

SNOWBALL RESEARCH NOTES

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It's Not Information Overload. It's Filter Failure

- Clay Shirky

SEC filings are like crude oil | Letter from the founder

I always think like this: all SEC filings are similar to crude oil. In order to make crude oil useful, it has to be heated at different boiling points, and each individual process would yield a different output: petroleum gas, gasoline, naphtha and gas oil, etc.

Similarly, in order to gain insights from the pile of SEC filings, we run plenty of sub-screens and spend time researching and thinking.

As you can see, we have picked five screens to research. We manually read hundreds and hundreds of SEC filings on a daily basis. This is the process we follow.

The entire process is "recurring" in nature. It is not a one-time discovery.

The best way to think of our service is like having a team of analysts who does research on five screens and alerts you at a fraction of the cost. An added advantage is these analysts don't need space in your office.

If you are interested, please subscribe to our service.

Happy researching!

Thank you.

Best,

Raghuraman. S.S

Founder & Head of Research,

Snowball Research

1. Management change: CEO, CEO & CFO change and Compensation

Logic

Every time a company (under \$2 billion Market Capitalization) appoints a new CEO, we research the track record of the CEO. Every year, hundreds of new CEOs are appointed. CEOs who have an A+ track record get hidden among others. By uncovering an excellent CEO, you can uncover a great investment idea.

The newly-appointed CEO is not a magician that is able to bring changes in the blink of an eye. It takes time to fix things. The CEO's impact can be noticed only in the long run. So, this provides ample time for value investors to research the stock.

Q&A #1 Isn't business more valuable than jockey?

- Well, this is not a "business vs. jockey" debate. We are not arguing that the CEO is more important than the business. Our message is simple: a CEO with a good track record generally gravitates to good companies.

- By tracking good CEOs, we can uncover unique investment ideas, and the odds of success are higher for a company that has appointed a CEO who has a proven track record.

Q&A #2 Why reading the CEO's bio isn't sufficient?

- Not all CEOs explain their achievements. We dig it out for you.

- Some CEOs' backgrounds are full of self-praise and obfuscations. We cross-check and validate their claims.

1. DZS Inc. (DZSI): New CEO's aggressive employee addition amid unfavorable global regulatory rules against its major competitors

Market cap: \$356 million | The company is a global provider of leading-edge access, 5G transport, and enterprise communications platforms that enable the emerging hyper-connected, hyper-broadband world.

Why are we flagging this stock?

1. Significant change in the management team

- On August 03, 2020, the company hired Charlie Vogt as CEO.
- Within five months after he joined the company, he had completely revamped the entire management team.
- In fact, more than 30 new employees joined the company after his appointment.

Top executive changes include Chief Information Officer, Chief Technology Officer, Global Operations, Chief Legal Officer, VP – Global, VP- R&D, VP – Global product Line management, VP – Global Product Line Management, EVP – Global Operations, EVP – Asia sales, Business Development and three executives for North America sales.

Moreover, within a few weeks of joining as CEO, he changed the company name to DZS Inc.

2. A 15-page inaugural quarterly stockholder letter from the CEO

On October 29, 2020, Vogt published the first quarterly letter to shareholders—a 15-page solid letter. It is an interesting read. He mentioned that he would use

this as a vehicle to provide a quarterly market, business, and financial stockholder update.

3. Board refreshments

In January 2020, the company appointed Matt Bross and Barbara Carbone as directors.

- Matt Bross is a global telecom and technology pioneer, having previously served as CEO of BT Innovate, Global CTO of Huawei Technologies, and CTO of Williams Communications (Lumen).
- Barbara Carbone is known for her work transforming businesses as a partner at KPMG.

“Charlie and I share a love for transformation, and he is one of the best at building and leading organizations through high growth in challenging and competitive environments and guiding industries through generational change,” - Ms. Carbone.

“Charlie is extraordinary – a visionary leader who has been innovating and partnering with telecom and media communications providers his entire career,” - Mr. Bross.

4. Significant opportunity?

Point number #1: Chinese vendors control the optical market

- Huawei is an undisputed market leader in ONT/ONU with over 35% market share.
- Other participants include ZTE and Fiberhome.

Point number #2: Chinese vendors are in deep trouble

- The Chinese telecom vendors (especially Huawei) are under scrutiny around the globe. The US alleged that Beijing could use Huawei equipment for spying and urged other countries to ban Huawei from their cellular networks.
- Many countries, including the US, UK, Australia, New Zealand, Japan, and Taiwan, have banned Huawei.
- Statista manages an excellent chart that shows the list of countries that have banned Huawei:
<https://www.statista.com/chart/17528/countries-which-have-banned-huawei-products/>
- This is not a trade dispute or an anti-dumping issue. It is a matter of a national security threat. So, the current problem faced by Chinese vendors (esp. Huawei) cannot be viewed as a "temporary airplane turbulence."

Point number #3: The new CEO is trying to make use of this situation

- The company is a market leader if Chinese vendors are excluded
- The company claims that it enjoys a strong leadership position in the FTTx network access space.
- The company shipped more than 2.0 million ONTs in 2019, which it

believes positions the company as a top-two leader by volume in the broadband fiber access market, excluding Chinese equipment manufacturers.

- As per the company's presentation, the company ranks #1 in US-based Fiber Access Vendor, #1 in Mobile supplier in South Korea and Japan, and #2 in 10G PON vendor outside of China.
- The CEO is aggressively building an army of employees to capture the market
- Given the fact that major competitors are getting blocked from bidding for government contracts and countries are encouraging companies against buying from Chinese vendors, it provides a unique opportunity for the company.

This should explain the massive management shakeup and employee addition after the appointment of Mr. Vogt as CEO.

Point #4 The CEO thinks the company's US address is its edge

It is clear from the CEO's recent quarterly letter that he is trying to leverage the company's US address. See the below sentences in the recent quarterly report:

- "As well as the recent geopolitical and security concerns with Huawei as a growth opportunity for DZS, allowing us to leverage our extensive product portfolio, global reach, and America-based headquarters to our advantage..."
- "One of the few fiber access systems vendors not based in China..."
- America-based headquarters to our advantage

- What sets DZS apart from many of our peers is that we are an American company
- DZS has the unique opportunity as an American-based company
- With our world headquarters in the United States, DZS is in a strong position to capture valuable RDOF award recipient network expansion

and upgrade projects leveraging our world-class gigabit-level services broadband access portfolio.

Overall, the situation looks impressive on paper. . Given the fact that the company is a leading service provider with a US address increases the probability of success.

Geopolitical and China Security Bans

China Security Bans

- U.S, Japan, Australia, UK, India, Finland have officially banned China suppliers with many other countries evaluating



- China Security Risk** creating global opportunity for **Cap & Growth and Rip & Replace**
 - Countries represented as "Banned", "Weighing", or "Cancelled" represent ~40% of global carrier CAPEX

- U.S. Secured and Trusted Communications Networks Act (STCNA)** enabling \$1.9B of Huawei and ZTE Rip & Replace

- U.S. Rural Digital Opportunity Fund (RDOF)** enabling \$20.4B of 5G and Broadband Access capital spend acceleration



Supplier to many of the World's Most Admired Service Providers

#1 U.S. based **Fiber Access vendor***

#1 **Mobile Supplier in S. Korea and Japan***

#2 **10G PON vendor outside of China***

5G O-RAN Market Mover
Mobile AnyHaul Transport



© 2021 DZS

*Omdia (2Q 20 Broadband Aggregation Market Share)

2. CalAmp: Major management changes

Market cap: \$400 million | The company is a telematics pioneer leading transformation in a global connected economy.

(a) Major management changes:

Out of the top five executives, four executives were appointed in the last eleven months.

- CEO: July 2020
- SVP - Global supply chain and operations - June 2020
- SVP & Chief Revenue Officer: March 2020
- SVP - Product Management: March 2020

(b) New board member is a veteran technologist; new chairman has a good track record

- In August 2020, the company added Kirsten Wolberg as a new director.
 - Most recently, she served as CTO of DocuSign, a company with a \$47 billion market cap. At DocuSign, Wolberg helped to execute the IPO and supported product expansion.
 - As VP of Technology at PayPal, she led the digital transformation.
 - Before that, she served as CIO at salesforce.com.
- At Charles Schwab & Co., Inc., she led the turnaround and restructuring of Schwab Technology.
- In the same month, the company appointed Amal Johnson as chairman of the board. Even though she has been serving the board since 2013, the title shuffle is interesting. She led MarketTools, a privately-held SaaS company, as CEO from 2005 to 2008 and subsequently as chairman until the company was acquired in January

2012. From 1999 to 2004, she was a general partner at Lightspeed Venture Partners, focusing on enterprise software and infrastructure.

(c) Wind down of US Lojack (10% of revenue)

- Within six months after the appointment of Mr. Gardner as CEO, on December 16, 2020, the company announced its decision to wind down the LoJack U.S. operations. LoJack SVR revenue continued its secular decline due to a technology transition from proprietary radiofrequency technology to GPS-based telematics solutions.
- During the nine months ended November 30, 2020, this segment contributed roughly 10% of total revenue and generated an adjusted EBITDA loss of \$1.25 million.
- The company expects to initiate cost-saving measures to offset the impact of the wind-down of the operation. The company expects to save \$12 million to \$15 million annually beginning in fiscal 2022.

(d) Strong recurring revenue— Software & subscription services

- This segment accounts for 38% of total revenue for the nine months ended November 30, 2020.
- The company's SaaS-based and PaaS-based solutions for its fleet management, vehicle finance, and certain other verticals provide the customers with the ability to wirelessly communicate with monitoring devices installed in vehicles and other mobile or remote

assets via the company's software applications.

- The company has approximately 1.3 million software and service subscribers and more than 20 million products installed globally in multiple market verticals.
- There are over two million Here Comes The Bus® mobile app users

operated by fleet managers and school districts.

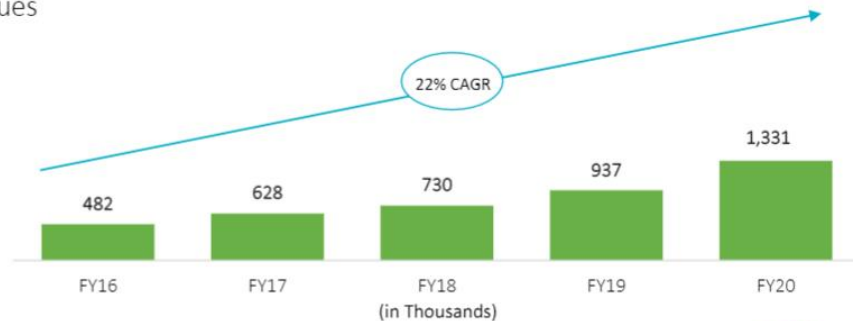
- Even though subscription revenue is increasing consistently, in FY 2020, the company's subscription revenue grew (64% growth rate) predominantly due to the acquisition of Tracker UK, LoJack Mexico, and Synovia.

Year	Number of subscribers (mm)	Growth	Subscription revenue (\$, mm)	Growth
FY '16	0.482		43	
FY '17	0.628	30%	59	37%
FY '18	0.73	16%	64	8%
FY '19	0.937	28%	76	19%
FY '20	1.331	42%	125	64%
9M Nov '20			130	

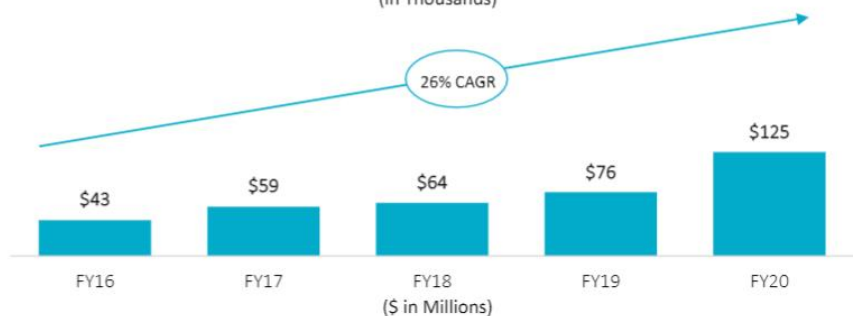
Growing Global Software and Subscription Base

Driving long-term predictable revenues

Global Subscriber Base



Application Subscriptions & Other Services Revenue



3. Limelight Networks (LLNW): The new CEO has worked as a C-level executive in several PE-backed companies

Market cap:

On January 14, 2021, the company appointed Bob Lyons as CEO.

Summary

- He was hired by several PE-backed companies in a C-level position. He served as an operating partner of a PE fund and served as a CEO of a portfolio company.
- Heads-up: (a) In his career history, his average tenure in a company ranges between 2-3 years. (b) Since most of the companies are private, we couldn't determine how the company/division performed under his watch.

Detailed track record of the new CEO

1. Most recently, Mr. Lyons served as an operating partner of Welsh, Carson, Anderson, and Stowe, a leading PE firm with over \$27 billion in capital.

During this tenure, he also served as the CEO of Alert Logic, a portfolio company of this PE firm. Alert Logic is a SaaS-enabled managed detection and response (MDR) provider.

2. He served as a top executive in two portfolio companies of Providence Equity, a PE firm with over \$44 billion in capital.

(a) Stream Global Service (Sep 2009 to Dec 2010)

Stream Global Service is a BPO company.

- Top executive: He served as EVP and chief technology officer.
- At the time of his resignation, the company had generated over \$800 million in revenue.

(b) Ascend Learning (Jan 2012 to Feb 2014)

- He was one of the top three executives at the time of resignation.
- It is a hyper-growth "roll-up" portfolio company focused on SaaS products in the Learning and Health & Wellness industries. He claims that he integrated and scaled 20+ acquisitions.

3. Others

- Global VP – Avaya: In October 2007, Avaya was acquired by two private-equity firms, TPG Capital and Silver Lake Partners, for \$8.2 billion. He claims that he was recruited as part of a private equity-led leverage buy-out. He was responsible for the software division, which included a portfolio of all customer support, contact center, and analytics applications.
- Convergys (2004-2008): During his tenure, the company generated \$2.8 billion in revenue and served as SVP of Operations and Technology. He claims that he was hired to lead the transformation of the technology organization and was promoted to lead Global BPO Operations and Services.

4. Amerant Bancorp appoints a new CEO who has worked as a top executive of a bank that manages over \$147 billion

On January 21, 2021, Amerant Bancorp Inc. (AMTB) appointed Gerald P. Plush as vice chairman and CEO.

Summary

He served as CFO and chief administrative officer of Santander US, a bank with over \$147 billion assets. Prior to that, he served as COO of Webster, a bank with over \$20 billion in assets. Most recently, he served as a partner of a PE firm that invests exclusively in banks and thrifts.

In contrast, Amerant Bancorp's total assets are roughly \$7.7 billion.

Attracting a top executive from a bank that is roughly 19 times larger than Amerant Bancorp is a big positive.

Detailed track record of the new CEO

1. Partner of a PE firm that invests in banks and thrift

- Founded in 2007, Patriot Financial Partners is a private equity firm focused on investing in community banks, thrifts, and financial services.
- He served as a partner of the firm.

2. Top executive of Santander US

- Santander US is a diversified financial business with 17,200 employees serving 5.2 million customers and with over \$147 billion in assets. It is one of the top 25 retail banks in the US by deposits.
- Top executive: He joined the bank in 2014 as a CFO. At the time of his resignation, he served as an Executive Committee member and chief administrative officer and senior EVP.

3. Top executive of Webster

Webster Financial Corporation (NYSE: WBS) is the holding company for Webster Bank.

