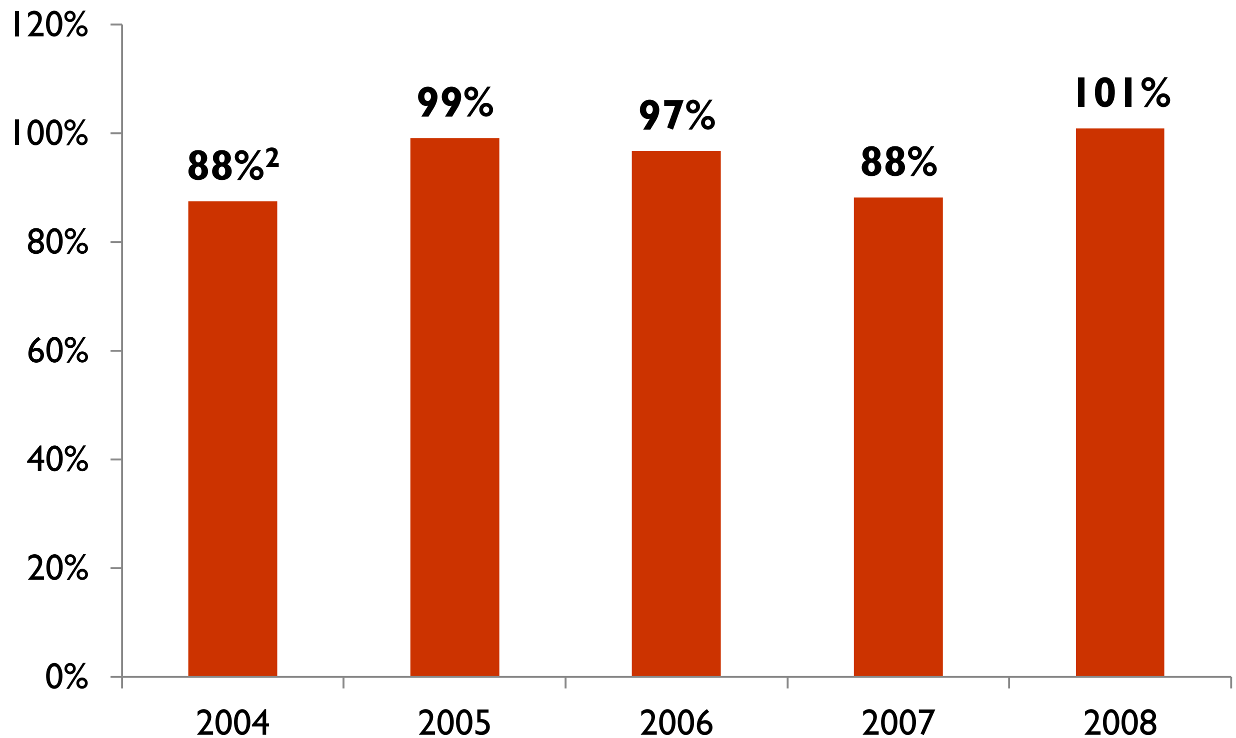
Low-Hanging Fruit

Operational Improvements

Excessive dividends and overemphasis on growth by previous leadership led to inefficiencies, bloated cost structure

- Paid out 95% of Brick's cash flow from 2004 to 2008; underinvested in some areas of business
- Expanded distribution center capacity by 30% in 2006 in anticipation of rapid growth that never materialized
- Opened stores in poor locations to meet growth quotas

