HIDDEN OPPORTUNITIES

Valuing possible breakups by providing sum-of-the-parts analysis.

Robert Dunn **Michael Wolleben**

- ✓ PAR Technology Corp. (NYSE: PAR) operates two distinct business segments: (1) Restaurant/Retail (~67% of consolidated sales in 2020), which provides point of sale (POS) systems as well as a broad suite of software solutions and other services to the restaurant and, to a lesser degree, the retail sector; and (2) Government (~33% of 2020 revenue), which provides intelligence solutions and mission systems contract support, primarily to the U.S. Department of Defense (DoD) as well as to other domestic/allied federal agencies.

- ✓ Following the receipt by PAR's Government segment of a large multi-year contract from the U.S Air Force in November 2021, we think the company has increased flexibility to explore the separation or sale of this non-core business, which, in our view, would both provide incremental growth capital for and allow investors to focus on its faster-growth/higher-margin (and increasingly recurring) Restaurant/Retail business. To that end, we would note that PAR's core Restaurant/Retail segment has itself undergone, largely by acquisition, what we view as an underappreciated transition from being primarily a provider of POS systems hardware to being an end-to-end provider of integrated software solutions, including front-of-house and back-office/operations software, drive-through technology, loyalty program management, and payment services (or what management terms a unified commerce platform). In that context, at less than 3.5x 2024E EV/sales, the stock trades near a 52-week low and a stark discount to software peers, which trade at ~6.5x 2024E EV/sales. (By our calculation, this discount widens further when looking at EV/ARR multiples.)

- ✓ Based on management commentary as well as peer and M&A valuations, value of $69 per share and $3 per share can be assigned to PAR's Restaurant/Retail and Government businesses, respectively. Accounting for projected net debt of ~$4 per share yields a base case sum-of-the-parts fair value of ~$68 per share (with bull and bear cases of $81 and $55.50, respectively).

- ✓ Potential catalysts include a spin-off or sale of assets, better than expected growth/margins, and/or acquisitions. Potential risks include management execution, acquisition integration, competition, customer concentration, equity dilution, regulation, cyberattacks and/or economic disruptions.

PAR Technology Corporation

(NYSE: PAR)

Date (12/21/21)

Price $49.94/share

Market capitalization ~$1.35B

Restaurant/Retail: $69 per share

Government: $3 per share

Net Debt & Other: ($4 per share)

SOTP: $68 per share*

*SOTP may not add due to rounding

NOTE: This publication could be considered as advocating for corporate restructurings. Authors select companies for this report based on the potential for a future value-unlocking transaction. In many cases, these companies have or could come under activist investor pressure, media scrutiny, or general market speculation that a spin-off or asset sale is possible.

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The Background

PAR Technology Corp. (NYSE: PAR), headquartered in New Hartford, NY, was founded in 1968 by Dr. John Sammon as a government IT contractor for the U.S. Department of Defense. (The PAR moniker is in fact an acronym for Pattern Analysis & Recognition.) In 1978, the company developed among the first commercial point of sale (POS) systems for the restaurant industry before being selected as the exclusive vendor to McDonald's (NYSE: MCD) and subsequently going public in 1982. In 2014, the company began its pivot into software via the acquisition of Brink Software, a cloud-based provider of restaurant management software. Next, in 2019, the company acquired Restaurant Magic, a provider of back-office software tools, as well as 3M Drive Thru Communications Systems, which provides a comprehensive set of wireless communications solutions, primarily to the foodservice sector. Most recently, in April 2021, the company purchased Punchh Inc., a software-as-a-service (SaaS)-based provider of customer engagement and loyalty solutions. Today, the company operates, via its subsidiaries, ParTech Inc. and PAR Government Systems Corp., two distinct operating segments (see Background #1): (1) Restaurant/Retail (~67% of consolidated sales in 2020), which provides point of sale systems as well as a broad suite of software solutions and services, primarily to the restaurant industry (and to a lesser degree the retail sector); and (2) Government (~33% of 2020 consolidated sales), which provides intelligence solutions and mission systems contract support, primarily to the U.S. Department of Defense (DoD) as well as to other domestic (and allied) federal agencies.

Background #1 PAR Technology: Consolidated Selected Financial Items, 2018–2024E

($ in millions)

	2018	2019	2020	2021E	2022E	2023E	2024E
Sales:							
Restaurant/Retail	$134.1	$123.3	$142.5	$205.2	$248.3	$293.6	$347.6
Government	$67.2	$63.9	$71.3	$72.5	$81.5	$89.0	$92.0
Total	**$201.2**	**$187.2**	**$213.8**	**$277.7**	**$329.9**	**$382.6**	**$439.7**
Operating income:							
Restaurant/Retail	($14.8)	($18.5)	($28.1)	($58.2)	($64.0)	($47.3)	($25.8)
Government	$6.9	$5.5	$5.6	$6.2	$6.9	$7.6	$7.8
Corporate	($2.4)	($1.2)	($1.5)	($1.4)	($1.7)	($2.1)	($2.4)
Total	**($10.3)**	**($14.2)**	**($23.9)**	**($53.4)**	**($58.8)**	**($41.8)**	**($20.4)**
EBITDA:							
Restaurant/Retail	($10.7)	($14.6)	($19.9)	($39.7)	($44.2)	($25.3)	($1.4)
Government	$6.9	$5.5	$6.2	$6.6	$7.4	$8.0	$8.3
Corporate	($1.8)	$2.2	$4.2	$6.7	$6.6	$6.3	$6.1
Total	**($5.5)**	**($6.9)**	**($9.5)**	**($26.5)**	**($30.3)**	**($10.9)**	**$13.0**
Capital expenditures:							
Restaurant/Retail	$4.3	$4.4	$7.2	$7.2	$8.7	$10.3	$12.2
Government	$0.1	$0.3	$1.2	$0.7	$0.8	$0.9	$0.9
Corporate	$3.4	$1.9	$0.7	$0.7	$0.8	$1.0	$1.3
Total	**$7.8**	**$6.5**	**$9.2**	**$8.6**	**$10.3**	**$12.1**	**$14.4**