- At the time of his resignation, the company had a market capitalization of \$2 billion with \$20 billion in assets.
- A top executive and a board member: At the time of his resignation, he served as COO of the bank and served as a board member.
- Rapid promotion: Plush joined Webster in July 2006 as EVP and CFO and was promoted to senior EVP in July 2007. He was appointed chief risk officer in July 2008. Again, he was promoted to vice chairman and COO in January 2011. In December 2011, he was promoted to president and was elected to the board of directors of Webster Bank.

5. Hallmark Financial Services, Inc. (HALL): Announcement of a spin-off within a week of CEO change

Market cap: \$67 million

On January 14, 2021, the company appointed current Executive Chairman Mark E. Schwarz as CEO, effective February 27, 2021.

Why are we flagging this?

1. New CEO owns a significant stake

- Given the fact that the company stock is down more than 80%, the company has announced the appointment of Mr. Schwarz as CEO.
- He owns a 27.9% stake in the company as of December 2019.

2. Former CEO

- During Mr. Schwarz's prior tenure as CEO of the company (January 2003 - August 2006), the company's adjusted stock price increased by 2.6X, from \$3 per share in January 2003 to \$11.0 per share in August 2006.

- During his tenure, the company's revenue increased from 69.5 million in FY 2003 to \$152 million in FY 2006, predominantly due to an acquisition.

3. Potential spin-off

- Within a week after the appointment of Mr. Schwarz as CEO, on January 21, 2021, the company announced it is exploring the separation of its specialty commercial business.
- The specialty commercial segment represented 75% of the company's gross premium written and 68% of its net premium written through the first three quarters of 2020. This business has experienced substantial rate increases over the past 12 quarters, rising from approximately 7% to over 20% in Q3 2020.

6. PHX Minerals: Change in business model and appointment of new CEO

Market cap: \$69 million

Why are we flagging this?

The company changed its strategy in January 2020 and appointed Chad L. Stephens as CEO to execute the change. Even though the company has experienced multiple changes, the stock price declined by more than 75%.

(a) Change in strategy, name change, logo change, and CEO change

- In early 2020, the company changed its strategy to become a minerals-only company. As per the new strategy, the company no longer participates as a non-operated working interest owner in the drilling of new wells. In fiscal year 2020, the company did not participate as a working interest owner in any wells.
- Under the new strategy, the company acquires producing minerals (producing minerals have one or more active wells that generate royalty

revenue) in its core areas with high rock quality and line-of-sight development under credit-worthy reputable operators. The company's plan is to slowly high grade its existing asset base by divesting lower margin properties and to focus on growth through mineral acquisitions and through development of its significant mineral acreage inventory in its core areas. This new strategy emphasizes growth on a NAV accretive basis.

- **New CEO:** In January 2020, the company appointed Chad L. Stephens as CEO. He joined Range Resources (enterprise value: \$5.5 billion) in 1990 as SVP – Southwest and retired in December 2018 as SVP – Corporate Development. He claims that he was responsible for the origination, valuation, and acquisition or divestiture of over \$6.0 billion of oil and gas-producing properties, and he served on the internal hedging committee and was responsible for the oversight of all gas, oil, and NGL marketing and sales for Range Resources.

(b) Recent changes

- **Only 17 employees:** After the implementation of the new strategy, the company does not have any employees or contractors in the field, and they are not directly subject to many of the regulations of the oil and gas industry. On September 30, 2020, the company employed 17 people, including executive officers.
- **Low G&A and capital expenditure:** Since the company no longer

participates in any new well, the company's CAPEX for the fiscal year 2020 decreased by 89%.

- **Aggressive debt reduction:** The company reduced its debt by \$6.7 million to \$28.8 million, as of Sept. 30, 2020, through operating cash flow. Debt has been further reduced to \$27.3 million as of Dec. 1, 2020. The CEO expects to eliminate the debt within four years.
- **Name/logo change:** In October 2020, the company changed the company name to PHX Minerals and unveiled a new logo to emphasize the new strategy.

Overall,

- The company plans to allocate more capital to its core growth strategy of making value accretive mineral acquisitions. The company's success is tied to the management's ability to execute acquisition strategy. Given the fact that the CEO has overseen origination, valuation, and acquisition or divestiture of over \$6.0 billion of oil and gas-producing properties in his previous job, it gives an impression that he could execute the strategy well.
- **Potential upside:** The company claims that over 70% of the company's mineral fee position is currently not leased or producing. As such, there is a significant potential value and the opportunity to generate additional cash flows from bonus payments and royalties without deploying additional capital.

7. Heritage-Crystal Clean, Inc.: CEO could earn over \$20 million if stock price increases by 100% within four years

Market Cap: \$530 million

On January 8, 2021, the company announced that the CEO would receive a one-time award of 500,000 shares of restricted stock. The RSU is tied to the company's stock price performance (refer to the table below), and the RSU will vest on January 31, 2025.

Base salary: \$436,537

Assuming that the stock price increased by \$20 and the CEO continues to hold all the shares awarded to him, the restricted stock would be worth roughly \$21 million at the end of January 2025.

Column A	Column B
Increase in Stock Price From Award Date to Vesting Date (using average closing price of a share of the Company's common stock for the 90-day period ending on each such date)	Percentage of Executive's shares of Performance- Based Restricted Stock that Will Become Vested
Less than \$5 per share increase	—%
\$5 per share increase	25% (vest in 125,000 shares)
\$10 per share increase	50% (vest in 250,000 shares)
\$15 per share increase	75% (vest in 375,000 shares)
\$20 or more per share increase	100% (vest in 500,000 shares)

Source

<https://www.sec.gov/Archives/edgar/data/1403431/000140343121000008/secondamendmenttoexecuti.htm>

8. Repro Med Systems, Inc.(KRMD) / KORU Medical Systems: Notable interim CEO appointment

Market cap: \$180 million

The company appointed Jim Beck as interim CEO.

Even though this is an interim appointment, his track record is notable. He served as a CEO and executive chairman of Medical Specialities Distributors from 2007-2018. In June 2018, he sold the company to McKesson for \$800 million.

Red flags

9. We are not excited about the new CEO appointment at Ault Global Holdings Inc.

Effective January 19, 2021, DPW Holdings changed its corporate name from DPW Holdings, Inc., to Ault Global Holdings, Inc. On the same day, William B. Horne was appointed as CEO of the company. Milton C. Ault, III, continues to serve as executive chairman of the board.

(a) Executive position at two companies at the same time

- CFO of multiple companies at the same time: Mr. Horne was appointed as CFO of Ault Global on January 25, 2018. During the same time, he served as CFO of Targeted Medical Pharma (resigned in May 2019) and Avalanche International Corp.
- CEO of Ault Global and CFO of Avalance: Even though he resigned as CEO of Targeted Medical Pharma in May 2019, he appears to be working as CFO in Avalanche International till now.

We are concerned with the fact that he is serving in an executive position in two companies at the same time, i.e., CEO of Ault Global Holdings and CFO of Avalanche. Shareholders of Ault Global deserve a CEO who focuses 100% on the company. As you can see below, he is listed as the CFO of Avalance till now.

<https://mtixinternational.com/our-team/william-b-horne-cfo-director/>

<https://www.otcmartets.com/stock/AVLP/pr/ofile>

(b) CFO at Targeted Medical Pharma, Inc. (OTCBB: TRGM)

William B. Horne served as CFO from 2013 to 2019.

During his entire period, the company was in a mess. The company didn't file 10-Q/K after April 2016, the CEO resigned expressing concerns about the management team, the company received FDA warnings related to plenty of things.

- Failure to file financial filings: The company failed to file 10-Q and 10-K since April 2016. Since Horne served as CFO from 2013 to 2019, he is responsible for this.
- CEO's allegations: Within two years after Horne joined as CFO, the CEO resigned, expressing dissatisfaction. The CEO's complaints include - the following: i) Offering employment contracts to management members who were previously under investigation for diversion of corporate assets. ii) Appointing executive officers and directors who lack the necessary skills iii) Offering inflated and expensive new contracts. Even though the CEO did not name Horne in any of the allegations, the complaints raise a serious question about the quality of the entire management team.

Overall, this CEO change does not warrant attention.

Extra bites

1. Shortly after warning of potential bankruptcy, Genesis Healthcare awards outgoing CEO \$650K for "exemplary leadership" during the pandemic

- On January 5, 2020, the company awarded Mr. Hager (outgoing CEO) a special cash bonus of \$650,000 to recognize his exemplary leadership during the COVID-19 pandemic during 2020.
- In less than 60 days back, on November 9, 2020, the company warned of potential bankruptcy. The company is predominantly surviving with government grants and loans, and the company's stock price was cut by more than half in the last ten months. So, we are puzzled to understand the logic behind the "exemplary leadership" argument.
- Moreover, the company paid an "upfront cash fee" of \$300K for providing consulting services for at least three months. The total upfront cash fee for consulting service is strange and gives an impression that Mr. Hager has no confidence in receiving the consulting service fee at the end of every month for the next three months.

2. Cloudcommerce (CLWD): Excessive executive stock option could result in more than 50% stock dilution

- As of November 13, 2020, the company's o/s shares: 645.9 million.
- On January 5, 2021, the company approved the issuance of an aggregate of 377 million options to purchase the company's common stock to key employees. This is roughly 58% of the o/s shares as of November 2020.
- Issuing stock options to motivate and retain key executives is a good idea, but this seems abusive to shareholders.

3. CEO change after activist involvement

- Daseke, Inc. (DSKE): On January 5, 2021, the company appointed a new CEO.
- In April 2020, Lyons Capital sent a letter to the board calling them to evaluate all available opportunities to unlock stockholder value. Within ten months, the company changed its CEO.

4. List of CEO changes (Market cap <\$2.5 billion)- January 2021

Better Choice Co Inc. (BTTR)	1/4/2021	Scott Lerner	External
Select Energy Services, Inc. (WTTR)	1/4/2021	John D. Schmitz	Internal
Elys Game Technology, Corp. (ELYS)	1/5/2021	Matteo Monteverdi	Internal
Genesis Healthcare, Inc. (GEN)	1/5/2021	Robert H. Fish	Internal
Rush Street Interactive, Inc. (RSI)	1/5/2021	Greg Carlin	Combination Agreement
Seacoast Banking Corporation of Florida (SBCF)	1/5/2021	Charles M. Shaffer	Internal
SI-BONE, Inc. (SIBN)	1/7/2021	Laura Francis	Internal
Sunworks, Inc. (SUNW)	1/13/2021	Gaylon Morris	External
Xenon Pharmaceuticals Inc (XENE)	1/14/2021	Ian Mortimer	Internal
Hallmark Financial Services, Inc. (HALL)	1/15/2021	Mark E. Schwarz	Internal
Ault Global Holdings, Inc formerly DPW Holdings, Inc. (DPW)	1/19/2021	William B. Horne	Internal
Limelight Networks, Inc. (LLNW)	1/20/2021	Bob Lyons	External
Amplify Energy Corp. (AMPY)	1/21/2021	Martyn Willsher	Internal
Amerant Bancorp Inc. (AMTB)	1/21/2021	Gerald P. Plush	Internal
Inogen Inc (INGN)	1/25/2021	Nabil Shabshab	Internal
Berkshire Hills Bancorp, Inc. (BHLB)	1/26/2021	Nitin J. Mhatre	External
Premier Financial Corp. (PFC)	1/26/2021	Gary M. Small	Internal
Stride, Inc. formerly: K12 INC (LRN)	1/26/2021	James Rhyu	Internal
Verso Corp (VRS)	1/28/2021	Randy J. Nebel	Internal
Byline Bancorp, Inc. (BY)	1/28/2021	Roberto R. Herencia	Internal
Ferrellgas Partners, L.P. (FGPR)	1/5/2021	James E. Ferrell	Internal
Daseke, Inc. (DSKE)	1/5/2021	Jonathan Shepko	Internal
Repro Med Systems, Inc. (KRMD)	1/26/2021	James M. Beck	Internal

Wildbrain: New CEO - Excellent write-up from the investor letter of Joseph Boskovich - Old West Investment Management, LLC

Original publish date: January 11, 2021

About Joseph Boskovich

Prior to founding Old West, Joe spent seven years as the Vice Chairman of Aletheia Research and Management, Inc. At Aletheia, Joe's responsibilities included co-portfolio management and marketing, and during his time with the company, he collaborated in making investment decisions, and was instrumental in growing the firm's assets under management from roughly \$80 million to over \$10 billion. In his previous career, Joe was CEO for one of the largest privately held produce growing and processing businesses in the country, Boskovich Farms, Inc. During this time, Joe built multi-million dollar business relationships for Boskovich Farms with companies like Wal-Mart, Costco, Sysco, Safeway, Albertson's, Kroger, and Disney. Joe also served as a Board Member of Santa Clarita National Bank for over 10 years and helped to negotiate the sale of the bank to Security Pacific National Bank, which today is part of Bank of America. Joe earned both his undergraduate degree and his MBA from the Marshall School of Business at the University of Southern California, and he continues his association with the University today as a member of the Board of Trustees.

This extract is republished (with permission) from the investor letter of Old West Investment Management, LLC (Original publish date: January 11, 2021)

WILDBRAIN (WILD.CN, WLDBF)

As readers of our quarterly letters may recall, WildBrain is a global children's content and brands company. They make children's cartoons and television shows and distribute their content across broadcast platforms, streaming platforms, and on their advertising-video-on-demand (AVOD) network, WildBrain Spark. For a second income stream, WildBrain then licenses all the consumer products based on their programs. At the time of our original writeup, DHX Media / WildBrain was a starter position in the portfolio. Although our timing was a bit premature, our conviction has continued to grow, and today it is a sizeable position in most of our strategies.

In August 2019, DHX Media named Eric Ellenbogen as the company's new CEO. We oftentimes view management change as a catalyst to unlocking value, and we definitely believe that to be the case in this situation. Ellenbogen, who had served as an advisor to the company for the prior year, has an incredible and proven resume in kid's content and for developing franchise IP. Ellenbogen was the President and CEO of Marvel Enterprises before its acquisition by Disney. He then co-founded Classic Media, which became one of the largest private owners of branded kid's and family entertainment. Classic Media was acquired by DreamWorks Animation in 2012, and Ellenbogen became the Co-head of DreamWorks Classics and DreamWorks International Television. One of

Ellenbogen's first moves as the new CEO was changing the corporate name to WildBrain, the name of its child-focused YouTube business which was renamed WildBrain Spark. For the last several quarters Ellenbogen has been busy putting the right management in place, and we believe getting the company ready to emerge as a global leader in kid's content.

As you can imagine, luring a top-notch media executive and creative talent away from a larger company is not cheap. A big name usually comes with a big cash salary which would not meet our investment criteria of only investing in companies led by management teams with high stock ownership and shareholder friendly compensation. That's why Ellenbogen's compensation package made us all the more excited. Half of Ellenbogen's pay package is in the form of cash salary (1/3rd of which he is required to use buying stock on the open market), and 50% is tied to stock grants. Half of those stock grants will vest over a period of three years and the remaining fifty percent will vest as follows: 1/3 on the achievement of a stock price target of \$7.00; 1/3 on the achievement of a stock price target of \$9.00; and 1/3 on the achievement of a stock price target of \$11.00. As of the time of this writing, WildBrain common stock is trading at \$1.75. So yes, Eric Ellenbogen stands to be nicely compensated, but at stock prices 300%, 414%, and 529% above where the stock is currently trading. This alone should tell you something about his optimism regarding the company's assets and potential, and he offered a clearer picture into the future during this most recent quarter's conference call. The Peanuts franchise + other library content + consumer product sales + the massive advertising opportunity at WildBrain Spark + the ability to discover and partner with new IP at WildBrain Spark that could evolve into hits = many different ways to win big as a WildBrain shareholder.