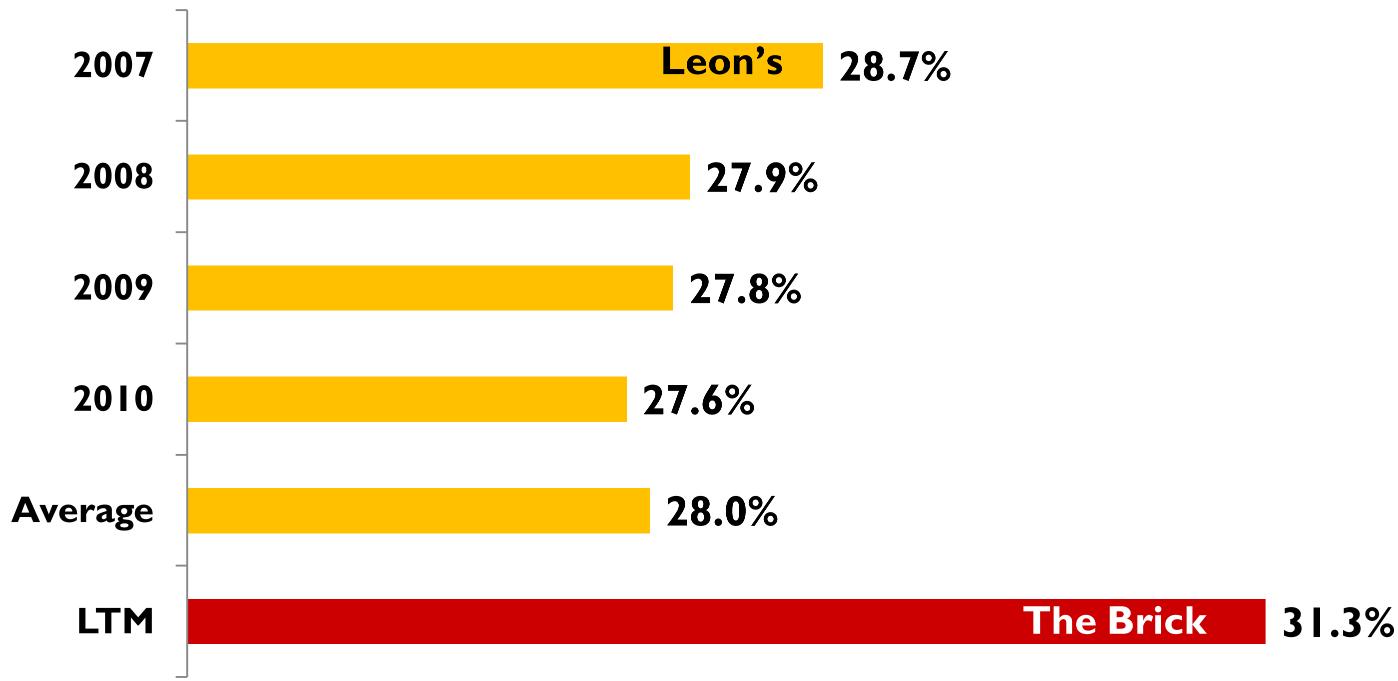
Payout Ratio, 2004 to 2008[1]



Notes:
(1) Denominator refers to reported (unadjusted) "distributable cash"
(2) The Brick went public on July 20, 2004; therefore, 2004 results exclude seasonally-slower first half, reducing payout ratio that year

Cost Structure: The Brick vs. Leon's

Operating Costs Excluding Inventory, Occupancy: Percent of Sales



FCF rises by 18% (7c per share) for every 1% improvement in operating cost percentage

- **Inventory costs excluded to isolate opportunity for operating cost savings; occupancy excluded as Leon's owns bulk of its stores while The Brick predominantly leases*

Deployment of Excess Capital

- Management's capital allocation priority: reversing impact of recapitalization
- By year-end, The Brick will have sufficient cash to:
  - Repurchase 20% of its outstanding shares, or
  - Completely pay off high-cost (12%) debt issued as part of recap
- Above achievable while maintaining balance sheet strength

Potential Share Repurchase

Excess cash at year-end[1]	$85.0
Current shares outstanding	139.6
Repurchase price[2]	2.94
Shares repurchased	28.9
Percent of total	**21%**

FCF	$54.9
Shares post-repurchase	110.7
New FCF/share	0.50
Current FCF/share	0.39
FCF growth	**27%**

Notes:
(1) Based on estimated year-end cash of $135mm, less $50mm consistent with management's maximum net debt target
(2) Assumes company effects repurchase through self-tender at 20% premium to present stock price

Note: amounts in millions

Potential Repayment of 12% Debentures

Total cash at year-end	$135
Availability under credit facility	80
Face value of 12% debentures	120
Repurchase price: % of face value	125%

After-tax interest savings	$10.0
Per share	0.07
Current FCF/share	0.39
New FCF/share	0.46
FCF growth	18%

Notes:
(1) Actual availability was $78mm as of most recent quarter and $87mm as of last year-end
(2) Debentures currently trade at 110 cents on the dollar; we assume company could buy them back at lower premium than that required for shares due to debentures' illiquidity

Note: amounts in millions

Valuation


afloat.
val·ley [val-ee]
or hollow,
wave.
val·ue
something in
amount of other
which it can be

Static FCF Multiple

Reported EBITDA	$94.4
Interest	(14.9)
Maintenance capex	(9.0)
Non-recurring expenses[1]	3.6
Other adjustments[2]	0.5
Taxes	(19.8)
FCF	$54.9
Per share	0.39
Price	2.45
P/FCF	**6.2**

Notes:
(1) Includes one-time items such as expenses related to corporate conversion, cashless exercise offer, etc.
(2) Primarily adjustments for difference between cash and accrual income on warranty sales

Note: amounts in millions

FCF Multiple Incl. Near-Term Operational Initiatives and Stock/Debt Repurchase

	Security Repurchased:	
	Shares	12% Bonds
Current FCF	$54.9	$54.9
Contribution: op. initiatives	9.7	9.7
Contribution: interest savings	–	10.0
New FCF	$64.6	$74.5
Shares	110.7	139.6
FCF/share	0.58	0.53
Price	2.45	2.45
P/FCF	**4.2**	**4.6**
Resulting net debt	$50.0	$15.0
Debt/FCF	**0.8**	**0.2**