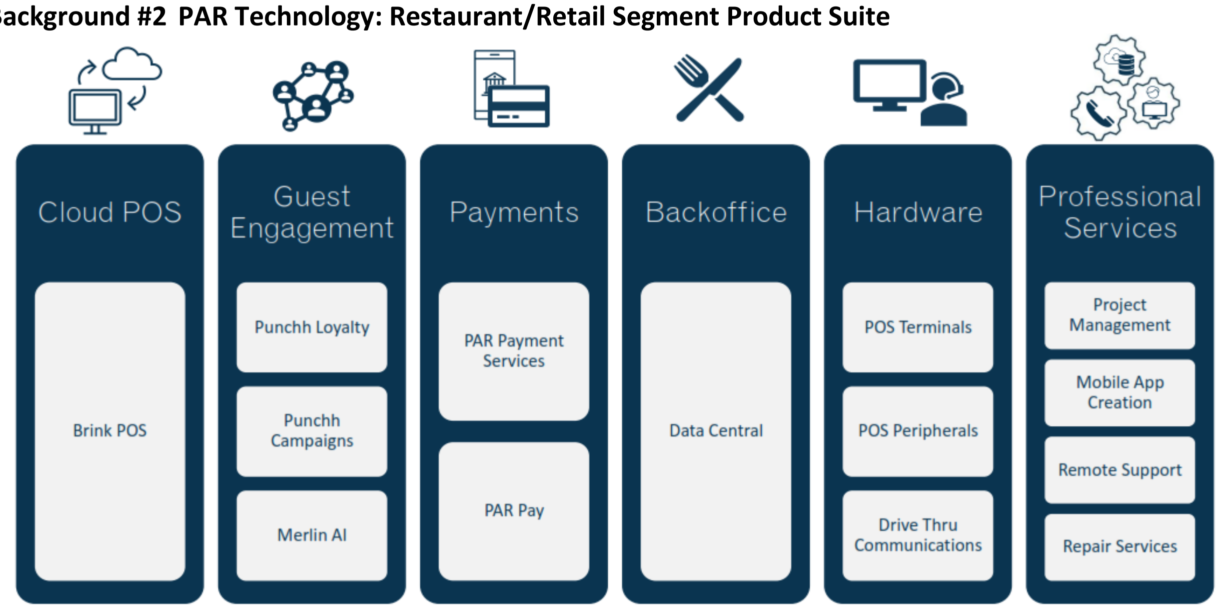
Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Restaurant/Retail – ParTech, Inc.

The Restaurant/Retail segment (67% of consolidated sales in 2020, expected to grow to ~75% in 2024E), provides point of sale (POS) systems (i.e., hardware) as well as software and services to enterprise, multi-unit, and individual customers (and their franchisees) across the spectrum of major restaurant categories, including quick serve, fast casual, and table service (see Background #2). To a lesser degree, the company also serves the retail industry, primarily in the workforce efficiency and food safety areas, with customers such as Target (NYSE: TGT), Walmart (NYSE: WMT), IKEA (private), and Whole Foods (owned by Amazon [NASDAQ: AMZN]).

The company currently reports segment sales across three sub-categories (see Background #4): (1) Hardware (50.5% of segment sales in 2020 but expected to be ~32% in 2024E), which primarily includes PAR's point of sale (or front of house) EverServ platform, widely used by cashiers for customer order intake, as well as the G5 and XT-1 wireless headset systems used in drive-through communication; (2) Software (18.5% of 2020 sales but expected to be ~50% in 2024E), which is primarily comprised of Brink POS as well as the company's back-office/operations and loyalty/engagement SaaS offerings, Data Central and Punchh; and (3) Services (31% of segment sales in 2020, expected to be ~18% in 2024E), which includes a wide array of professional services, such as training, installation, maintenance, and support, among others, as well as payment services (e.g., PAR Pay, which was launched in 3Q 2020).

Background #2 PAR Technology: Restaurant/Retail Segment Product Suite



Source: Company reports.

As mentioned previously, in 1978 PAR developed among the first standalone POS systems for restaurants (i.e., the front-of-house hardware platform used by a cashier for order intake), and it quickly gained scale in the early 1980s by establishing supplier relationships with large enterprises, such as McDonald's (NYSE: MCD) and Yum! Brands (NYSE: YUM), both of which continue to this day. In fact, the company's POS hardware products, via its comprehensive

EverServ Series, are currently in ~100,000 restaurant locations, including, among others, Dairy Queen (owned by Berkshire Hathaway [NYSE: BRK.A]), Chick-fil-A (private), Subway (private), and Arby's (owned by privately held Inspire Brands), as well as Hardee's and Carl's Jr. (both owned by privately held CKE Restaurants), across 110 countries. (Not surprisingly, Dairy Queen, YUM, and MCD, respectively, accounted for 13%, 11%, and 7% of consolidated sales in 2020.) Still, with a total addressable market (TAM) that, per management, is likely roughly half the more than 1 million restaurants estimated, by the National Restaurant Association, to operate in the U.S., we view the company's runway for growth as robust (both domestically and internationally), particularly with so-called Tier 2 (500-2,000 locations), Tier 3 (5-500 sites), and Tier 4 (1-4 locations) customers.

In September 2014, the company began its strategic transformation into an integrated software-as-a-service (Saas)/cloud provider via the acquisition of Brink Software, a cloud-based provider of restaurant management software (for ~$15 million in cash and contingent considerations). The deal added complementary (and recurring) software capabilities, such as mobile online and self-ordering, kitchen video systems, guest surveys, enterprise reporting, and mobile dashboards, among others. At the end of 3Q 2021, Brink software was installed at ~14,900 locations (compared with 11,722, 9,799, and 7,449 at the end of 2020, 2019, and 2018, respectively). Anecdotally, management recently commented that, given the addressable market, it sees an opportunity for Brink to roughly triple its active location count in coming years.