I. Continued Success with Peanuts Franchise / Apple TV Partnership

Peanuts is WildBrain's "tentpole" property and the success of the Peanuts gang demonstrates that franchise brands can live on and prosper for years into the future. Peanuts was created as a comic strip in 1950, and today, 70 years later, kids are still discovering the brand every day. Owning various media names over the years, I have learned that profits from content production are often surprisingly low due to massive marketing budgets and other production related costs, and the only proof that a brand is "Evergreen" should be proven out in high margin consumer product / retail sales. Most entertainment brands simply lack consumer product sales which I believe either indicates the lack of a forever franchise or management's ineffectiveness at monetizing IP.

As you can see in the chart on the next page, Peanuts is the #8 entertainment / character property with over \$1.6 billion in annual global retail sales. These attached consumer products act like "oil wells" that never cease pumping cash, and include everything from the sale of toys, music publishing, school supplies, health and beauty aids, food products, etc. The #9-character property on the below list, Peppa Pig, was the primary asset acquired by Hasbro last year in a \$4 billion acquisition, which is a good comp for what that the Peanuts franchise may be worth. WildBrain owns a 41% controlling stake in Peanuts (Sony owns 39% and the Shultz estate still owns 20%), which means that WildBrain's stake in the franchise alone is probably worth multiples of the current stock price.

Despite this success, we believe that the Peanuts franchise is significantly under-monetized and will become much more valuable in the coming years due to the new

Apple TV+ / Peanuts partnership. The newly announced partnership is transformational and will give the Peanuts franchise a fresh make-over and will make the brand more relevant than ever. The partnership with Apple TV+ is the largest content deal in WildBrain's history, making Apple the new home for all of the Peanuts content. The full impact of new Peanuts content for Apple TV+ will not reflect in WildBrain's financials until 2022, but the entire value of the back-catalogue license will aggregate in the upcoming quarter, which will be on the order of 60% more than what was last publicly reported in the transaction between Iconix (former Peanuts owner) and ABC Television in 2014.

The new "Snoopy in Space" series in partnership with NASA that premiered last fall was one of Apple's most viewed shows and recently renewed for a Season 2. "The Snoopy Show" premieres in February of this year, and a series of holiday specials (Mother's Day, Back to School, Earth Day, etc.) will premiere in the coming year and complement the existing Halloween, Thanksgiving and Christmas specials that were licensed in the backcatalogue deal. Most recently, Mariah Carey's "Magical Christmas Special" topped the Apple TV+ charts at #1 in over 100 countries and was watched by tens of millions of people. If you happened to watch the Christmas Special with your family, you will know that Snoopy, Woodstock, Charlie Brown, and the rest of the Peanuts gang had one of the more prominent guest appearances. As this new content reaches new audiences and new generations of kids, and as Apple continues to build its kids' streaming content with Peanuts as its anchor property, management expects the existing Peanuts licensing business to grow significantly.

II. Vast Potential with Other Owned IP

Management has stressed that the new Peanuts/Apple TV+ content is a creative magnet unlike anything the company has ever seen. The prospect of working on an iconic animation property like Peanuts for Apple TV+ is attracting top talent to the studio, thereby establishing a virtuous cycle which will reignite other key IP from its vast portfolio of popular brands. Several of these programs have been licensed to SVOD platforms (streaming-video-on-demand) like Netflix (Johnny Test, Chip and Potato), several are being introduced and/or grown through WildBrain Spark's AVOD network (Strawberry Shortcake, Calliou, Rev & Roll, etc.), and others through linear broadcast (Dorg Van Dango on Nickelodeon, etc.).

Management has singled out several franchises for redevelopment that have impressive operating histories and legacies of significant consumer product sales. Two such examples are Strawberry Shortcake and Teletubbies.

- **Strawberry Shortcake:** Strawberry Shortcake, which was purchased from Iconix Brands in May 2017, is being re-developed and re-introduced on WildBrain Spark, WildBrain's AVOD network of channels. In the 1990's Strawberry Shortcake was first introduced as a one-hour home video produced for 20th Century Fox Home Entertainment for \$250,000. Over the next five years, Strawberry Shortcake did \$5 billion of retail sales with 300 licenses and 600 products in the marketplace distributed worldwide.

- **Teletubbies:** Teletubbies is another franchise with a rich history of retail sales. On Ellenbogen's first conference call in mid-2019, he discussed a new 360° approach to brand development to fully capture higher margin consumer product sales. On that call, Ellenbogen highlighted that Teletubbies, a beloved preschool property, had done less

than \$1 million in consumer product sales in the prior year. During the early 2000's Teletubbies was doing several hundred million dollars per year in retail sales.

As the fan base continues to grow for these two brands on their dedicated WildBrain Spark channels, premium content deals will be announced, which should then ultimately lead to consumer products strategies not too different than they experienced in the past. If WildBrain is able to replicate past success, it is not unreasonable to believe that these brands could be worth in excess of WildBrain's current valuation. Outside of these brands, several other properties in WildBrain's library have exciting potential, including Green Hornet, Carmen Sandiego, In the Night Garden, Calliou, Rev & Roll, Johnny Test, and many more.

III. Significant Opportunity at WildBrain Spark

The largest and most exciting opportunity in our opinion is at WildBrain Spark, WildBrain's advertising-video-on-demand (AVOD) business on YouTube, Amazon Fire, Roku, Tubi, etc, and as this segment continues to grow, the market should assign a much higher multiple to the overall company valuation similar to other digital media assets.

As the market transitions from a linear broadcast centric market, digital media platforms have become the most popular destinations for kid's entertainment. YouTube has led the way grabbing close to 20% of viewing time. With more than 200 million subscribers on YouTube, WildBrain Spark has over 300,000 videos under management across more than 800 kids' channels for both its own IP and for 3rd party brands. The WildBrain Spark network generates approximately 4 billion views per month and reaches 1-in-3 kids - about 40% of kids under the age of 13 - globally on YouTube every 90 days. We believe that WildBrain Spark is a "breakout business" that will become a meaningful growth engine and may ultimately become the most valuable business segment at WildBrain.

1. Significant Advertising Potential at WildBrain Spark

WildBrain Spark offers brands and media agencies scale and reach backed by data-driven insights and the ability to monitor brand safety as a YouTube designated "Made for Kids" creator of content. With such a large network of channels and content, WildBrain Spark is uniquely positioned to offer advertisers more control over and insights into the videos carrying their ads. This gives WildBrain the ability to sell ads at much higher CPM's (3x or more) compared to YouTube's advertising algorithm. WildBrain Spark has a very compelling pitch for advertisers of kids and family content. The Spark network has an average of 4 billion viewers per month compared to Nickelodeon's TV network with 1.3 M daily viewers, Disney's TV network with 760k daily viewers, and Cartoon Network with 640k daily viewers.

In WildBrain's most recent conference call, management expressed that they expect to monetize the advertising opportunity beyond what they were doing prior to YouTube's algorithm change in 2019 when the FTC mandated that Google make changes on how it places ads in children's content (Google has moved swiftly to respond by making the necessary changes - emphasis on quality, removing channels, etc - to evolve into a safer environment for kids. This in turn has only increased Spark's already dominant kids position on YouTube). Prior to this change, WildBrain Spark was doing \$80 million in

revenue and growing 25% annually. We believe that Spark will most likely return to and eclipse this growth as watch time and viewership continue to grow.

- **Advertising Case Study: Mattel's Cave Club**

YouTube has changed the way in which kids and families identify popular toys, and in 2020, Mattel partnered with WildBrain Spark to develop and execute a digital-first launch strategy for a new kids' property, Cave Club. This digital-first strategy is designed to introduce audiences to the brand, build excitement ahead of a retail launch, and to create a fandom to sustain and grow Cave Club's popularity for the long-term. In less than one year, WildBrain Spark has helped Mattel's Cave Club receive 60 million views and the response to the advertising campaign has been 110% above industry benchmarks.

2. Ability to Build IP and Discover/Partner with 3rd Party Brands.

In addition to growing awareness for its wholly owned IP, dozens of 3rd party brands like Playmobil, Curious George, The Smurfs, and Popeye have turned to WildBrain Spark to develop their AVOD strategies. Ellenbogen has referred to WildBrain Spark as a brand builder that can help the company identify and then partner with new content that kids want. WildBrain's analytics tools can test new and unproven content, see what is gaining views, further build successful IP, and then partner with those content creators to oftentimes gain an ownership interest or consumer products share. This in turn can potentially build WildBrain's library of IP, increasing the overall value of the company.

- **Brand Building Case Study # 1: Woody Woodpecker**

WildBrain partnered with Universal to test select brands from Universal's content library that had been largely ignored for decades. WildBrain launched Woody Woodpecker YouTube channels in Brazilian Portuguese and Spanish. The channels immediately resonated and the dedicated Portuguese channel for Brazil was a breakout hit. The Brazilian channel organically attracted over 2 million subscribers and the Spanish channel over 700,000 subscribers coupled with extremely high engagement and watch time. This is leading the way to build upon the strength of the existing IP and a strategic opportunity to create original content.

- **Brand Building Case Study # 2: Sunny Bunnies**

After Season 1 in Russia, the official Sunny Bunnies YouTube channel had just 1,200 subscribers. Wanting to expand the brand to a much wider audience, the creators, Digital Light Studio, approached WildBrain to grow its global reach. WildBrain's team helped transform the official Sunny Bunnies channel from 1,200 subscribers, to a top 1% global YouTube channel. WildBrain was able to generate more than 600,000 views per day on average and grew the channel to 325,000 subscribers and 1.88 billion minutes of watch time. Leveraging this success, the Sunny Bunnies brand has secured a master toy partner and earnings from the channel have funded further content to support the brand's future growth.

END

2. Accounting problems: Restatement, NT, reportable events (audit firm change),

Logic

Accounting irregularities, restatement, delisting, and failure to file financial statements on time provides a unique opportunity to find both long and short ideas.

~ For long ideas, patience is required to identify the companies that emerge "clean" from the accounting problems. Typical characteristics include the termination of the responsible management/board members, consistent improvement in solving the accounting problem, and a solid business. A falling business that emerges from an accounting fiasco is not the right candidate. So, the ideal situation is to identify an operationally strong company that faces temporary airplane turbulence.

~ For a short idea, identifying poor management/board's action and motivation is important.

Audit Report: NT and Restatement

Alert

There is no special report for January 2021.

- As a policy, we monitor companies that delay the filing of 10-K/Q or decide to restate financial statements.
- The below are updates for the stocks that we continue to monitor.

I. January 2020 updates for our watchlist

1. Granite Construction: CFO change

The company promoted the chief accounting officer as CFO and appointed the current CFO as chief strategy officer.

2. Tandy Leather: CFO change

The abrupt resignation of CFO Steven Swank, who served as CFO from July 2020, resigned as CFO in January 2021, citing personal reasons. On January 08, 2021, the company appointed Michael Galvan as CFO effective January 11, 2021. Mr. Galvan first joined the company in May 2020, serving as interim chief financial officer till July 2020.

4. PARETEUM Corp

The company delisted from the Nasdaq stock exchange.

1. Interpace Biosciences Inc. (NASDAQ: IDXG): Emerged from accounting problem

- On November 27, 2020, the company announced its inability to file 10-Q. The company updated that it is evaluating whether there has been an impairment of the carrying value of Barrett's intangible asset. The company noted that the investigation could result in a non-cash charge to its statement of operations included in its financial statements for one or more prior fiscal years.
- On January 20, 2021, the company [filed](#) its delinquent 10-Q for the quarter ended September 30, 2020.

2. Crimson Wine Group, Ltd. (CWGL)

- On December 22, 2020, the company [concluded](#) to restate 10-K for the fiscal years ended December 31, 2017, 2018, and 2019, and recent two quarterly reports (March and June 2020) due to an error identified by the management. The errors relate to the allocation of costs to bulk wine inventory, which, in turn, affect the company's reported cost of sales.
- Status: The company is yet to file the restated financials.

WATCHLIST

Tandy Leather Factory, Inc. (TLF)

Tandy Leather Factory, Inc. (TLF) | Market Cap: \$28 million | The company operates as a retailer and wholesale distributor of a range of leather and leathercraft related items in North America and internationally.

I. Accounting problem

- On August 15, 2019, the company initiated an investigation related to the methods of valuation and expensing costs of inventory and related issues and did not file the 10-Q. Subsequently, the company announced its decision to restate the previously issued financials related to the FY 2016 to FY 2018 and 10-Q for the quarter ended March 31, 2019. The company initially announced that it expects to complete the restatement by August 10, 2020.
- The company updated that none of the accounting issues are expected to impact reported sales or cash for any period, including prior periods.
- Most recently, the company updated that the interruptions from COVID-19 and the related stay-at-home orders also impacted the company's ability to complete its financial restatement amidst its implementation of numerous new accounting systems and controls.

II. Positives

- It is a very rare practice for a company to provide financial details during accounting restatement. The company reported its latest quarterly and yearly updates.
 - [Q3 2020](#);
 - [Year to date](#) sales, August 10, 2020

- [Investor presentation, June 2020](#)

- Recent financials: Sales for the third quarter of 2020 are still preliminary but were approximately \$15.8 million, a decrease of 3.1% compared to the prior year's \$16.3 million.
- As per the August 2020 press release, the company's online sales since closing its stores increased by 160% versus last year.
- Sufficient liquidity – no debt: As of September 30, 2020, the company had \$0.4 million of debt and \$10.1 million of cash and cash equivalents.
- Buyback: In August 2020, the company announced that its Board of Directors had approved a new program to repurchase up to \$5 million of its common stock between now and July 31, 2022.

Comment

- Overall, given that the portfolio manager of Bandera Partners (32%) and JCP Investment (9.6%) is serving on the Board, we are confident that the company is in safe hands. On top of it, four directors joined the Board only in June 2017 AGM. As such, the majority of the board members are new.
- Moreover, the recent release of quarterly revenue update and strong liquidity with negligible debt (\$0.2 million) increases our conviction level that the company would emerge strongly from this accounting problem, and the stock would be listed back on Nasdaq.
- We continue to monitor the company and keep our members updated. If you need additional conviction, please wait till the company files the delinquent filings.

2. Pareteum Corp. (TEUM): watch list

Summary

- Market Cap: \$86 million
- In June 2019, two short sellers published a scathing report where they argued that the company's backlog appears inflated and revenue is overstated by 42%.
- Shortly within four months, the company announced its decision to restate financial statements for the FY 2019 and first two quarters of 2019. For the first half of 2019, the company estimated the revenue impact to be a reduction of approximately \$24 million, which is roughly 40% of the total revenue for the first six months ended June 2019.
- After that, the company did not file any 10-Q and 10-K.
- Most recently, in August 2020, the company filed the delinquent 10-K for the FY 2019 and amended quarterly reports for the period ended March 31, 2019, to September 30, 2019.
- In November 2020, the company announced that its common stock would be delisted and would start trading on the Pink OTC Markets, Inc.

Financial position

- The company was debt-free before the announcement of the accounting fiasco.
- In June 2020, the company raised \$17.5 million by issuing Senior Secured Convertible Notes. Due to the delinquent 10-K/Q, the company is in default (due to delinquent 10-Q/K filing, etc.) and the debt holder (High Trail Investments) acknowledged such defaults and agreed not to exercise any

right or remedy under the Note. Simultaneously, as a result of the defaults, the interest rate paid on the principal outstanding under the Note increased to 18%.