Note: amounts in millions

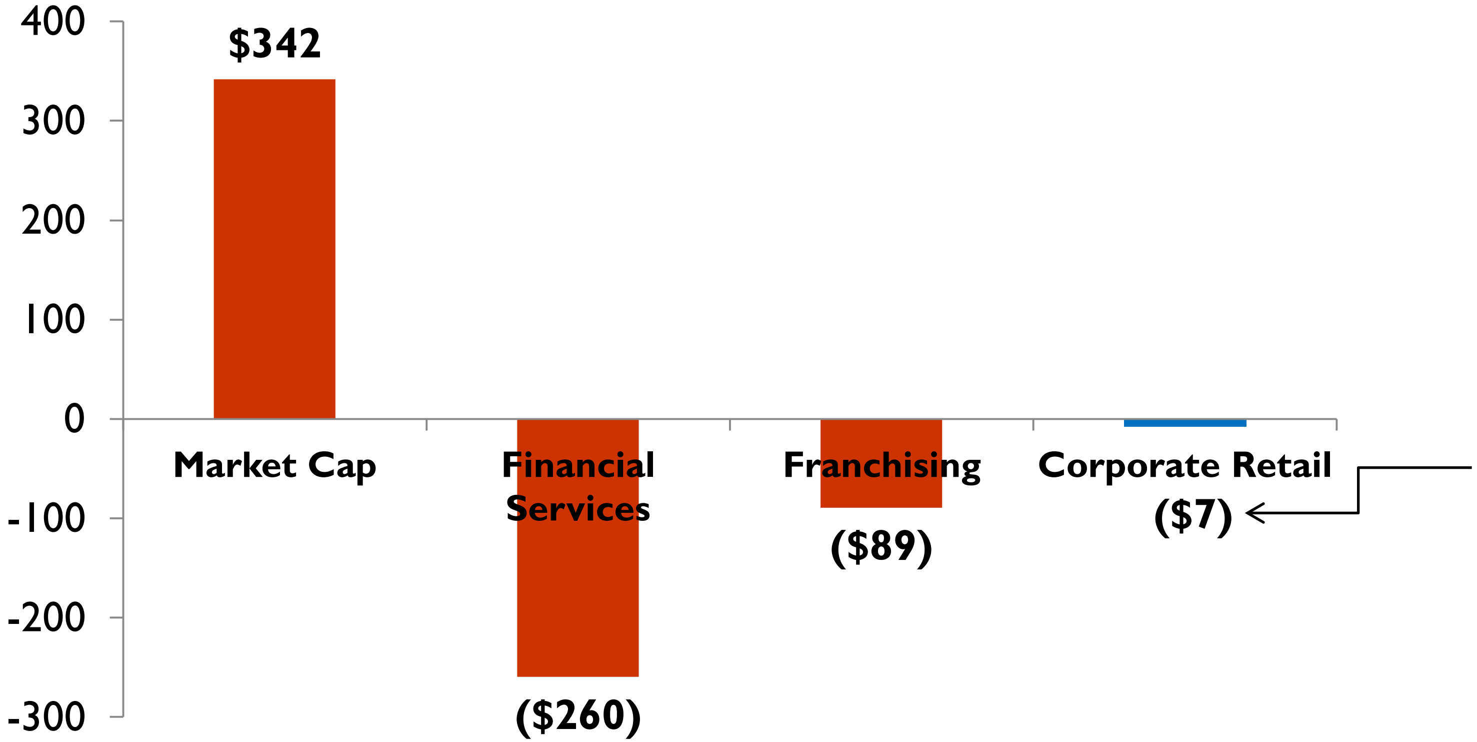
Implied Multiple of Corporate Retail Segment Valuing Rest of Business at Zero

	Static	Incl. Op. Initiatives, Debenture Repayment
FCF:		
Consolidated	$54.9	$74.5
Financial services	(21.6)	(21.6)
Franchising	(4.0)	(4.0)
Corporate retail	$29.3	$48.9
FCF per share	$0.21	$0.35
Price	2.45	2.45
P/FCF	**11.7**	**7.0**

Corporate retail alone justifies present stock price; get high-margin financial services and rapidly-growing franchising businesses for free

Note: amounts in millions

Implied Value of Corporate Retail Business



At The Brick's present share price, **we are being paid** to own a portfolio of 177 stores spanning 7mm sq. ft. of retail and distribution capacity generating $29mm per annum of FCF and growing

Note: amounts in millions

Catalysts

Substantial share and/or debenture repurchase

- Management stresses that these are its top capital allocation priorities
- Materially accretive to FCF per share without incurring incremental risk due to healthy cash reserves

Dividend resumption

- Will likely occur after above actions have been undertaken
- At 30% payout ratio, company could support dividend yielding 7% on today's price*

**After giving effect to operational improvements, stock or debt repurchase*

Conclusion

The Brick is the complete package

- ☑ Good business with rock-solid balance sheet
- ☑ Savvy insiders aligned with shareholder interests
- ☑ Exemplary capital allocation
- ☑ Bargain valuation