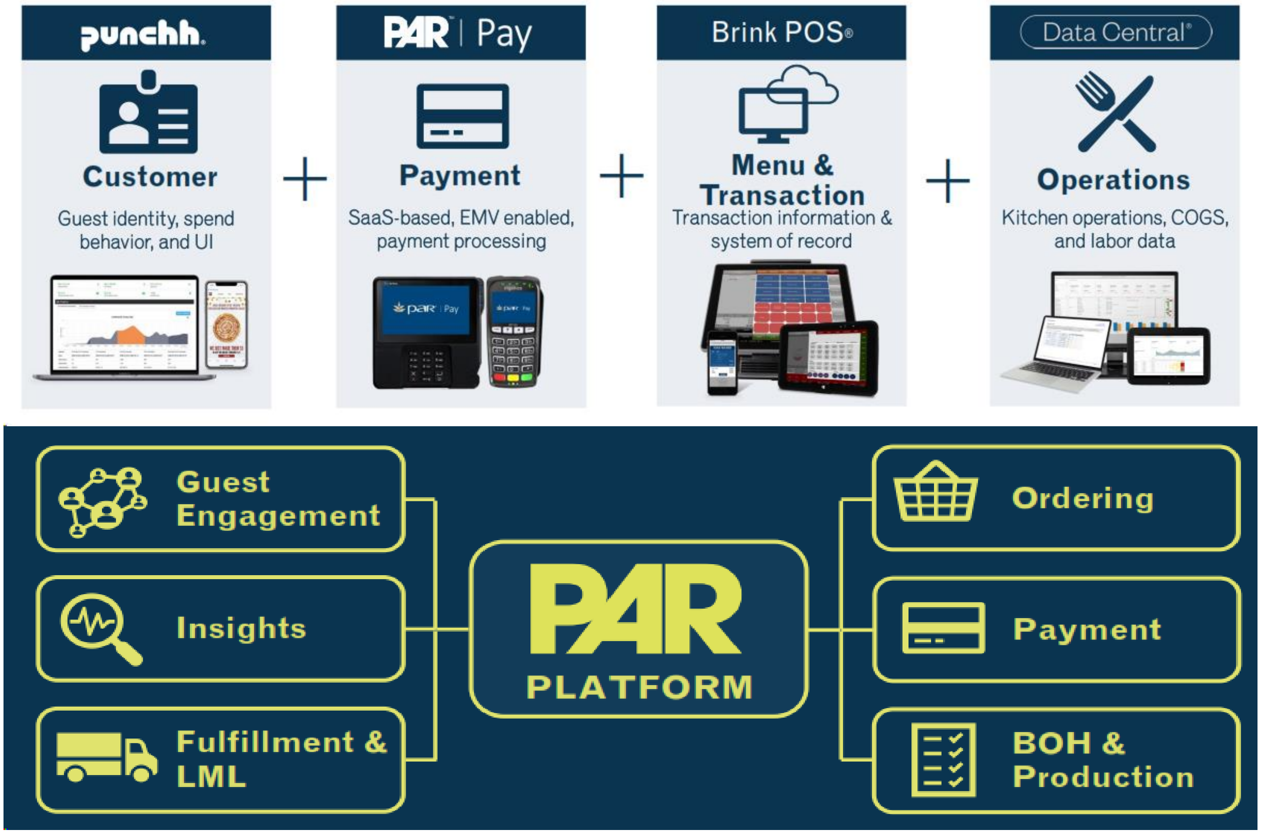
In September 2019, PAR purchased 3M Drive Thru Communications Systems, which provides a comprehensive set of wireless communications solutions, for $8.4 million (comprised of $7.0 million in cash and the assumption of a ~$1.4 million warranty liability). 3M's product set, which includes the XT-1 and G5 headset systems, is primarily geared toward order intake in the quick service food sector; in that regard, in addition to significant customer overlap with PAR's existing/legacy business, the combination established new relationships with large customers such as Starbucks (NASDAQ: SBUX), Wendy's (NASDAQ: WEN), and Burger King (owned by Restaurant Brands International [NYSE: QSR]). Next, in December 2019, the company acquired Restaurant Magic, a provider of back-office software tools, including inventory and food management, labor and scheduling, as well as data analytics & reporting, for ~$43 million in cash and restricted stock. At the time, Restaurant Magic had ~$8 million in recurring revenue and 5,400 active locations, of which ~2,000 overlapped with PAR's existing base but which also included customers such as Chuy's (NASDAQ: CHUY), Pinkberry (private), Smoothie King (private), Sonny's BBQ (private), Togo (private), and The Melting Pot (private).

In October 2020, PAR launched PAR Payment Services, which offers merchants an all-in-one credit card processing solution, for which the company assesses a simple fee per transaction. The business is still relatively nascent, although it has already been adopted by some customers, including Sweetgreen (NYSE: SG) and Mr. Pickles Sandwich Shop (a West Coast chain with 47 locations); that said, management recently indicated that the pipeline of potential customers grew "significantly" in 3Q 2021 and that the company expects to announce "new wins" on its 4Q 2021 conference call. (Anecdotally, PAR indicated that a meaningful portion of its new business pipeline is with current non-customers of PAR; to that end, management think that if these customers ultimately adopted Pay , the company would likely be a "shoo-in" for a cross-sale with its Brink and Punchh products). More broadly, management has commented that PAR Pay would likely "double" the average revenue per user (ARPU) of clients that implement it and that it sees the longer-term potential for the offering to be "be our largest revenue stream one day".

Most recently, in April 2021, the company purchased Punchh Inc., a SaaS-based provider of customer engagement and loyalty solutions, for a total consideration of ~$507 million, comprised of $397.5 million in cash and 1.594 million common shares (at an average price of $68 per share). The cash portion of the deal was funded through the sale of $160 million of PAR common stock and warrants to PAR Act III, LLC and T. Rowe Price, along with a new $180 million senior secure loan as well as $50 million from PAR's balance sheet. In conjunction, PAR expanded its Board to award one seat to Act III partner Keith Pascal and one observer seat to Ron Shaich, the founder of privately held Panera Bread, who is also an Act III partner. For context, Punchh generated $32 million of annual recurring revenue (ARR) in 2020; so, while we would certainly not characterize the implied purchase multiple of almost 16x EV/ARR as cheap, we would note that Punchh has posted a near 55% top-line growth CAGR since 2017, and management estimates the two business only have 30%-40% overlap, suggesting a long runway on both the expansion and cross-sell fronts. (To that end, we note that Punchh went "live" with Jack in the Box [NASDAQ: JACK] in 3Q 2021.)