Overall

- Out of all accounting problems, overstating the revenue is the "worst out of all" category. Nevertheless, the company revamped the entire Board and management after this problem.
 - Bart Weijermars was appointed Interim CEO, and Laura W. Thomas was appointed Interim CFO.
 - The Board has established a new Business and Strategy Committee, chaired by Independent Director Luis Jimenez-Tuñon, to re-align its strategic priorities for 2020 and beyond.
 - The company is working with Heidrick & Struggles to identify executives to complement existing talent and enhance executive leadership.
 - The company hired a Director of Internal Controls, reporting directly to the audit committee.
 - The company added significant new resources to strengthen its finance team.
 - The company split the roles of Chair and CEO, with Bart Weijermars serving as Interim CEO and Mary Beth Vitale appointed Non-Executive Interim Chair of the Board.
 - Suggested further reading: https://www.sec.gov/Archives/edgar/data/1084384/000110465920123617/tm2035239d2_ex99-2.htm
- We'll continue to track this stock and keep our members updated.

3. Granite Construction, Inc. (GVA):

Watchlist

Market Cap: \$1.5 billion | Granite Construction Incorporated (GVA) operates as an infrastructure contractor and a construction materials producer in the US.

Summary

- **Problematic heavy civil operating group:** On March 02, 2020, the company announced that it had not finalized and filed its full-year financial results. The company announced that in February 2020, the company's Audit/Compliance Committee had begun an investigation of prior-period reporting for the Heavy Civil Operating Group. In July 2019, the company had announced that the second quarter ended June 30, 2019, was impacted by non-cash charges related to four legacy heavy civil joint venture projects.
- On March 17, 2020, the company announced that it would not file its 10-K by March 17, 2020.
- In July 2020, the company concluded that its previously issued financial statements for the year 2018 and the

quarterly reports for the first three quarters of the year ended 2019 should no longer be relied upon due to misstatements. The misstatement would result in a decrease in the net income for the year ended December 31, 2018.

- In August 2020, the company concluded that its previously issued financial statements for the year 2017 should no longer be relied upon due to misstatements in such financial statements.
- In November 2020, the company updated that it had \$549.6 million of available liquidity and ended the third quarter of 2020 with CAP (unearned revenue and other awards) of \$4.2 billion.
- The company continues to win plenty of contracts.

Overall-

- The last filed filing was 10-Q on October 25, 2019. The company is yet to file the subsequent 10-Ks & 10-Qs.
- On a different note, the company's stock price is trading more than the level it traded before reporting the first NT 10-K filing (March 17, 2020).

4. GTT Communications (GTT): Watchlist

Market Cap: \$192 million | The company provides cloud networking services to multinational enterprises, carriers, and government customers in the US.

(a) Accounting problem

- On August 10, 2020, the company announced that it would delay its quarterly report for the quarter ended June 30, 2020. The company also stated that it had identified specific issues related to the recording and reporting of Cost of Telecommunications Services and related internal controls.
- On September 15, 2020, the company announced that it is also examining certain intercompany transactions recorded during the years ended December 31, 2019, 2018, 2017, and 2016, and each of the quarters during the years ended December 31, 2019, 2018, 2017, and 2016. As of September 2020, the company has not concluded its review.
- Termination of Controller: On September 15, 2020, Daniel M. Fraser and GTT Communications mutually agreed to terminate Mr. Fraser's employment as Senior Vice President

and Corporate Controller of the company.

(b) Default notice: On September 2, 2020, the company received a notice of default from holders representing 25% or more of the aggregate principal amount of the company's outstanding 7.875% Senior Notes due 2024.

(c) Potential sale of infrastructure division (\$2.15 billion): On September 15, 2020, the company announced that in November 2019, the company had selected Credit Suisse and Goldman Sachs to serve as financial advisors to the company in connection with the potential sale of certain assets the company refers to as its infrastructure division. On October 16, 2020, the company announced that it had signed an agreement to sell its infrastructure division for \$2.15 billion.

Overall-

The company's current problem stems from the debt the company raised for its big-ticket acquisition. The debt balance is \$3.7 billion. The accounting delay exacerbates the problem by triggering the default clause.

3. 13F - Five special reports

1. MagnaChip Semiconductor Corporation: Migrated to a pure-play product company

1. Fresh start as a pure-play products company with a strong balance sheet

- Sale of a segment for \$350mm: On September 01, 2020, the company closed the sale of the Foundry business and Fab 4 for \$350.6 million in cash. Foundry Services accounted for roughly 40% of total revenue.
- Repayment of debt: After the publishing of quarterly results, on October 2, 2020, the company repaid \$227 million of debt using its cash balance of \$542 million.
- The company is now transformed into a pure-play product company focused on display and power businesses.
- Moreover, the company exited from the non-auto LCD DDIC product line during Q2 2020.

2. Market leader in display solution

- The company derives significant revenue from display driver integrated circuit, commonly referred to as DDIC. A display driver integrated circuit (DDIC) is a semiconductor component that controls the OLED display panel – it acts as an interface between microprocessors and OLED screen.
- Market leader: The company is the largest independent supplier of OLED display drivers. According to OMDIA, MagnaChip recorded a 33.2% market share in DDIC non-captive market, which represents the all-time high

figure for the company. Non-captive suppliers refer to the independent producers manufacturing and supplying for customers who do not have the controlling interest of the producers.

- Growing market share: The company is steadily increasing its market share from 24.6% in 2019 to 33% in the first quarter of 2020.

1Q 2019	24.6%
2Q 2019	24.2%
3Q 2019	27%
4Q 2019	32.1%
1Q 2020	33.2%

3. Positive outlook for the continuing business

- OLED is not only thin compared to LCD panels, but it delivers better color performance and requires less drain on the battery. Also, flexible OLED helps manufacturers in creating innovative designs. As such, smartphone manufacturers are adopting OLED displays instead of LCD displays.
- Overall, the company has a favorable market trend – migration to OLED smartphone (5G), OLED TV, and OLED automotive.
- The company is a pioneer in 28nm OLED drivers with the best power consumption and size in the industry.

Overall, the divestment would allow the management to focus exclusively on its display and power segment.

2. Purple Innovation: Aggressive expansion plan—New manufacturing facility and expansion to Canada

I. Signs of moat: Proprietary product, machine, and patent-protected process

The company generates roughly 92% of revenue from bedding and the remaining 8% from other products like pillow, seat/back cushion, frame, sheets, and other products.

- **Hyper-Elastic Polymer®:** One of the co-founders of the company, Pearce, invented Hyper-Elastic Polymer in 1996. This is a soft and strong material, which could stretch 15 times its resting size, is durable, and does not develop body impressions.
- **Proprietary machinery:** Internally designed, developed, and built, the company's Mattress Max™ machines are the only machines able to mold the Hyper-Elastic Polymer® material into large-format king-sized mattresses at scale. The company has modified other molding machines to manufacture other products containing Hyper-Elastic Polymer® material, such as pillows and seat cushions.
- **Patent protected process:** The process of molding the Hyper-Elastic Polymer® material using the Mattress Max™ machinery is proprietary, patent-protected, and complex, requiring specific knowledge and expertise to successfully execute manufacturing.
- **100+ patents:** The company owns or has the exclusive right to use over 100 granted or pending patents.

The combination of patent protection, proprietary manufacturing equipment, and decades of accumulated knowledge

creates a competitive advantage through barriers of imitation.

II. Leader in the DTC market: The company claims that it is the leader in the DTC category of the bedding market. The company believes that its digital marketing strategy has achieved a level of social media engagement that few competitors can match, including a series of videos that have been seen more than 1.8 billion times across Facebook and YouTube. It helps in the direct-to-consumer (DTC) channel.

III. Strong revenue growth

- The company's revenue grew from \$4.3 million in FY 2014 to \$599 million in LTM September 2020.
- The company manufactured and sold more mattresses in Q3 2020 than in any quarter in its history to deliver record revenue.

IV. Aggressive growth plan after the appointment of Megibow as CEO

- New manufacturing facility and expansion to Canada
- In 2017, the company initiated selling through a retail network. After the appointment of Joseph Megibow in October 2018, the company started pushing the retail model aggressively. In fact, in the conference calls, he outlined the importance of a retail store. He said it allows customers to experience the mattresses first-hand before buying.
- The number of stores expanded from 188 at the end of Q3 2018, to over 1500 at the end of December 2019.

[Recent news](#)

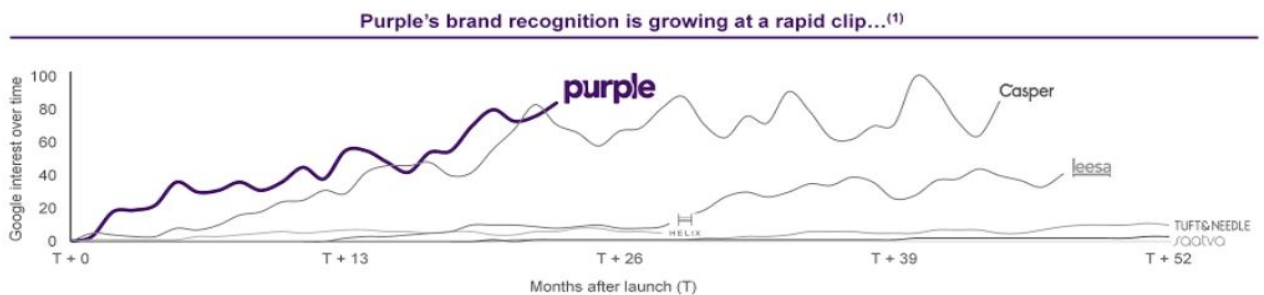
- Expansion to Canada: In October 2020, the company announced an exclusive partnership with Sleep Country, Canada's mattress and bedding retailer with over 280 retail locations. Is this a big deal? As per the latest 10-K, the company had a tie-up with several wholesale partners that had 1,500 retail locations in the US. Now, the partnership with Sleep Country adds an additional 280 locations, which is roughly 18% of total retail locations. This is a significant addition in one year.
- In a recent conference call (Q3 '20), the CEO announced that he looks forward to further expand its wholesale door count in 2021.
- Additional manufacturing facility: In July 2020, the company signed a new

lease for an additional 520K manufacturing facility in Georgia. This will increase the square foot by 77% compared to the current 670K square feet of manufacturing facilities in Utah. This gives an impression that the company has a strong plan to expand.

- Note: Also, under the watch of Megibow, the company introduced new products and updated its existing products. For example, the company updated its original Purple Pillow with boosters that finally make this unique pillow height adjustable for any sleeping position.

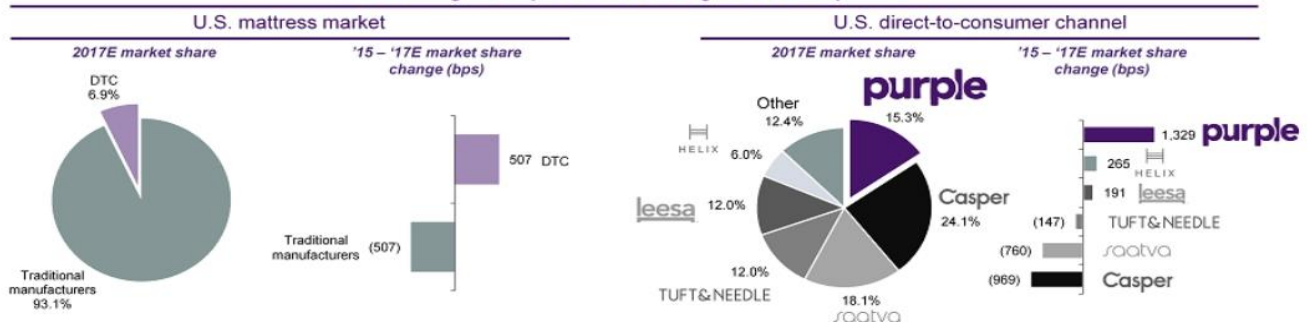
Overall, at the current pace, the company could generate over \$1 billion in revenue within the next few years.

1 Purple's massive market share gains



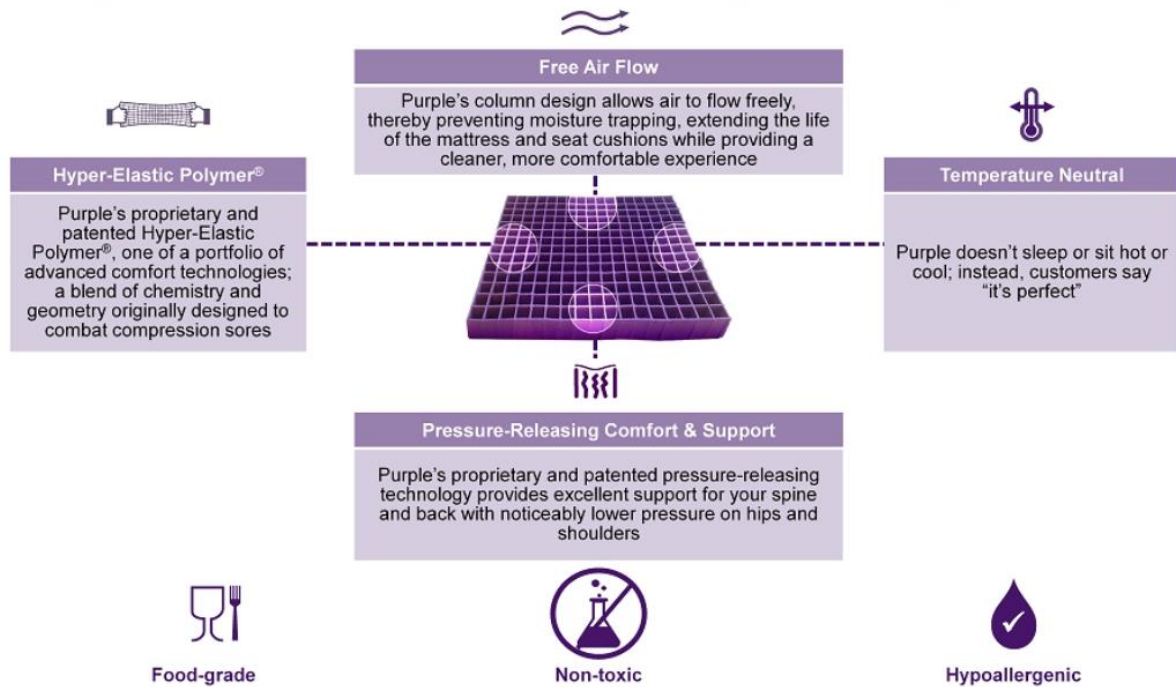
Purple was officially launched one year after Helix, two years after Leesa and Casper, four years after Tuft & Needle and 6 years after Saatva

...translating into rapid market share gains vs. competitors⁽²⁾

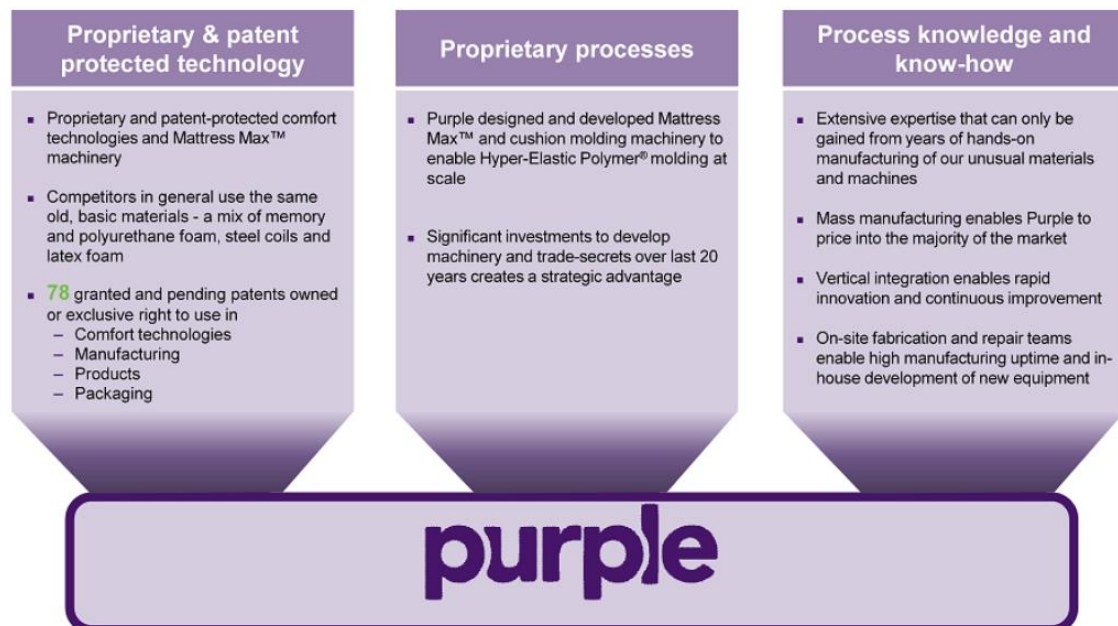


2 Purple's innovative proprietary and patented technologies

History of innovation led to the rise of comfort technologies across sleep, sit and stand⁽¹⁾



2 Competitive moat with multiple barriers to entry



Purple maintains a strong competitive moat

3. Itamar Medical Ltd. (ITMR): Signs of moat

Market Cap: \$336 million; Debt: \$7 million; Cash: \$41 million; EV: \$302 million

The company has developed and is commercializing a novel, non-invasive medical device to aid in the diagnosis of sleep disorders.