Perhaps just as important as the financial impact of the Punchh acquisition, management views Punchh as a key addition in the achievement of its vision of becoming a so-called unified commerce cloud platform offering integrated POS, back office, payment, and engagement/loyalty solutions (see Background #3), which it asserts can tangibly accelerate top-line growth and improve profitability for its customers. In that context, PAR has noted that the vast majority of potential customers currently operate with "dozens of disparate applications cobbled together in hopes of building a simple and beautiful experience. But unfortunately, that premise has challenged the experience of operators and their customers' experience is suboptimal". Further, "what is perhaps worse is that all the operational customer data insights that might otherwise be available to brands is being trapped in the silos of these disparate applications. This is a problem that PAR is working to solve and the greatest opportunity for our clients". In terms of the competitive landscape, PAR estimates it "occupies a very unique place" in that it serves "a customer base, above the size of most of the venture capitalists flowing into restaurant technology" (likely referring, in our view, to players such as Toast, Olo, Lightspeed, Revel, and TouchBistro, among others) and that "we compete against more traditional competitors from those that are still building on-premise to those who believe that a platform is the equivalent of a bundled solution" (likely a reference, again in our view, to players such as NCR and Oracle). In that context, management contends that PAR's "ability to grow in this market is completely supply driven, not demand". Nevertheless, the company expects to continue to introduce new products, such as an enhanced digital order management tool that is expected to be rolled out in 1Q 2022, as well as continuing to augment its platform capabilities through strategic/disciplined tuck-in acquisitions.

Background #3 PAR Technology: Restaurant/Retail Unified Commerce Cloud Platform



Source: Company reports.

In 2020, Restaurant/Retail segment sales increased ~16% to $142.5 million, with annual recurring revenue (ARR), on a pro forma basis, advancing ~20.5% to $65 million. (Note: PAR defines ARR as revenue from contracts where there is a predictable pattern occurring at regular intervals with a reasonably high degree of probability; in that regard, figures include SaaS, hardware and software maintenance, and payment processing.) Gross profit improved ~6% to $33.7 million on a margin of 23.6% (although excluding the amortization of acquired technology, which unlike peers PAR includes in its cost of goods sold, gross profit improved ~9.5% to $35 million on a margin of 24.5%). The operating loss widened to ~$28 million (from $18.5 million in 2019), with an EBITDA loss, by our calculation, of ~$20 million (see Background #4).

In the first nine months of 2021, segment sales increased 44% to $147.5 million, or ~27% organically (excluding the ~$17.8 million contribution from the Punchh acquisition). Annual recurring revenue (ARR) improved ~57% to ~$63 million, compared with ~$40 million in the prior-year period. Gross profit improved 40% to $39 million on a margin of 26.4% (although, again excluding the amortization of acquired technology, gross profit improved 55% to $47 million on a margin of 32%), with operating and EBITDA losses of ~$41 million and $27 million, respectively (compared with $16.5 million and $11 million in the prior-year period). (See Background #4.)

Background #4 PAR Technology: Restaurant/Retail Segment, Selected Financial Items (2018-2024E)
($ in millions)

	2018	2019	2020	3Q 2020	3Q 2021	2021E	2022E	2023E	2024E
Sales	**$134.1**	**$123.3**	**$142.5**	**$102.4**	**$147.5**	**$205.2**	**$248.3**	**$293.6**	**$347.6**
Hardware	-	-	$72.0	$50.4	$70.9	$97.2	$102.1	$105.7	$109.4
Software	-	-	$26.4	$19.7	$40.1	$58.2	$90.2	$126.2	$170.4
Services	-	-	$44.1	$32.3	$36.5	$49.8	$56.1	$61.7	$67.8
Recurring revenue (ARR)	**$39.0**	**$54.0**	**$65.0**	**$40.2**	**$62.9**	**$93.1**	**$130.8**	**$171.6**	**$221.3**
Cost of sales	$103.7	$91.6	$108.8	$74.7	$108.6	$150.6	$177.5	$196.4	$218.4
Gross profit	**$30.3**	**$31.7**	**$33.7**	**$27.7**	**$38.9**	**$54.7**	**$70.8**	**$97.2**	**$129.2**
Operating expenses:									
SG&A	$35.8	$38.1	$46.2	$32.0	$59.1	$81.1	$93.1	$99.8	$104.3
R&D	$12.4	$13.4	$19.3	$13.6	$24.6	$34.3	$39.7	$42.6	$48.7
Amort. of intangibles	$0.0	$0.2	$1.2	$0.7	$1.3	$1.9	$2.0	$2.1	$2.0
Contingent considerations	($0.5)	$0.0	($3.3)	($2.3)	$0.0	$0.0	$0.0	$0.0	$0.0
Gain on insurance considerations	$0.0	$0.0	$0.0	$0.0	($4.4)	($4.4)	$0.0	$0.0	$0.0
Operating income	**($14.8)**	**($18.5)**	**($28.1)**	**($16.5)**	**($40.9)**	**($58.2)**	**($64.0)**	**($47.3)**	**($25.8)**
Depreciation & amortization	$4.1	$3.9	$8.2	$5.8	$13.8	$18.5	$19.9	$22.0	$24.3
EBITDA	**($10.7)**	**($14.6)**	**($19.9)**	**($10.7)**	**($27.1)**	**($39.7)**	**($44.2)**	**($25.3)**	**($1.4)**
Margins:									
Gross margin	22.6%	25.7%	23.6%	27.1%	26.4%	26.6%	28.5%	33.1%	37.2%
Operating margin	-11.0%	-15.0%	-19.7%	-16.1%	-27.7%	-28.4%	-25.8%	-16.1%	-7.4%
EBITDA margin	-8.0%	-11.9%	-14.0%	-10.5%	-18.4%	-19.4%	-17.8%	-8.6%	-0.4%
Capital expenditures	**$4.3**	**$4.4**	**$7.2**	**$5.8**	**$5.3**	**$7.2**	**$8.7**	**$10.3**	**$12.2**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

For our part, we forecast segment sales to advance at a compound annual rate of ~19% in 2022E-2024E to ~$347.5 million, with ARR posting a ~33.5% CAGR to $219 million. Over that period, we expect gross margin to expand to ~37% and anticipate that the company can approach breakeven on an EBITDA basis (see Background #4). Longer term, based on management commentary and peer results, we estimate that PAR's SaaS business, at scale, could generate EBITDA margins of 15%-20%.

Government – PAR Government Systems Corp.