1. How does this work? How is this different?

- Traditionally, roughly 65% of the sleep tests are conducted in sleep labs. Sleep experts typically recommend polysomnography (PSG) at a sleep lab, but not everyone chooses to comply. Once the sleep test is interpreted, they may prescribe CPAP during a follow-up consultation, which is also a cumbersome process.
- Non-invasive watch-like device: The WatchPAT family of durable or disposable products is simple to use. The non-invasive watch-like devices utilize finger-positioned bio-sensors to measure and record the patient's PAT signal. This signal is transferred to the company's local software product, zzzPAT, or cloud-based software product, CloudPAT, to analyze and report sleep apnea diagnosis. These proprietary analyses' results are automatically populated into an easy-to-read report that allows physicians to diagnose sleep apnea accurately.
- The company claims that its critical competitive differentiator is the ability to measure and help diagnose sleep apnea through the company's proprietary software and algorithms. The software analyzes the PAT biological signal with other measurements, including actigraphy, heart rate, chest motion, body position, and snoring.

II. Market leader and first-mover advantage

- The company believes that it is the market leader in at-home respiratory sleep disorder diagnostic aids.
- The company also believes that it has a significant and scaled first-mover advantage over competitors, as physicians have utilized the company's technology for more than 1.5 million patients.

III. COVID-19-induced shift

- The company claims that survey results across 300 sleep centers published in July indicate volumes of 70% in home sleep apnea tests (HSATs) versus 30% in the lab, which has flipped from the pre-COVID-19 ratio. Over the long term, while the company expects sleep experts to continue to utilize PSG, we also expect them to utilize HSATs more frequently than in the past.

IV. Recent financials

On January 7, 2021, the company announced its preliminary results-

- Total revenue for the fourth quarter of 2020 is expected to range from \$12.5 million to \$12.8 million, reflecting growth of 28% to 31% compared to \$9.8 million in the same quarter in 2019.
- Total revenue for the full year ended December 31, 2020, is expected to range from \$40.8 million to \$41.1 million, reflecting a growth of approximately 31% (and growth of 35% to 36%, excluding a one-time \$1 million sale in 2019 to Kaiser Permanente) compared to \$31.3 million in 2019.

4. 13G filings

1. Tucows Inc. (TCX): Sale of Ting Mobile Customer Relationships and transition to Mobile Services Enabler Platform | Blacksheep Fund Management

Market Cap: \$783 million; Debt: \$125 million; Cash: \$10million; EV: \$898 million

On January 04, 2020, Blacksheep Fund Management Ltd disclosed a 5.1% passive stake in the company. Blacksheep Fund Management Ltd, a company incorporated in Ireland, acts as an investment manager of Blacksheep Master Fund Ltd.

Tucows is a provider of network access, domain names, and other internet services.

The company operates in three divisions: a) Domain services, 2) Ting mobile service, and 3) Ting Fiber internet service.

(1) Sticky revenue: The company's domain services segment accounted for roughly 82% of total revenue for the recent nine months ended 2020. The company generates revenues primarily from the registration fees charged to resellers in connection with new, renewed, and transferred domain name registrations. The business model consists primarily of non-refundable, up-front payments, which generate recurring revenue and a positive operating cash flow.

Generally speaking, domain name renewals are "sticky" in nature.

(2) Sale of Ting Mobile Customer Relationships and Transition to Mobile Services Enabler Platform

This segment accounted for roughly 25% of revenue in 2019. Effective August 1, 2020, most of the company's customer relationships were sold to DISH Network. The company transitioned to a mobile services enabler (MSE) model from a mobile virtual network operator (MVNO) model.

- Basics: (a) Mobile network operator owns network infrastructure and radio spectrum allocation and also provides communication services. Examples: Verizon, AT&T, and T-Mobile. (b) Mobile virtual network operator (MVNO) provides mobile network communication services to their customers but does not own or operate a physical network. MVNO relies on the radio network of another operator to provide mobile communication services to its users.
- Tucow's Ting was a mobile virtual network operator before the deal. After the deal, Tucow would operate as a mobile virtual network enabler ("MVNE"). The MVNE provides network infrastructure and related services, such as business support systems, administration, and operations support systems to an MVNO. In this case, Tucow is a MVNE and DISH is a MVNO.
- For a period of 10 years, DISH will pay a monthly fee to the company generally equal to an amount of net revenue received by DISH in

connection with the transferred customer accounts minus certain fees and expenses. During the three and nine months ended September 30, 2020, the company earned \$4.6 million under the agreement.

- Why a monthly fee? Why not an outright sale? The CEO explained that getting paid via earnout was the easiest way for the company to get fair value for its asset, and it brings the added benefit of generating consistent cash flows. He added that a large upfront payment would have only gone to reducing its debt and creating a large tax bill in the short term.

A related question we received was why wouldn't DISH build their own platform at some point. For the last 20 years, I've answered questions about why large ISPs and web hosts -- and others don't build domains platforms themselves, and don't internalize the associated processes. These are complex business processes that we're

able to provide at an extremely efficient price. This price is profitable to us -- and makes a lot of sense to large companies, because they can access these integral processes at a tiny fraction of the revenue that a customer generates.

<https://www.tucows.com/wp-content/uploads/2020/08/2020-Q2-TCX-results-QA-transcript.pdf>

(3) Ting Internet

This segment is a fast-growing segment, which contributes roughly 6% of recent quarterly revenue.

Interestingly, on November 30, 2020, the company hired Szuchmacher as chief strategy officer and executive vice president of Networks for Ting Internet. Most recently, she served as vice president of Operations at Google Fiber, where she led strategy, planning, training, and analytics for build and field operations

2. International Money Express Inc. (IMXI): Importance of bricks-and-mortar stores | Royce & Associates, LP (5.7%)

M. Cap: \$548 million; Debt: \$89 million;
Cash: \$109 million; EV: \$549 million.

On January 27, 2020, Royce & Associates, LP disclosed a 5.78% passive stake in the company. At Royce Investment Partners, small-cap investing is the primary business, and the fund is a pioneer in the asset class.

Business: International Money Express, Inc. (NASDAQ: IMXI) (Intermex) is a leading money remittance services company. It uses proprietary technology that enables consumers to send money primarily from the United States to 17 countries in Latin America and the Caribbean, including Mexico and Guatemala, and seven countries in Africa and two in Asia. and company-operated stores, as well as online and via Internet-enabled mobile devices.

1. Niche business:

- The company generates revenue primarily from Mexico and Guatemala.
- Largest and growing industry: The US to Mexico was the third-largest global recipient of remittances, and the US to Guatemala corridor represented the eighth largest in the world in 2019. Moreover, the global remittances increased by 19.0% from 2016 to 2018. Remittances to Latin America grew at a rate of 21.1% in the same period, with the vast majority of that volume coming from the US.

2. Growing market share

- The company's market share increased from 8.1% in 2014 to 19.2% in YTD August 2020.
- In 2019, the company processed 18.0% of the aggregate volume of remittances to Mexico and

25.4% of the aggregate volume of remittances to Guatemala.

3. Highly cash generative business model:

- The company converts approximately 55% of its adjusted EBITDA to free cash, after taxes, investments, and debt service.
- Roughly 80% of the costs are variable with transaction volume.

4. Negligible debt

- Debt: \$89 million
- Cash balance: \$109 million.

5. The overlooked importance of brick-and-mortar stores: the crux of the argument

There are plenty of start-ups targeting a slice of online international remittance. Given the general perception that online rates are competitive and brick-and-mortar rates are expensive, it seems that online is the future, and brick-and-mortar stores will disappear – at least in the paper.

Is there any advantage to a brick-and-mortar store? Or is it dead?

In a study titled "Remittances from the US to Latin America and the Caribbean," the authors surveyed 2,145 migrants in New York, Miami, and Los Angeles who were born in four countries in Latin America and the Caribbean: Colombia, the Dominican Republic, El Salvador, and Mexico.

The study found that the most prevalent way of sending money is at brick-and-

mortar locations. Almost all remittances that originated at brick-and-mortar locations use cash as the payment instrument at origin (97 percent). Interestingly, the study found that Mexicans and Salvadorans are less likely to send their money using an online platform. Why? One of the possible reasons is that a significant number of immigrants are paid in cash. It is easier for them to transfer the amount back to Mexico through an agent who is located nearby instead of depositing the amount in a bank and then doing a transfer through an app.

In a recent conference call, the company's CEO mentioned that online accounts for less than 20% of all total remittance going to markets like Mexico, Guatemala, and others. He went on to say that if a company doesn't have a brick-and-mortar store, it is not a competitor in Mexico, Guatemala, El Salvador, and Honduras. Overall, he argues that online is a tiny fraction of the business.

The company's edge:

- Language: The company maintains call centers in Mexico and Guatemala, providing call center services 365 days per year and customer service in English and Spanish, and the possibility of service in many of the regional dialects that its customers speak. The call centers can provide customer service for inbound

customer calls and have the technology available for direct calls from customers at its agent locations in processing remittance transactions.

- Growing agents: The company's services are accessible in person through over 100,000 sending and paying agents. From January 2017 through December 31, 2019, the company grew its agent network by approximately 80%.

Latest digital push

Most recently, the company has increased its focus and investment in its digital offering. In the latest quarter, the CEO announced that the company had hired a VP – Digital, Director - Digital Marketing and has entered into an agreement with the developer, ArcTouch, for a comprehensive enhancement of the mobile money transfer app.

Other interesting read

- <https://theconversation.com/mexican-workers-in-us-are-sending-record-money-home-despite-coronavirus-related-economic-shutdowns-138704>
- <https://www.pymnts.com/news/international/global-payments/2021/mexican-remittances-set-surprising-united-states-record/>

3. Toughbuilt Industries Inc. (TBLT): Amazon review hints a strong brand name | Kershner Trading Americas, LLC (8.1%)

Market Cap: \$68 million; Debt: \$3 million; Cash: \$8 million; EV: \$44 million.

On January 26, 2020, Kershner Trading Americas, LLC disclosed an 8.1% passive stake in the company. It follows quantitative methodologies.

TOUGHBUILT® manufactures and distributes an array of high quality and rugged tool belts, tool bags and other personal tool organizer products. The company also manufactures and distribute a complete line of knee pads for various construction applications, job-site tools and material support products consists of a full line of miter-saw and table saw stands and saw horses/job site tables and roller stands.

Why are we flagging a stock pick by a quant fund?

Even though Kershner Trading Americas could have picked the stock through an algorithm, we thought of flagging it due to the high-quality products.

1. Excellent review and ranking in Amazon:

- One of the primary reasons for flagging this stock is the fact that the company's products have received excellent reviews on Amazon. Some products are highlighted as "Bestseller" by Amazon.
- Tool Pouches: In this category, the company's seventeen products are in

the top 50 bestsellers. Some of the products are in #3, #6, and #7 rank.

- In the Safety Kneepads category, the company's four products are in the top 50 bestsellers. One product is in #2 rank.
- In the Power Tool Stands category, the company's three products are in the top 10 best sellers – ranks: #4, #6, and #10.
- Please review the Amazon product page:
https://www.amazon.com/stores/ToughBuilt/page/8741F134-A627-4977-8424-4307C3112021?ref=ast_bln

2. Recent quarter's strong revenue growth

- Recent financials: Net sales for the three-month period ended September 30, 2020, were \$16.6 million, an increase of 248% from \$4.7 million for the same period in 2019. Net income was \$120,000 for the three months ended September 30, 2020, compared to a net loss of \$2.6 million in the same period in 2019. The primary reason for the significant increase in revenue is due to Amazon sales and European sales that the company did not have in 2019.
- In January 2021, following the success in Europe, the company introduced its own UK-based sales team.

4. Shotspotter Inc. (SSTI) | Granahan Investment Management (5.4%)

Market Cap: \$536 million; Debt: \$0.1 million; Cash: \$28 million; EV: \$508 million.

On January 21, 2020, Granahan Investment Management disclosed a 5.4% passive stake in the company. Granahan Investment Management focuses on small cap growth equity investments. The investment team members are curious, purposeful investors with a dedication to bottom-up small company research.

Business

ShotSpotter (NASDAQ: SSTI) provides acoustic gunshot detection and precision-policing solutions to help law enforcement officials and security personnel prevent and reduce gun violence and make communities, campuses and facilities safer.

How does this work?

- The company's gunshot detection solutions consist of cloud-based software integrated with proprietary, internet-enabled sensors designed to detect outdoor gunfire.
- Here is how it works: When a company's sensors detect a potential gunfire incident, its system applies machine classification combined with human review to analyze and validate the incident and precisely locate where the incident occurred. An alert containing a location on a map is sent directly to subscribing law enforcement or security personnel.
- The company's flagship product, ShotSpotter® Flex™, is the leading gunshot detection, location, and

forensic system trusted by over 100 cities.

What is interesting?

1. Quick response:

- The company's solutions typically notify users within 45 seconds of a gunshot.
- The alert includes information about the scene of the incident, such as the potential presence of multiple shooters or the use of fully automatic and high-capacity weapons.

2. Court-admissible data:

- The company's detailed forensic reports ("DFRs") provide law enforcement personnel and prosecutors with comprehensive, court-admissible analysis of a shooting incident, including the gunfire audio.
- The company claims that its ShotSpotter Wide Area Sensor Array is the only sensor that can be used as court-admissible evidence in comparison to other sensors like Proximity Sensor and Multi-Mic Cluster Sensor.
- During the year ended December 31, 2019, the company completed and delivered 266 DFRs for outdoor gunshot incidents, and its evidence was presented in the form of expert witness testimony in 33 state and federal trials.

3. First-mover advantage

- The company believes that it sells the only public safety solution that provides comprehensive outdoor coverage for gunshot detection over

large and complex acoustic environments.

- The company has a first-mover advantage in the market with little/no direct competitor. The company also stated that there is a significant barrier to entry regarding technology, experience, and brand reputation.

4. Customer retention:

- The company generated its revenue by annual subscription.
- The company's ShotSpotter Flex customers, approximately 36%, have expanded their coverage areas from their original deployment areas by an average of ten square miles as of December 31, 2019.
- The company's overall revenue retention rate has been over 100% for 2019, 2018, and 2017.
- Since transitioning its public safety business to the ShotSpotter Flex subscription model in 2011, the company has approximately 70+ new customers, but only nine such customers have terminated service.

5. Growing revenue:

- The company's revenue is growing at approximately 33% CAGR from 2016 to 2020. In the last three years, the

company generated revenue of \$40.8 million, \$34.8 million, and \$23.8 million for the years 2019, 2018, and 2017, respectively, representing a year-over-year increase of 17% and 46%.

- After losing money since inception, the company recorded a net income in 2019. The company generated net income of \$1.4 million and \$0.5 million for the nine months ended September 30, 2020, and 2019, respectively.

6. Patent: As of December 31, 2019, the company had 34 issued patents, 32 in the US, one in Israel, and one in Mexico, as well as patent applications pending for examination in the United States, Europe, and Brazil.

Recent financials:

Revenues for the third quarter of 2020 increased 14% to \$11.4 million from \$10.0 million for the same period in 2019. The increase in revenues reflects a significant year-over-year increase in new live miles and customer renewals, including renewals in the third quarter that were delayed from the prior quarter. Adjusted EBITDA for the third quarter of 2020 increased 44% to \$3.3 million from \$2.3 million in the same period last year.

5. Cactus | T. Rowe Price Group

Market cap: \$2.1 billion; Debt: \$30 million; Cash: \$273 million; EV: \$2.1 billion

On January 11, 2020, T. Rowe Price Group, Inc. disclosed a 11.1% passive stake in the company. At Royce Investment Partners, small-cap investing is the primary business, and the fund is a pioneer in the asset class.

Cactus (WHD) designs, manufactures, sells and rents highly engineered products which yield greater pad drilling and completions efficiencies while enhancing safety

SIGNS OF MOAT

- **Only five licensed manufacturers:** The company is one of only five API 6A licensed manufacturers of both wellheads and gate valves with meaningful capacity in the United States.
- **Huge and increasing market share:** The company is a market leader in U.S. Onshore Market, with an impressive 37.9% market share as of Q3 2020. Interestingly, the company increased its market share from 0.8% in December 2011 to 37.9% market share as of September 2020.
- **Recurring revenue:** For each well drilled, the company has the ability to generate revenue across its product lines. Wellheads and production trees are generally single-use products employed on every well, while

pressure control equipment is usually rented during the completion phase of a well. The company is capable of supplying wellhead equipment, pressure control equipment, and related services for a series of wells to be drilled by a specific rig, providing the company with opportunities for recurring revenues.

- **Outperforms peer group:** The company's EBITDA margin and ROCE outperforms its competitors.
- **High EBITDA margin:** The combination of recurring revenues and relatively low capital requirements lead to attractive margins and free cash flow. In the recent third quarter of 2020, the company's adjusted EBITDA margin was 41%.
- **No impairment:** The company claims that it has recorded zero impairment charges through the cycle.

Further research/readings:

<https://mycerts.api.org/Search/CompositeSearch>

OTHER POINTS

- The company's co-founders, Scott Bender (CEO) and Joel Bender (COO), control 35% of total voting rights.
- The company points out that incremental EBITDA margins were healthy during the last market recovery (2017).

6. Model N Inc. (MODN): | Conestoga Capital Advisors, LLC (9.48%)

Market Cap: \$1.2 billion; Debt: \$117 million; Cash: \$200 million; EV: \$1.1 billion | The company is the leading provider of cloud revenue management solutions for life sciences and high tech companies.

On January 06, 2020, Conestoga Capital Advisors, LLC disclosed a 9.48% passive stake in the company. Conestoga manages over \$5.7 billion in client assets as of September 30, 2020. Conestoga Capital Advisors utilizes a fundamental, bottom-up research process and employs a fully invested, long-term investment approach.

#1 Niche business

- It is purpose-built for the life sciences and high-tech industries and is designed to work with ERP and CRM applications that do not typically provide revenue management capabilities.
- Revenues from the life sciences and high-tech customers accounted for approximately 78% of total revenue.
- The company has in-depth domain knowledge that addresses the unique demands of these industries. The company has hired experts from the life sciences and high-tech industries in key customer-facing and development roles.
- As of September 30, 2020, the company had approximately 160 customers.

#2 Subscription revenue (SaaS)

- In 2017, the company started transitioning customers from on-premise software to cloud-based software.

- The company's subscription revenue is growing steadily.

Year	Revenue (\$, mm)	Growth
FY 2016	84	
FY 2017	86	3%
FY 2018	98	14%
FY 2019	105	7%
FY 2020	116	10%

- **COVID-19 acts as a catalyst for migration to SaaS:** Even though the company has been offering SaaS solutions for the past few years, the "work from home" scenario is acting as a catalyst for SaaS transition, as customers look for solutions that will not only keep their team productive but help the employees adopt the new "work from home" norm. Unlike other business that could see demand drop after the end of the pandemic, this is a permanent move. Companies won't scale back to on-premise software from a SaaS after the pandemic.

#3 Patents: As of September 30, 2020, the company had 11 patent applications pending and nine issued patents expiring between 2023 and 2038.

#4 Recent financials: Total revenue for the fiscal year 2020 ended September 30, 2020, was \$161.1 million, an increase of 14% from the fiscal year 2019. Subscription revenues were \$116.2 million, an increase of 10% from the fiscal year 2019. The increase in subscription revenues was due primarily to an increased number of customer contracts. GAAP net loss was \$13.7 million, an improvement of 29% from the FY 2019.

7. Tabula Rasa HealthCare Inc. (TRHC) | First Trust Portfolios (5.1%) | January 11, 2021

Market Cap: \$1.1 billion; Debt: \$260 million; Cash: \$28 million; EV: \$1.3 billion | Tabula Rasa HealthCare (TRHC) is a healthcare technology company.

On January 11, 2020, First Trust Portfolios disclosed a 5.1% passive stake in the company. First Trust Portfolios L.P. operates as an investment management company.

Business

The company has developed a proprietary, cloud-based software platform that reduces adverse drug events and lowers healthcare costs in at-risk populations.

What is the importance?

- For over thirty years, traditional pharmacy software systems have offered clinicians a binary view of drug-to-drug interactions, presenting an assessment of one single drug against another single drug. These legacy systems may be adequate to assess the safety of a medication regimen consisting of only one or two medications.
- However, the elderly, the chronically ill, and those with behavioral health challenges are more likely to be prescribed more than two medications and are typically at high risk of an adverse drug event.
- In these populations, many patients take more than ten different medications a day, and other technologies are inadequate to optimize safety and minimize risk.
- The company's novel and proprietary Medication Risk Mitigation Matrix, or MRM Matrix, delivers a simultaneous, multi-drug review that identifies

medication-related risks across a variety of safety factors and presents meaningful opportunities to mitigate these risks.

What we like/signs of moat

- Subscription revenue: The company charges subscription fees that are recurring in nature.
- High retention rates: The company's annual revenue retention rate was 98%, 99%, and 99% for 2019, 2018, and 2017, respectively, and its client retention rate was 91%, 96%, and 95% for 2019, 2018, and 2017, respectively, which the company believes reflects client satisfaction.
- Programs of All-Inclusive Care for the Elderly (PACE) is a Medicare and Medicaid program. The PACE program is unique as a three-way partnership between the Federal government, the state, and the PACE organization. The company claims that it has become the market-leader in providing PACE with medication risk management over the past eight years. PACE clients utilizing the company's medication risk management services cover approximately 25% of the total PACE enrollees nationwide.
- First mover + proprietary product + recurring revenue with a high retention rate provides the company with a huge competitive advantage, which could make it difficult for a new entrant to penetrate the market.

Recent financials:

Total revenue of \$70.5 million for the three months ended September 30, 2020, declined 5% compared to \$74.3 million for the three months ended September 30, 2019. Medication safety

services accounted for the company's entire shortfall relative to its original revenue guidance expectations and were negatively impacted by (i) COVID-19, and (ii) new restrictions related to

comprehensive medication reviews (CMRs) performed with caregivers and prescribers temporarily slowed patient engagement in the third quarter.

8. Postal Realty Trust Inc. (NYSE: PSTL) | Heitman Real Estate Securities LLC (5.9%)

Market Cap: \$148 million; Debt: \$65 million; Cash: \$8 million; EV: \$205 million.

On January 20, 2020, Heitman Real Estate Securities LLC disclosed 5.9% passive stake in the company. Heitman is a global real estate investment management firm with \$42.5 billion in assets under management.

a) Niche business

- Own properties rented by USPS: Postal Realty Trust, Inc. (PSTL) is an internally managed REIT that owns properties leased primarily to the United States Postal Service ("USPS"). As of September 30, 2020, the company owned 691 postal properties located in 47 states and comprising approximately 2.1 million net leasable interior square feet. The company believes that it is one of the largest owners and managers of properties leased to the USPS.
- Stable tenant and high renewal rate: Leases are most commonly flat five-year terms. The company's historical weighted average lease retention rate was 97.9% from 2009 to 2019.

- Largest owner: The company believes that it is the nation's largest owner and manager of properties leased to USPS.

b) Growth

- Large market: The company's addressable market is large—there are roughly 23,000 postal properties privately owned and leased to the USPS. The company currently own less than 2.5% of the total postal properties.
- Acquisition strategy: The company's growth strategy involves the selective acquisition of post office properties. For the year ended December 31, 2020, the company acquired 261 properties for approximately \$130.3 million.

c) Recent financials

Total revenues increased by \$3.3 million for the three months ended September 30, 2020, to \$6.29 million compared to \$3.0 million for the three months ended September 30, 2019. The increase in revenue is attributable to the properties that the company acquired.

9. Lovesac Co (LOVE) | Granahan Investment Management (6.3%)

Market Cap: \$717 million; Cash: \$48 million; EV: \$670 million.

On January 21, 2020, Granahan Investment Management disclosed 6.3% passive stake in the company. Granahan Investment Management focuses on small cap growth equity investments. The investment team members are curious, purposeful investors with a dedication to bottom-up small company research.

The Lovesac Company is a direct-to-consumer specialty furniture brand with 74 retail showrooms supporting its ecommerce delivery model.

1. Niche and disruptive

- Patented products: The Sactionals product platform consists of two proprietary pieces—the Seat and the Side—that can be arranged and rearranged from one configuration to another in minutes due to two patented technologies, geometric modularity and segmented bi-coupling
- Seats and Sides can be arranged, rearranged, and expanded into thousands of configurations easily and without tools. Sactionals are washable, changeable, rearrangeable, and FedEx-shippable.
- The company provides lifetime warranties on Sactionals frames and the foam used in both product lines.

2. Premium products, strong brand name and loyal customer base

- Lovesac's products are positioned in the premium couch segment of the furniture market.

- Customers routinely share their purchases of Lovesac products with their friends through social media.
- The company's customers include celebrities and other influencers who support the brand through postings made on an uncompensated and unsolicited basis.
- As per the recent estimate, roughly 35% of its transactions in fiscal 2020 is from repeat customers.

3. Attractive business model

- Small showrooms: The typical showroom size is 498 to 1,794 square feet. The showrooms have only a few in-store sample configurations for display, and showrooms are technology-driven and focused on educating prospective customers about the many benefits of its unique products.
- Since the company is a platform-based approach, there is no need for seasonal introductions, designer collections, or broad in-stock assortments.

4. Patent: The company has 18 issued US utility patents and 21 issued foreign utility patents, nine pending US utility patent applications, 33 pending foreign utility patent applications, and three pending international patent applications.

5. Strong revenue growth

- In the last five years, the company's revenue roughly quadrupled.
- Amid the COVID-19 pandemic, the company continued to register double-digit revenue growth in the last three

quarters: Q1: 32.7%, Q2: 28.7%, and Q3: 43.4%.

6. Strong online sales:

- The company's revenue from the internet grew from \$18.8 million in FY ended Feb 2018 to \$55 million in FY ended Feb 2020. In the last nine months, the company generated a staggering \$101.9 million in online revenue.
- Lovesac app: By simply entering the room dimensions into the Lovesac app, customers can see a 360-degree virtual view of their personal living space that they can use to build their ideal Sactionals configuration. They can also change and preview Sactionals cover colors and fabrics, and save, share and buy online, or take their creation to a showroom for an in-person demonstration.

7. Growth strategy and opportunity]
Showrooms account for 55% of total revenue.

(b) Pop-up shop/Shop-in shop

- Sales from other channels, including pop-up shop sales and shop-in shop, accounted for 10.0% and 8.7% of the total sales for the three months and nine months ended November 1, 2020.
- In addition to showrooms, the company operates a shop-in shop in seven locations of Macy's. The company also runs pop-up-shops. Pop-up shops display a few days at a time in a retail location or an online platform. The company has a working relationship with Costco to operate pop-up shop showrooms that typically average ten days at a time.
- Recently, in November 2020, the company announced its online launch with global retailer Best Buy. www.BestBuy.com/Lovesac.

Overall, the company can continue to expand in two ways: growing its showroom and finding retail partners to run shop-in shop /pop-up shops.

10. Orthopediatrics Corp. (KIDS) | Riverbridge Partners LLC (5.4%)

M. Cap: \$893 million; Debt: \$1.5 million; Cash: \$88 million; EV: \$770 million.

On January 25, 2020, Riverbridge Partners LLC disclosed 5.4% passive stake in the company. Riverbridge invest in companies with the fundamentals and leadership to grow their intrinsic value over long periods of time.

Basics

- OrthoPediatics Corp. is a medical device company committed to designing, developing, and marketing anatomically appropriate implants and devices for children with orthopedic conditions
- The company operates in two primary segments-
 - a) Trauma and deformity correction accounts for roughly 68% of total revenue. The company's product line includes more than 3,044 implants and bone fixation devices.
 - b) Scoliosis accounts for roughly 30% of total revenue. There are three core products in this segment.

Why are we flagging this?

1. Niche business

- The company exclusively focuses on the pediatric market, which the orthopedic industry has mostly neglected. Historically, there have been a limited number of implants and instruments specifically designed for children's unique needs. As a result, pediatric orthopedic surgeons often improvise with adult implants

repurposed for use in children, resort to freehand techniques with adult instruments and use implants that can be difficult to remove after being temporarily implanted.

- The company believes that it is the only orthopedic company to have established a robust pediatric-focused infrastructure, including product development.
- The products are characterized by stable pricing, few reimbursement issues, and attractive gross margins.
- Small market: In the US, only 268 hospitals performed 62% of all pediatric trauma and deformity and scoliosis procedures. The company estimates the pediatric orthopedic implant market to be \$3.2 billion opportunities globally, including over \$1.4 billion in the US.

2. Revenue growth

- The company's revenue grew from \$10.2 million in FY 2011 to \$72.6 million for FY 2019.
- Even though the second quarter of 2020 experienced a 25% decline in revenue, in the latest third quarter of 2020, revenue grew by 7.25%. The decline in the second quarter revenue is predominantly due to global suspension of elective surgeries related to the COVID-19 pandemic.

3. Other interesting notes

- Since its inception, its average clearance time with the FDA has been 93 days, which it believes is less than half the average approval time for all medical devices over the past five years.

- As of December 31, 2019, the company owned 15 issued US patents and 18 issued foreign patents and had 24 pending US patent applications and 16 foreign patent applications.