The roots of the Government segment (33% of consolidated sales in 2020) date back to the company's founding as Pattern Analysis & Recognition Corp., an IT defense contractor, in 1968. The company provides technical expertise in the contract development of advanced systems and software solutions to the U.S. Department of Defense, which comprised 33% of consolidated sales in 2020 (compared with 34% in 2019 and 33% in 2018), as well as other federal agencies. Additionally, the company provides intelligence solutions and mission systems support at U.S. government facilities both domestically and abroad. To a lesser degree, the company also generates revenue from licensed software products that leverage geospatial intelligence data for analysis. The company breaks segment sales into three sub-categories (see Background #5): (1)

Intelligence, Surveillance & Reconnaissance (ISR), which provides a range of intelligence analysis, system integration, and situational awareness solutions for mobile and data center offerings (~53% of segment sales in 2020); (2) Missions Systems (~46% of segment sales in 2020), which provides a wide range of technical and support services for critical components of the Department of Defense Information Network (DoDIN), including satellites and other secure telecommunication systems; and (3) Product Services (~1% of segment sales in 2020), which licenses products used by analysts who require highly accurate and timely information with both temporal and geospatial context.

Background #5 PAR Technology: Government Segment, Selected Financial Items (2018-2024E)
($ in millions)

	2018	2019	2020	3Q 2020	3Q 2021	2021E	2022E	2023E	2024E
Sales	**$67.2**	**$63.9**	**$71.3**	**$52.9**	**$53.7**	**$72.5**	**$81.5**	**$89.0**	**$92.0**
ISR	$30.9	$29.5	$37.4	$27.5	$28.5	$38.8	$47.5	$54.6	$57.3
Mission systems	$35.1	$33.5	$32.9	$24.6	$24.7	$33.1	$33.4	$33.7	$34.1
Product services	$1.2	$0.9	$0.9	$0.8	$0.6	$0.7	$0.7	$0.7	$0.7
Operating income	**$6.9**	**$5.5**	**$5.6**	**$4.3**	**$4.6**	**$6.2**	**$6.9**	**$7.6**	**$7.8**
Depreciation & amortization	$0.0	$0.1	$0.6	$0.1	$0.3	$0.4	$0.4	$0.5	$0.5
EBITDA	**$6.9**	**$5.5**	**$6.2**	**$4.4**	**$4.8**	**$6.6**	**$7.4**	**$8.0**	**$8.3**
Margins:									
Operating margin	10.3%	8.5%	7.9%	8.1%	8.5%	8.5%	8.5%	8.5%	8.5%
EBITDA margin	10.3%	8.7%	8.7%	8.4%	9.0%	9.0%	9.0%	9.0%	9.0%
Capital expenditures	**$0.1**	**$0.3**	**$1.2**	**$0.8**	**$0.6**	**$0.7**	**$0.8**	**$0.9**	**$0.9**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

As illustrated in Background #5, the Government segment has had a broadly stable revenue and earnings base in recent years (with periodic variability related to the timing of individual task orders); that said, in November 2021, PAR announced it had been awarded the largest contract in the company's history, a $490.4 million indefinite-delivery/indefinite-quantity (IDIQ) contract from the U.S. Air Force Research Laboratory Information Directorate's drone program. The six-year contract provides cost-plus-fixed-fee completion and firm-fixed-price type orders for Counter-small Unmanned Aircraft System (C-sUAS) software, hardware, and technical documentation. Broadly, the contract provides for research, designing, prototyping, testing, evaluation, experimentation, integration, technical installation, transition, and support through the initial operations of C-sUAS technologies. (For context, C-sUAS systems are used to detect and neutralize enemy-operated drones.) The company will recognize revenue as task orders are assigned but reported an immediate impact on its contract backlog, which grew to $192 million at the end of 3Q 2021 (compared with $141.2 million at the end of 2Q 2021 and $150.5 million at the end of 2020) (see Background #6). On the margin front, management commented that the contract "should be very similar to our existing direct and indirect labor margins. So we don't expect it to swing margins anyway."

Background #6 PAR Technology: Government Segment Backlog (or Value of Existing Contracts)
($ in millions)

	2019	2020	2Q 2021	3Q 2021
Next 12 months	-	-	$68.0	$26.3
Months 13 - 24	-	-	$39.1	$71.2
Months 25-36	-	-	$22.6	$52.9
Thereafter	-	-	$11.5	$41.6
Total	**$148.7**	**$150.5**	**$141.2**	**$192.0**
Funded	$32.8	$27.8	$32.1	$38.0

Source: Company reports.

In addition to the obvious financial benefits of this contract, we believe the award represented a crucial milestone in terms of management's willingness to potentially monetize/divest the business, which it has anecdotally described in recent years as not being core to PAR's future as a cloud-based unified commerce platform company. To that end, in response to a question from an analyst on the 3Q 2021 conference call, inquiring whether securing the Air Force contract affected management's thoughts on or plans for the Government business, PAR's CEO, Savneet Singh, responded, "I can't say anything too specific, but I'd say it certainly makes the business more attractive, which give us optionality on what we want to do and certainly makes the business more valuable". Additionally, in a follow-up discussion with an investor who asked why the company would not pursue a transaction with the contract secured and valuation multiples for defense contracting businesses "at record highs", Mr. Singh again declined to "say anything forward looking" but acknowledged that the award of a contract with such "enormous scale", which had been a key priority PAR was working on for seemingly at least the last two years, was an "important part of our process". Further, Mr. Singh commented that, "I think we have always looked at it is – it's a business that has very little management distraction and let's get it if we're on the verge of a large contract, it would be silly for us to sell given how valuable that one contract is"; it would be akin to "giving money away". Additionally, the executive indicated that "we have got plenty of liquidity….so we have kept it not because we want the cash flow, but because it would be leaving a ton of money on the table". (As an aside, several weeks after these comments, in early December 2021, Matt Cicchinelli, the president of PAR Government for the last six years, announced his retirement; he was replaced by Mike Nelson, who was previously a vice president at Riverside Research overseeing the Intelligence and Defense Solutions unit.)

For our part, we expect Government segment sales to advance at a compound annual rate of ~8.5% in 2022E- 2024E as the C-sUAS contract ramps up (although we estimate the normalized long-term growth rate of this business is likely in the lower single digits), with adjusted EBITDA improving to almost $8.5 million (see Background #5).