CONCERN

- In December 2020, Culper Research alleged that the company has engaged in a channel-stuffing scheme that has systematically and significantly overstated revenues. You can read the reports here -December 2, 2020 –Dec 14, January 13, 2020

11. Alta Equipment Group Inc. (ALTG) | Granahan Investment Management (5.2%)

M. Cap: \$302 million; Debt: \$442 million; Cash: \$0.1 million; EV: \$744 million.

On January 21, 2020, Granahan Investment Management disclosed a 5.2% passive stake in the company. Granahan Investment Management focuses on small cap growth equity investments. The investment team members are curious, purposeful investors with a dedication to bottom-up small company research.

I. Signs of moat

- Alta claims that its OEMs acknowledge it as a top dealership partner. Top 4 Hyster-Yale dealers nationally. #1 Ranked JCB Dealer in Network
- Through its 51 dealership locations, Alta believes that they are the leading provider of industrial and construction equipment and

aftermarket parts and service support in its territories.

- Alta believes that it is the leading US dealer for over 30 nationally recognized industrial and heavy construction OEMs, including Hyster-Yale, Volvo, and JCB. Its primary dealer agreements grant its exclusivity for new equipment and replacement part sales in its territories.

II. Recent financials

Consolidated revenue increased by \$70.8 million, or 47.3%, to \$220.6 million for the three months ended September 30, 2020, as compared to the same period last year. The primary drivers of this period-over-period increase were the favorable impact from the acquisitions of Flagler, Liftech, PeakLogix, Hilo, and Martin, which occurred between February 2020 and September 2020.

5. ACTIVISM

I. Special reports

Few analysts asked about the benefit of our "process" in finding ideas in 13D. What value do we add?

Even though we also summarize significant 13D filings, we go one step further. For roughly 10 -12 months, we track the "significant changes" the company experiences after the 13D filings. For example, the last 13D filing of Nierenberg Investment Management is on March 18, 2020. We are alerting now, which is roughly after ten months.

1. Houston Wire & Cable Company (HWCC): 75% decrease in debt within 10 months

Market Cap: \$64 million | The company sells electrical and mechanical wire and cable, industrial fasteners, hardware, and related services.

Why are we flagging this?

Summary

After the involvement of David Nierenberg, over the last ten months, the company has reduced its debt by a whopping 75%. Moreover, the company has announced an agreement to sell its Southwest Wire Rope Division, which is expected to further reduce the debt. Interestingly, the market is yet to acknowledge this, since the company disclosed its debt balance on January 13, 2021, in the press release.

Details

- Background: Nierenberg Investment Management Company has been active since late 2017. In March 2020, Nierenberg Investment Management Company argued that the company's current enterprise value was substantially below the value of the sum of its parts (SOTP) and urged the company to pursue a "sum of the parts" (SOTP) disaggregation strategy.
- In March 2020, David Nierenberg (D3 Family Funds) joined the board, and the company determined that all director compensation would be paid in equity.
- At the end of March 31, 2020, the company's debt balance was \$85.92 million. As per the 8-K filed on January 13, 2021, the company's debt was \$21.4 million, which is 75% less than the debt level on March 31, 2020.

2. Tribune publishing (TPCO): Debt reduction from the proceeds from the sale of BestReviews

Market cap: \$560 million | The company publishes newspapers worldwide.

I. Background

- In December 2019, Alden Global Capital (31.6%) entered into a co-operation agreement with the company and added two representatives to the board. In July 2020, Alden Global entered into an amended and restated cooperation agreement with the company and added an additional board member to the board.

- In March 2020, Mason P. Slaine (6.9%) urged the board to approve the divestiture of its subsidiary, BestReviews, LLC.

II. Completion of sale of BestReviews for \$160mm

- On December 29, 2020, the company completed the previously announced sale of BestReviews LLC for \$160 million.
- This segment accounted for roughly 6.2% of the total revenue for the nine months ended September 30, 2020.

3. Commvault Systems, Inc. (CVLT): Strong financial performance; CEO letter to shareholders

Market Cap: \$3 billion | The company provides data protection and information management software applications and related services.

Background: On June 7, 2020, Starboard entered into an agreement with the company and secured three board seats.
Update:

- **Strong financial performance:** On January 27, 2021, the company announced its financial results for the third quarter ended December 31, 2020. Key highlights: i) The CEO mentioned that the strategic moves the company made over the past two years are delivering results. ii) Total revenues for the third quarter of fiscal 2021 were \$188 million, an increase of 7% year over year. iii) Operating cash flow totaled \$17.0 million for the third

quarter of fiscal 2021 compared to \$0.9 million in the prior-year quarter. iv) During the third quarter, the company repurchased shares worth \$33 million.

- **CEO letter:** On the same day, the company published the CEO letter; it is a good read. Key highlight: The company is making tremendous strides in the transition from a perpetual to a recurring revenue model. During the quarter, subscription revenue represented 55% of Software and product revenue versus 41% a year ago.

Letter:

<https://www.sec.gov/Archives/edgar/data/0001169561/000116956121000003/q321ceoletterfinalsecure.htm>

4. Barnwell Industries: Notable settlement agreement terms – Standstill provision is tied to achievement of positive pre-tax profit

Market Cap: \$23 million | Barnwell Industries, Inc. and its subsidiaries are principally engaged in oil and natural gas exploration, development, production, and sales in Canada; investing in leasehold interests in real estate in Hawaii; and well drilling services and water pumping system installation and repairs in Hawaii.

Notable settlement agreement

- On January 27, 2021, Barnwell entered into a settlement agreement with MRMP-Managers LLC. Pursuant to it, the company would re-nominate MRMP-Managers' three representatives to the board at 2021 AGM.

- Even though a few situations could trigger the agreement's cancellation, one provision stands out from the rest and catches our attention. If the company does not achieve a positive pre-tax profit in 2021, the standstill agreement would be canceled.

Overall –

- The company is losing money, but the losses have narrowed down in the recent FY 2020.
- Even though this agreement term does NOT guarantee profitability, at least this sets the management's priority: to become profitable before the next AGM.

5. Elanco Animal Health Incorporated: Company announced a restructuring plan within a month after Scott Ferguson joins the board

Market cap: \$13.9 billion | Elanco Animal Health Incorporated, an animal health company, innovates, develops, manufactures, and markets products for companion and food animals.

- **Sachem Head secures board seat:** On December 13, 2020, the company entered into a cooperation agreement with Sachem Head Capital Management (5.9%), and pursuant to it, the company appointed three new directors to the board, including Scott Ferguson, managing partner of Sachem Head Capital Management.
- **Restructuring plan:** On January 25, 2021, the company's board authorized

a restructuring plan to improve operational efficiency. The proposed actions are focused on streamlining processes and delivering increased efficiency in functional areas while improving the company's investments in innovation. The initiatives include the consolidation of R&D activities to align capabilities to the newly combined innovation portfolio to support the company's innovation, portfolio, and productivity (IPP) strategy. The proposed restructuring is expected to lead to total restructuring charges of approximately \$58-77 million.

6. Ironwood Pharmaceuticals (IRWD): Cash cow business; possible sale? Also read the “heads-up” section

Market Cap: \$1.6 billion | The company is a healthcare company, focuses on the development and commercialization of gastrointestinal (GI) products.

Why are we flagging this stock now?

The company's stock price crashed by 16% in the last 45 days.

I. Recent significant news:

Termination of 35% of employees after discontinuing a product development; company expects to save \$95 million

- On September 29, 2020, the company announced that it plans to discontinue the development of IW-3718, its development program to treat refractory gastroesophageal reflux disease. Subsequently, the company decided to reduce its employee headcount by 35% (roughly 100 employees).
- This reduction in workforce is expected to be completed in the first quarter of 2021.
- Expected total cost savings: \$95 million

II. New plan

Going forward, the company plans to focus on Linzess.

- Linzess is a drug to treat irritable bowel syndrome (IBS) and chronic idiopathic constipation (CIC). The Company and AbbVie began commercializing LINZESS in the US and share equally in us brand collaboration profits.

- Market leader: The company enjoys roughly 40% market share in the IBS/CIC market in 2020.

III. Huge cash balance and cash-generating business

- After multiple years of losses, the company delivered its sixth consecutive quarter of profitability in the third quarter of 2020.
- In the recent nine months ended September 30, 2020, the company generated operating income of \$91.6 million and free cash flow of \$115.5 million.
- If annualized, the company can generate a free cash flow of a staggering \$153 million.
- The cash balance increased from \$177 million in 4Q 2019 to \$350 million in 4Q 2020 (unaudited data).

IV. Buyback

- As per the investor presentation (January 11, 2021), the company might explore deploying excess free cash towards opportunistic share repurchases.
- The company has a debt of \$448 million. Even though the company generates sufficient profit to repay the interest, it would be prudent to pay down some debt.

V. Denner's recent board membership hints at a potential sale

- Sarissa Capital has been active since 2018.
- On November 5, 2020, Alexander J. Denner, Ph.D., founder and CIO of Sarissa Capital, was appointed to the board.

- History of sale: In the past, five companies were acquired after he joined the board. Given this fact, there is a high possibility that this company might also get acquired.

Heads-up

- Sarissa Capital controls the board of Innovia. In December 2020, Innovia made a \$300 million initial

contribution into an investment partnership, which Sarissa Capital would manage. Sarissa Capital earns a fee for managing the fund.

- If the Ironwood board also decides to do something similar to Innovia, the cash would be diverted from debt or buyback repayment.

Exhibit

Alexander J. Denner: Past board membership which resulted in sale of the company

Company name	Date of joining the Board	Acquisition date
Medicines Company	Feb-2016	Nov-2019
ARIAD Pharmaceuticals	Feb-2014	Jan-2017
Amylin Pharmaceuticals	Jun-2009	Jun-2012
ImClone Systems	May-2006	Oct-2008
Bioverativ	Jan-2017	Jan-2018

7. Natural Gas Services Group, Inc. (NGS): Recent strategy: Shift to high horsepower | Mill Road Capital

Market Cap: \$125 million | The Company manufactures, fabricates, rents, sells and maintains natural gas compressors and flare systems for oil and natural gas production and plant facilities.

Why are we flagging this stock?

- This is not a typical 13D stock – there is no public letter, proxy campaign, board seat request—nothing. So, why are we writing about this?
- Even though the fund has agitated for change in a few situations, Mill Road is not an activist fund. It is a private investment firm focused on investing in and partnering with publicly traded micro-cap companies in the US and Canada. The firm can purchase shares in the open market, provide capital for

growth or acquisition opportunities, or execute going-private transactions.

- In the last two years, the fund initiated a stake in only two "new" publicly traded companies.
- Moreover, this is the first time the company has invested in a stock that is closely associated with the oil and gas industry.
- These two reasons raised our eyebrows.

What is interesting?

I. Recent strategy: Shift to high horsepower

- Rental revenue hit peak revenue of \$78.9 million in the year 2014. Subsequently, the rental revenue started to decline, and the company

blamed "lower average oil and natural prices" for four years in a row, i.e., from 2014-2017.

- In early 2018, the CEO mentioned that he sees opportunity in the high horsepower (HP) market. Subsequently, the company started expanding into the high HP market.
- There are plenty of advantages in moving to a high HP market: a) longer contracted terms, b) there are only a handful of companies in the high HP market, and c) market size for high HP is twice the size of the small/medium HP.
- The CEO's decision to expand into high HP seems to be working well for the company. High horsepower increased from 4% of total fleets in Q1 2017 to 40% in Q2 2020.
- Rental revenue started increasing from 2018. Moreover, rental revenue for the first nine months of 2020 is up 11% compared to the same period in 2019.
- The average horsepower per rental fleet unit hovered between 136 and 145 between 2011 and 2017. It increased to 191 in the quarter ended June 2020
- Average revenue increased from \$9,093 in Q3 2018 to \$11,886 in Q2 2020.

Year	Revenue (\$, mm)	Growth
2017	46.05	
2018	47.8	4%
2019	56.7	19%
9M Sep 2020	41.4	
9M Sep 2021	46.1	11%

II. Erratic product revenue

The company's product revenue is tied to the demand from customers' investments in non-conventional shale plays, which require compression for producing natural gas. Since the customers' capital budgets continue to be constrained, this segment's results tend to fluctuate.

Year	Revenue (\$, mm)	Growth
2014	17.2	
2015	18.52	8%
2016	13.62	-26%
2017	20.21	48%
2018	16.27	-19%
2019	19.76	21%
9M Sep 2020	15.8	
9M Sep 2021	3.9	-75%

Overall- Given the fact that the rental revenue proved to be resilient, even during the pandemic, there is a high chance for the company's revenue and profitability to increase significantly if oil and gas activity pick up.

8. Altabancorp (ALTA): Potential sale if the Gunther Family pushes the agenda hard by launching a proxy campaign

Market Cap: \$640 million | It operates as the bank holding company for Altabank, a state-chartered bank that provides retail and commercial banking products and services

- On January 13, 2021, Dale O. Gunther and Blaine C. Gunther, in their capacity as the designated representatives of the Gunther Family (31.1%), sent a letter to the board and urged them to conduct an objective evaluation of the strategic alternatives available to maximize the value to shareholders and other stakeholders.
- On January 15, 2021, Paul R. Gunther (representative of Gunther Family Trust) tendered his resignation from the company's board of directors. In his resignation letter to the board, he stated his belief that the board and his family are on divergent paths concerning the organization's future. Accordingly, he believes that his support for his family's objectives precludes his continued service on the board of directors.

Our comments

- Long story short: The Gunther Family trust, which owns 31.1% of the stake, wants to exit their investment and is pushing the company for sale. The company's press release on January 19, 2021, makes it clear that the CEO doesn't want to sell the company. Please read the CEO's [arguments](#) as well.
- Given the fact that Gunther Family owns 31% and insiders (excluding the Gunther Family) own less than 9%, the family has the upper hand.
- Out of the total ten board seats (one vacant seat), only one board member represents the family. Another representative, Paul R. Gunther, resigned in January 2021, expressing his dissatisfaction. To win a majority board, the family needs five more board members to support the plan.
- The board is staggered, and four directors (out of 10 total directors) are up for election in the upcoming AGM. So, this is an ideal situation to launch a campaign to win the election.
- This election is crucial for the family to push ahead with its plan.
- This situation is worth monitoring.

9. Prescience Point Capital Management thinks MiMedx has huge potential upside

Market Cap: \$1 billion | It is a biopharmaceutical company, develops and markets regenerative biologics utilizing human placental tissue allografts with patent-protected processes for various sectors of healthcare.

- **Background:** In May 2019, Prescience Point Capital Management entered into a cooperation agreement with the company and secured three board seats. In June 2020, the fund expressed its support for adding two board members from the PE funds who invested roughly \$100 million in the company: EW Healthcare Partners and Hayfin Capital Management.
- **PE investors:** In July 2020, the company raised \$150 million from EW Healthcare Partners and Hayfin Capital Management LLP—\$100mm of convertible preferred stock (conversion price: \$3.85 per share) and \$50 million term loan from Hayfin. Pursuant to the transaction, two high-profile executives joined the board:
 - William Hawkins, former chairman and CEO of Medtronic. Attracting him is a big plus.
 - Martin Sutter, co-founder of EW Healthcare Partners. He was involved in more than 30 of EW Healthcare Partners' portfolio company investments
- On January 13, 2021, Prescience Point Capital Management (7.9%) stated its belief that the value of the company's pipeline of clinical trials for Amniofix far exceeds that of the company's advanced wound care business, and management and the board have ineffectively communicated the value of Amniofix

to the investment community.