Balance Sheet and Cash Flow

At the end of 3Q 2021, PAR had net debt of ~$103 million, comprised of ~$200 in cash and $303 million of debt. PAR's debt consists of three tranches of convertible notes; $11.7 million with a coupon of 4.5% due April 2024 (convertible at $28.55 per share), $97.1 million at 2.875% due April 2026 (convertible at ~$43.00 per share), and $193.4 million with a coupon of 1.5% due October 2027 (convertible at $77 per share). The company has the option to settle those notes in cash, common stock, or a combination of the two.

Background #7 PAR Technology: Balance Sheet Snapshot

($ in millions)

	2018	2019	2020	3Q 2021
Cash	**$3.5**	**$28.0**	**$180.7**	**$200.3**
Current portion of LTD	-	$0.6	$0.7	$0.7
Long-term debt (LTD)	-	$62.4	$105.8	$302.3
Total	**-**	**$63.0**	**$106.5**	**$303.0**
Net debt/(cash)	**($3.5)**	**$35.0**	**($74.2)**	**$102.7**
Shareholders equity	**$45.9**	**$72.8**	**$188.4**	**$524.7**
Goodwill	$11.1	$41.4	$41.2	$459.2
Intangibles	$10.9	$32.9	$33.1	$123.1

Source: Company reports.

We expect capital spending to run at 3.0%-3.5% of sales through 2024E. To that end, barring additional acquisitions, we do not expect the need for any significant capital raises in the near term (although we have modeled modest incremental dilution through 2024).

Background #8 PAR Technology: Sources and Uses of Cash Flow

($ in millions)

	2018	2019	2020	3Q 2020	3Q 2021	2021E	2022E	2023E	2024E
Net income	($24.1)	($15.6)	($36.6)	($23.6)	($50.2)	($72.0)	($77.3)	($60.3)	($38.9)
Depreciation & amortization	$4.7	$7.3	$14.5	$10.2	$20.1	$26.9	$28.5	$30.9	$33.3
Other	$15.5	($7.8)	$1.9	($0.9)	($13.6)	($10.5)	$0.0	$0.0	$0.0
Net cash from operations	**($3.8)**	**($16.1)**	**($20.2)**	**($14.4)**	**($43.6)**	**($55.5)**	**($48.8)**	**($29.4)**	**($5.5)**
Capital spending	**($7.8)**	**($6.5)**	**($9.2)**	**($7.1)**	**($6.4)**	**($8.6)**	**($10.3)**	**($12.1)**	**($14.4)**
Capex	($3.9)	($2.5)	($1.3)	($0.7)	($0.9)	($1.3)	($1.5)	($2.1)	($2.9)
Capitalization of software	($3.9)	($4.1)	($7.9)	($6.4)	($5.5)	($7.3)	($8.8)	($10.0)	($11.5)
Proceeds from asset sales	$1.1	$2.5	-	-	-	-	-	-	-
Acquisitions	-	($19.8)	-	-	($374.7)	($374.7)	-	-	-
Contingent payouts	-	($2.6)	-	-	-	-	-	-	-
Stock issuance	-	-	$131.4	-	$215.0	$215.0	-	-	-

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

The Breakdown

Based on the assumptions discussed throughout this report, we think it can be reasonably projected that PAR could generate 2024E sales and adjusted EBITDA of ~$440 million and $13 million, respectively (see Breakdown #1). We would note that our out-year sales and gross profit forecasts compare with current consensus of $456 million and $160 million, respectively.

Breakdown #1 PAR Technology: Adjusted 2018-2020 Results and 2021-2024 Forecasts
($ in millions)

	2018	2019	2020	2021E	2022E	2023E	2024E
Sales:							
Restaurant/Retail	$134.1	$123.3	$142.5	$205.2	$248.3	$293.6	$347.6
Government	$67.2	$63.9	$71.3	$72.5	$81.5	$89.0	$92.0
Total	**$201.2**	**$187.2**	**$213.8**	**$277.7**	**$329.9**	**$382.6**	**$439.7**
Gross profit:							
Restaurant/Retail	$30.3	$31.7	$33.7	$54.7	$70.8	$97.2	$129.2
Government	$7.2	$5.7	$5.6	$6.2	$6.9	$7.6	$7.8
Total	**$37.5**	**$37.4**	**$39.3**	**$60.9**	**$77.7**	**$104.7**	**$137.0**
Operating income:							
Restaurant/Retail	($14.8)	($18.5)	($28.1)	($58.2)	($64.0)	($47.3)	($25.8)
Government	$6.9	$5.5	$5.6	$6.2	$6.9	$7.6	$7.8
Corporate	($2.4)	($1.2)	($1.5)	($1.4)	($1.7)	($2.1)	($2.4)
Total	**($10.3)**	**($14.2)**	**($23.9)**	**($53.4)**	**($58.8)**	**($41.8)**	**($20.4)**
EBITDA:							
Restaurant/Retail	($10.7)	($14.6)	($19.9)	($39.7)	($44.2)	($25.3)	($1.4)
Government	$6.9	$5.5	$6.2	$6.6	$7.4	$8.0	$8.3
Corporate	($1.8)	$2.2	$4.2	$6.7	$6.6	$6.3	$6.1
Total	**($5.5)**	**($6.9)**	**($9.5)**	**($26.5)**	**($30.3)**	**($10.9)**	**$13.0**
Capital expenditures:							
Restaurant/Retail	$4.3	$4.4	$7.2	$7.2	$8.7	$10.3	$12.2
Government	$0.1	$0.3	$1.2	$0.7	$0.8	$0.9	$0.9
Corporate	$3.4	$1.9	$0.7	$0.7	$0.8	$1.0	$1.3
Total	**$7.8**	**$6.5**	**$9.2**	**$8.6**	**$10.3**	**$12.1**	**$14.4**

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

HIDDEN OPPORTUNITIES

Breakdown #2 PAR Technology: Public Comparables

($ in millions, except per share amounts; shares in millions)

12/20/2021	PAR Technology Corp	Agilysys Inc	BigCommerce Holdings Inc	BTRS Holdings Inc	Coupa Software Inc	Shift4 Payments Inc	Lightspeed Commerce Inc	Marqeta Inc	Olo Inc	Paylocity Holding Corp	Toast Inc	Booz Allen Hamilton Holding Corp	CACI International Inc	ICF International Inc	ManTech International Corp/VA	Science Applications International Corp
Ticker	PAR	AGYS	BIGC	BTRS	COUP	FOUR	LSPD	MQ	OLO	PCTY	TOST	BAH	CACI	ICFI	MANT	SAIC
Price	$49.38	$43.30	$36.16	$7.55	$153.25	$56.46	$38.89	$16.53	$21.46	$223.20	$34.13	$81.19	$256.13	$97.67	$69.15	$81.39
Shares Out	26.9	24.6	71.6	153.7	74.7	51.5	148.0	232.5	57.1	55.0	73.7	133.9	23.3	18.9	27.6	56.9
M Cap	1,326.6	1,065.7	2,589.7	1,199.9	11,444.8	4,682.5	5,754.6	8,928.5	3,255.6	12,281.9	17,227.0	10,871.1	5,974.8	1,843.5	2,817.1	4,634.5
Cash & Equiv	200.3	106.4	408.4	288.5	667.9	1,288.1	1,180.2	1,669.2	597.7	69.6	1,301.6	788.7	104.4	7.9	145.4	148.0
Minority Interest	-	-	-	-	10.0	137.0	-	-	-	-	-	-	0.1	-	-	10.0
Total Debt	303.0	0.0	335.1	0.1	1,585.9	1,736.8	29.8	-	-	-	-	2,832.5	1,694.7	279.7	-	2,552.0
Net Debt	102.7	(106.4)	(73.3)	(288.4)	928.1	585.7	(1,150.4)	(1,669.2)	(597.7)	(69.6)	(1,301.6)	2,043.8	1,590.4	271.8	(145.4)	2,414.0
EV	1,429.3	994.8	2,516.4	911.4	12,372.9	5,268.2	4,604.2	7,812.2	2,657.9	12,212.3	15,925.4	12,914.8	7,565.2	2,115.4	2,671.7	7,048.5
Revenue																
2021E	277.5	137.8	216.8	130.3	524.2	524.6	208.8	498.9	148.6	636.6	1,677.7	7,876.8	6,043.7	1,570.0	2,565.7	7,125.9
2022E	333.2	161.3	278.1	155.5	717.9	714.3	531.2	666.5	190.9	818.8	2,304.6	8,493.0	6,339.5	1,655.0	2,658.7	7,410.7
2023E	378.5	189.8	342.7	186.3	876.5	894.7	712.7	881.3	247.1	997.0	3,096.5	9,140.8	6,622.6	1,765.0	2,707.2	7,643.2
2024E	456.0	223.0	439.0	-	1,090.6	1,085.5	973.3	1,118.2	-	1,211.3	4,356.0	9,676.0	6,862.3	1,757.0	2,850.0	7,791.5
CAGR	18.0%	17.4%	26.5%	19.6%	27.7%	27.4%	67.0%	30.9%	29.0%	23.9%	37.4%	7.1%	4.3%	3.8%	3.6%	3.0%
EV / Sales																
2021E	5.2x	7.2x	11.6x	7.0x	23.6x	10.0x	22.0x	15.7x	17.9x	19.2x	9.5x	1.6x	1.3x	1.3x	1.0x	1.0x
2022E	4.3x	6.2x	9.0x	5.9x	17.2x	7.4x	8.7x	11.7x	13.9x	14.9x	6.9x	1.5x	1.2x	1.3x	1.0x	1.0x
Average		*9.1x*										***1.2x***				
2023E	3.8x	5.2x	7.3x	4.9x	14.1x	5.9x	6.5x	8.9x	10.8x	12.2x	5.1x	1.4x	1.1x	1.2x	1.0x	0.9x
Average		*8.1x*										*1.1x*				
2024E	3.1x	4.5x	5.7x	-	11.3x	4.9x	4.7x	7.0x	-	10.1x	3.7x	1.3x	1.1x	1.2x	0.9x	0.9x
Average		***6.5x***										***1.1x***				
EBITDA																
2021E	(17.7)	26.6	(17.9)	(14.1)	52.3	177.4	(24.9)	(23.6)	20.9	166.2	(39.2)	838.8	672.1	157.3	262.4	625.7
2022E	(13.8)	24.8	(21.8)	(13.3)	94.6	250.0	(42.3)	(67.0)	23.0	218.3	(171.5)	941.7	694.3	166.7	250.8	673.9
2023E	(14.3)	30.1	(9.3)	(9.8)	127.3	327.7	(28.7)	(67.9)	32.6	273.3	(111.8)	986.7	734.0	178.0	261.3	677.2
2024E	-	-	33.8	-	115.4	443.2	(6.6)	(37.3)	-	349.7	-	1,045.3	763.4	182.0	278.0	697.2
EV / EBITDA																
2021E	-	37.4x	-	-	-	29.7x	-	-	-	73.5x	-	15.4x	11.3x	13.4x	10.2x	11.3x
2022E	-	40.1x	-	-	-	21.1x	-	-	115.6x	55.9x	-	13.7x	10.9x	12.7x	10.7x	10.5x
Average												*11.7x*				
2023E	-	33.0x	-	-	97.2x	16.1x	-	-	81.6x	44.7x	-	13.1x	10.3x	11.9x	10.2x	10.4x
Average												*11.2x*				
2024E	-	-	74.4x	-	107.2x	11.9x	-	-	-	34.9x	-	12.4x	9.9x	11.6x	9.6x	10.1x
Average												***10.7x***				

Source: Company reports, Bloomberg, and Institutional Research Group estimates

Institutional Research Group

Restaurant/Retail

In terms of public peers, PAR could be compared with range of SaaS POS/commerce and payment players, including Agilysys Inc. (NASDAQ: AGYS), BigCommerce Holdings (NASDAQ: BIGC), BTRS Holdings (NASDAQ: BTRS), Coupa Software (NASDAQ: COUP), Shift4 Payments (NASDAQ: FOUR), Lightspeed Commerce (NYSE: LSPD), Marqeta Inc. (NASDAQ: MQ), Olo Inc. (NYSE: OLO), Paylocity (NASDAQ: PCTY), and Toast Inc. (NYSE: TOST), which trade at ~8.5x 2023E EV/sales and ~6.5x 2024E EV/sales. In terms of recurring revenue (ARR), PAR's most relevant peers, such as LSPD, OLO and TOST, trade, by our calculation, at 5x-20x 2023E EV/ARR. (See Breakdown #2.)

Applying a blended multiple of 5.8x, which reflects an 8.5x multiple on PAR's annual recurring revenue base (ARR) and a 1x multiple on the remainder of the business, to 2024E segment sales of ~$347.5 million yields a base case segment value of $2 billion, or roughly $69 per share (see Breakdown #3). Notably, this valuation scenario implies a 15.5x multiple on 2024E segment gross profit of ~$129 million.

Breakdown #3 PAR Technology: Est. Value of Restaurant/Retail Based on 2024E Sales
($ in millions, except per share amounts; shares in millions)

		Restaurant/Retail	
2023E Revenue		$293.6	
Revenue growth est.		18.4%	
2024E Revenue		**$347.6**	
2024E Gross profit		$129.2	
Gross margin		37.2%	
2024E EBITDA		($1.4)	
Applied multiple	4.8x	**5.8x**	6.8x
Enterprise value	$1,659.8	**$2,007.4**	$2,355.1
Diluted shares	29.0	29.0	29.0
Per share basis	$57.23	**$69.22**	$81.21

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

As mentioned above, our blended applied multiple reflects an 8.5x multiple on our 2024E estimate of PAR's annual recurring revenue base and a 1.0x multiple on the remaining business, which primarily includes hardware sales and non-recurring services, such as training and installation (see Breakdown #4).

Breakdown #4 PAR Technology: Est. Value of Restaurant/Retail's Recurring and Non-Recurring Revenue Bases
($ in millions, except per share amounts; shares in millions)

	Recurring				Non-recurring	
2023E Revenue		$171.6		2023E Revenue		$122.0	
Revenue growth est.		29.0%		Revenue growth est.		3.5%	
2024E Revenue		**$221.3**		**2024E Revenue**		**$126.3**	
Applied multiple	7.5x	**8.5x**	9.5x	Applied multiple	0.0x	**1.0x**	2.0x
Enterprise value	$1,660	**$1,881.1**	$2,102	**Enterprise value**	$0	**$126.3**	$253
Diluted shares	29.0	29.0	29.0	Diluted shares	29.0	29.0	29.0
Per share basis	$57.23	**$64.86**	$72.50	**Per share basis**	$0.00	**$4.36**	$8.71

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Government

In terms of publicly traded peers, PAR's Government business could be imperfectly compared with larger government services concerns, such as Booz Allen Hamilton (NYSE: BAH), CACI International (NYSE: CACI), ICF International (NASDAQ: ICFI), ManTech International (NASDAQ: MANT) and Science Applications International (NYSE: SAIC), which trade at about 11x 2024E EV/EBITDA. In our estimation, recent M&A multiples in the space have averaged ~12x EV/EBITDA (see Background #2). In our estimation, recent M&A multiples in the space, including SAIC's purchase of Engility (NYSE: EGL), General Dynamics (NYSE: GD) purchase of CSRA (NYSE: CSRA), and Amentum's (private) pending acquisition of PAE Inc. (NASDAQ: PAE), have averaged ~12x EV/EBITDA.

Applying a 11x multiple to 2024E EBITDA yields a base case segment value of $91 million, or ~$3 per share (see Breakdown #5). On a sales basis, this valuation scenario implies an about 1.0x multiple.

Breakdown #5 PAR Technology: Est. Value of Government Based on 2024E EBITDA
($ in millions, except per share amounts; shares in millions)

		Government	
2023E Revenue		$89.0	
Revenue growth est.		3.4%	
2024E Revenue		**$92.0**	
Gross margin		9.0%	
2024E EBITDA		**$8.3**	
Applied multiple	9.0x	**11.0x**	13.0x
Enterprise value	$74.5	**$91.1**	$107.7
Diluted shares	29.0	29.0	29.0
Per share basis	$2.57	**$3.14**	$3.71

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Accounting for projected net debt of ~$125 million yields a sum-of-the-parts valuation of roughly $2 billion, or $68 per share (see Breakdown #6).

Breakdown #5 PAR Technology: Sum-of-the-Parts Fair Value Estimate

($ in millions, except per share amounts; shares in millions)

	Restaurant/ Retail	Government	Enterprise Value	Net Debt	Market Cap
2023E Revenue	**$293.6**	**$89.0**			
Revenue growth est.	18.4%	3.4%			
2024E Revenue	**$347.6**	**$92.0**			
EBITDA margin	37.2%	9.0%			
2024E EBITDA	**($1.4)**	**$8.3**		**($125.2)**	
Applied multiple	**5.8x**	**11.0x**		**1.0x**	
Enterprise value	**$2,007.4**	**$91.1**	**$2,098.5**	**($125.2)**	**$1,973.3**
Diluted shares	29.0	29.0		29.0	29.0
Per share basis	**$69.22**	**$3.14**		**($4.32)**	**$68.05**
Bull	$81.21	$3.71		($4.32)	$80.60
Base	$69.22	$3.14		($4.32)	$68.05
Bear	$57.23	$2.57		($4.32)	$55.49

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

The Wrap-Up

Following the receipt by PAR's Government segment of a large multi-year contract from the U.S Air Force in November 2021, we estimate the company has increased flexibility to explore the separation or sale of this non-core business, which, in our view, would both provide incremental growth capital for and allow investors to focus on its faster-growth/higher-margin (and increasingly recurring) Restaurant/Retail business. To that end, we would note that PAR's core Restaurant/Retail segment has itself undergone, largely by acquisition, what we view as an underappreciated transition from being primarily a provider of point of sale (POS) systems hardware to being an end-to-end provider of integrated software solutions, including front-of-house and back-office/operations software, drive-through technology, loyalty program management, and payment services (or what management terms a unified commerce platform). In that context, at less than 3.5x 2024E EV/sales, the stock trades near a 52-week low and a stark discount to software peers, which trade at ~6.5x 2024E EV/sales. (By our calculation, this discount widens significantly when looking at EV/ARR multiples.)

Based on management commentary as well as peer and M&A valuations, value of $69 per share and $3 per share can be assigned to PAR's Restaurant/Retail and Government businesses, respectively. Accounting for projected net debt of ~$4 per share yields a base case sum-of-the-parts fair value of ~$68 per share (with bull and bear cases of $81 and $55.50), respectively.

Potential catalysts include a spin-off or sale of assets, better than expected growth/margins, and/or acquisitions. Potential risks include management execution, acquisition integration, competition, customer concentration, equity dilution, regulation, cyberattacks and/or economic disruptions.