Moreover, it urged the company to explore strategic alternatives, including a possible sale of the company or Amniofix after the completion of and subsequent data readout from its Phase 2b knee OA trial. [Source](#)

Our comments

- Prescience Point Capital Management argues the company is worth \$31 per share. The fund published a report on the company, where it argued that the company's value could increase to \$31 per share based on new research showing that the company's Amniofix treatment will be a blockbuster for knee OAW.
- Based on its valuation, the stock has a potential upside of more than 250%.
- As per its calculation, the wound care business is worth roughly \$7.92 per share, and Amniofix is worth \$22.79.

Overall: As per Prescience Point Capital, the wound care business is worth \$7.92. The current stock price is \$8.8. As such, the entire upside is tied to the success of Amniofix. The fund points out a few interesting facts: even though Amniofix is yet to receive FDA approval, physicians have used it for several years on an off-label basis to treat knee OA, and thousands of patients have been treated with Amniofix with positive results. Moreover, the report cites favorable outcomes from the independent clinical studies, positive preliminary results from the company, and a low drop-out ratio.

We suggest you read the 34-page [report](#) published by Prescience Point Capital.

10. CIM Commercial Trust Corporation (CMCT): Multiple activists are targeting the company

I. Engine Capital nominated a slate of six director candidates

- In December 2020, Engine Capital (6.1%) nominated a slate of six director candidates to the board. The fund's argument is simple: the company trades at a 57% discount relative to its NAV (\$28.49). At the same time, the company pays a management fee to its external advisor based on the NAV.
- Engine Capital argues that the board's actions favor CIM Group's interests (whose principal, Mr. Ressler, is also chairman of the board of CMCT) to the detriment of CMCT's shareholders. The company recently paid the first quarter annual management fee in shares of the company, which represents an amount in excess of 5% of the company's market capitalization.

II. Lionbridge Capital and Robotti Advisors nominated a slate of six director candidates

- In January 2021, Lionbridge Capital and Robotti Advisors (together 3.16%) nominated a slate of six

candidates for election to the board at the company's 2021 AGM. They also sent a [letter](#) to the board expressing their concerns and highlighted the company's potential opportunities to maximize stockholder value. The group's argument is similar to that of Engine Capital – discount to NAV and problematic agreement with the external advisor.

- The investor group anticipates that a newly constituted board would undertake a strategic review of the company exploring all options, including a sale for cash and/or a mix of cash and securities of another publicly-traded company, or, if appropriate, an orderly liquidation of CMCT's assets.

Our comments

- When multiple activist investors push for changes, it is an interesting situation to monitor.
- Insiders own less than 20%, and the investor group owns 9.2%.
- This is a situation worth monitoring.

11. An increased conviction

Here is the list of three activist shareholders who increased their stake by paying more than their previously reported average purchase cost.

In other words, instead of selling at a higher price, the funds elected to increase their stake, which hints that they still see a huge potential upside.

Company name	Activist name	Previous SC 13D date	Average purchase price as per previous sc13d	Latest SC 13D date	Recent purchase - Average purchase price for "additional" shares	Increase/decrease
Old Point Financial Corporation	PL Capital	8/27/2019	\$16.15	1/19/2021	\$21.82	35.09%
Onespan Inc.	Legion Partners Asset Management	8/18/2020	\$17.28	1/27/2021	\$21.93	26.91%
Box Inc.	Starboard Value	5/29/2020	\$15.62	1/11/2021	\$17.54	12.34%

- **Old Point Financial Corp:** In March 2016, PL Capital's representative was added to the board.
- **Onespan Inc.:** Legion Partners Asset Management has been an active shareholder of Onespan since 2018. On August 18, 2020, Legion Partners issued a press release that included a public [letter](#) to the board highlighting the need for change to the company's strategy.
- **Box, Inc.:** In March 2020, Starboard Value (7.7%) secured three board seats through a settlement agreement. On January 11, 2021, Starboard increased its stake to 7.9%

12. 180 Degree Capital Corp. and B. Riley Financial, Inc., demand the resignation of certain board members of TheMaven

Market Cap: \$24 million | TheMaven, Inc. engages in the software development, building a list of selective, invite-only channel partners, and reaching out to potential channel partners for discussion

Background: On November 27, 2020, 180 Degree Capital Corp. (8.8%) and B. Riley Financial, Inc. (4.99%) delivered a [letter](#) to the board requesting the resignation of five members of the board. On December 1, 2020, the concerning shareholders filed proxy materials soliciting consent in favor of the adoption of the removal proposal.

Update: On January 7, 2021, the concerning shareholders stated that they might continue to engage in discussions with the company and its representatives and other shareholders of the company regarding the board composition matters described in the preliminary consent statement filed by the group on December 1, 2020. Such

discussions could lead to changes to the composition of the board, including the appointment of one or more representatives to the board. [Source](#)

Our comments:

- Last month, we flagged this stock for multiple reasons: (a) The company has rich media assets, and true financials are still hidden due to the fact that the company is yet to file 10-K for the FY 2019 and FY 2020; the financials of the recently filed FY 2018 do not reflect the full-year revenue from two big-ticket acquisitions. (b) The new CEO is a former interim CEO of Yahoo.
- The potential catalyst remains the same, as we pointed out in our last month report: (i) gaining board seats by the concerned shareholders (B. Riely + 180-degree capital); (ii) filing of two years' delinquent filings; and (iii) listing the stock to a major stock exchange.

2. OTHER SIGNIFICANT 13D and NON-MANAGEMENT FILINGS

2.1 Initiating 13D

1. Ategra Capital Management plans to have discussions with Fauquier Bankshares

Market cap: \$70 million | Fauquier Bankshares, Inc. provides retail banking services to individuals and businesses.

On January 29, 2021, Ategra Capital Management (9.3%) stated that it expects to have future discussions with the management and board covering a broad range of subjects related to the company's performance, shareholder value, and governance. [Source](#)

2.2 Follow-up

2. Broadwood Partners was pleased with the substantial progress in STAAR Surgical Company

Market Cap: \$4.9 billion | STAAR Surgical Company designs, develops, manufactures, markets, and sells implantable lenses for the eye, and delivery systems to deliver the lenses into the eye.

- **Background:** Broadwood Partners has been active since 2016. Most recently, in August 2020, Broadwood conveyed the fact that it increased its stake over the last two decades and reiterated its belief regarding the company's progress in overcoming the previous setbacks.
- **Update:** On January 28, 2021, Broadwood Partners (21.5%) stated that it is pleased with the company's progress over time with respect to corporate governance matters and believes that shareholder-oriented corporate governance has made a substantial contribution to the company's overall progress since the chairman of the board and two other directors joined the board in 2014-2016 as a result of dialogue between shareholders and the board. [Source](#)

3. Gatemore issued a letter to the board of Polarityte

Market Cap: \$60 million | PolarityTE is focused on transforming the lives of patients by discovering, designing and developing a range of regenerative tissue products and biomaterials for the fields of medicine, biomedical engineering and material sciences.

- **Background:** On December 28, 2020, Gatemore issued a public letter to the board expressing its dissatisfaction with the board's decision to engage in a series of dilutive financings. The public letter called on the board to (i)

de-classify the board such that all directors are up for re-election every year, (ii) grant Gatemore access to the company's books and records p

- pursuant to a formal demand Gatemore intends to submit to the board, and (iii) form a strategic alternatives committee of the board, made up of independent directors, to evaluate any new financing or other strategic opportunities.

- Update: On January 8, 2021, Gatemore (4.9%) submitted a letter to the company demanding production of certain of the company's books and records in connection with the board's sanctioning of two highly dilutive public offerings implemented without shareholder approval and in a manner that Gatemore believes was in dereliction of the board's fiduciary duties. [Source](#)

4. Roumell Asset Management seeks opportunity to discuss various proposals with Enzo Biochem; Harbert Discovery Fund expressed its disappointment that its questions fell on deaf ears

Market Cap: \$145 million | Enzo Biochem (ENZ) is a pioneer in molecular diagnostics, leading the convergence of clinical laboratories, life sciences and intellectual property through the development of unique diagnostic platform technologies that provide numerous advantages over previous standards

Background: (a) Harbert Discovery Fund: In February 2020, Harbert Discovery Fund secured two board seats after winning a proxy campaign. In September 2020, the fund called for the immediate resignation of the CEO after two of Harbert's nominees resigned abruptly. (b) Roumell Asset Management: In November 2020, in a surprising move, Roumell Asset Management ("RAM") nominated two director candidates for election to the board at the 2021 AGM. The company rejected the nomination letter.

Update

- On January 4, 2021, Harbert Discovery Fund sent a letter to the board's independent members, stating that they voted against the re-election of Dr. Rabbani and the company's other nominees. The letter further expressed disappointment that the company did not address a series of questions that were submitted to the company in advance of the 2020 annual meeting of shareholders.

- On January 4, 2021, the company announced that Dr. Rabbani did not receive a majority of the votes cast and tendered his resignation to the board. The board announced that it is yet to accept the resignation and will wait for 90 days to decide on this.

- On January 5, 2021, RAM issued a press release announcing the annual meeting's preliminary results. Based on a preliminary tally, Dr. Rabbani received over 55% of the voting shares against his re-election. On January 14, 2021, RAM delivered a letter to two non-executive independent directors of the company, requesting the opportunity to discuss the voting

results of the annual meeting and the nominees and RAM's other business proposals.

5. Lawndale Capital suggested corporate governance changes at P&F Industries

Market Cap: \$18 million | P&F Industries, Inc. designs, imports, and sells pneumatic hand tools primarily to the retail, industrial, automotive, and aerospace markets primarily in the US.

- **Background:** Lawndale Capital has been an active shareholder of P&F Industries since 2010. Moreover, Lawndale Capital increased its stake in the company to 15.2% as of October 2020.
- **Update:** On January 24, 2021, Lawndale trimmed its stake to 13.4% and called on P&F's board to take several incremental capital allocation steps. Lawndale's requests that P&F's board (i) continue to repurchase shares and, in particular aggressively, re-initiate an expired 10b5-1 stock buyback plan, (ii) consider increasing the sustainable dividend paid to PFIN shareholders, (iii) adopt "best practices" minimum share ownership requirements for all its board members and senior management, (iv) make by-law changes to adopt "best practices" in corporate governance and eliminate change-of-control protections that, with P&F's concentrated share ownership, are completely unnecessary and create undesirable optics, further hurting PFIN's market valuation. [Source](#)

2.4 Proxy campaign – intention, initiation, ongoing and outcome

6. Cygnus Capital nominated five board candidates; the company filed a lawsuit that Cygnus has formed a secret stockholder group that owns a 21% stake

Market Cap: \$146 million | Ashford Hospitality Trust is a real estate investment trust (REIT) focused on investing predominantly in upper upscale, full-service hotels.

- **Background:** In October 2020, Cygnus Capital urged common stockholders to vote AGAINST the charter amendment proposal and urged preferred stockholders NOT to tender their shares. In November 2020, the company announced the closing of its previously commenced offers to exchange any and all shares of the company's preferred shares. On December 1, 2020, Cygnus Capital requested that the company permit Cygnus Capital and its affiliates to acquire up to 15% of the company's common stock. Subsequently, the board approved a request by Cygnus Capital. On December 23, 2020, the company sent a letter to Cygnus Capital purporting to revoke the waiver previously granted to them. On

December 24, 2020, legal counsel to Cygnus Capital delivered a letter to the company refuting the alleged grounds by which the company claimed to be entitled to revoke the waiver.

Update:

- On January 5, 2021, Cygnus announced that it had nominated five independent candidates for election to the company's eight-member board of directors at the annual meeting.
- **Formation of secret stockholder group (21%)?** On January 19, 2021, the company filed a lawsuit against Cygnus to prevent the firm from running an election contest at the company's 2021 AGM. The company alleges that Cygnus, along with their co-defendants ThornTree and an individual stockholder, collectively acquired approximately 21% ownership of the company at the time of the acquisition of shares in November 2020. The individual stockholder is the Cygnus CEO's mother-in-law, who acquired an ownership stake of approximately 4% of the company's shares as of November 2020. At the same time, ThornTree, whose chief investment officer has a 20-year business relationship with the Cygnus CEO, including once co-founding a business together, acquired an ownership stake of approximately 7% of the company's shares. The complaint alleges that the formation of this secret stockholder group violated federal securities laws.
- On January 25, 2021, Cygnus (2.7%) announced that it intends to fight the baseless lawsuit.

AHT recently announced it intends to grant approximately 1% of its stock to its Chief Executive Officer, Rob Hays, who is one of Mr. Bennett's long-time associates. The Company also amended its external advisory agreement to make it more difficult to terminate the Ashford Inc. arrangement that handsomely rewards the Bennett family. These moves come on the heels of seemingly perpetual dilution.

Although we have never before nominated director candidates, the dire situation at AHT has compelled us to fight for change and protect stockholders from further dilution and suffering.

- On January 27, 2021, Shannon M. Johnson withdrew herself as a nominee of Cygnus for election to the board at the 2021 annual meeting of stockholders.

7. Standard General nominated director candidates to the board of TEGNA

Market cap: \$3.7 billion | TEGNA Inc. operates television stations and radio stations that deliver television programming and digital content.

- **Background:** In January 2020, Standard General waged a proxy campaign. At the [AGM](#) held on April 30, 2020, Standard General's nominees were not elected to the board.

- On January 20, 2021, Standard General (7.6%) submitted a notice to the company nominating a slate of four independent candidates for election to the board at the 2021 annual meeting of shareholders. [Source](#)

8. Oasis Management submitted a notice of its intent to nominate candidates to the board of Stratus Properties

Market Cap: \$197 million | Stratus Properties, Inc. (STRS) engages in the acquisition, development, management, and sale of commercial, and multi- and single-family residential real estate properties primarily in Austin, Texas.

On January 5, 2021, Oasis Management (13.7%) disclosed that on December 31, 2020, it submitted to the company a formal notice of its intent to: (i) present a non-binding advisory proposal to increase the size of the board by one and appoint Laurie L. Dotter to fill the newly-created vacancy, and (ii) nominate two individuals, Ms. Benson and Jaime Eugenio De La Garza Diaz, for election to the board at the 2021 AGM.

9. Engine No. 1 nominated four director candidates to Exxon Mobil board

Market Cap: \$170 billion | Exxon Mobil Corporation (XOM) explores for and produces crude oil and natural gas in the United States, Canada/Other Americas, Europe, Africa, Asia, and Australia/Oceania.

- Background: On December 7, 2020, Engine No. 1, LLC issued a press release announcing its intention to nominate four director candidates to the board in connection with the 2021 Annual Meeting of shareholders. The California State Teachers' Retirement System (CalSTRS) announced its support for Engine No. 1's director candidates. In its letter, Engine No. 1 outlined the case for much-needed change at ExxonMobil and a proposed path forward to protect and enhance long-term value for the company's shareholders.

- Update: On January 27, 2021, Engine No.1 formally nominated four director candidates to the board in connection with the 2021 AGM. Additional information may be found at www.ReenergizeXOM.com.

Engine No. 1 is a new investment firm that seeks to enhance long-term value through active ownership. One of the partners of Engine No. 1 is Charlie Penner. He was a partner at JANA Partners LLC, where he most recently led the firm's impact investing effort.

10. HoldCo nominates five candidates for Boston Private Financial Holdings Board

Market Cap: \$1 billion | Boston Private Financial Holdings, Inc. (BPFH) operates as the bank holding company for Boston Private Bank & Trust Company that provides a range of banking products and services in the United States.

- **Background:** On January 8, 2021, the company entered into a definitive merger agreement with SVB Financial Group pursuant to which SVB will acquire Boston Private for about \$900 million. [Source](#)
- **Update:** On January 27, 2021, Holdco Asset Management (4.9%) announced that it has submitted a notice of its intention to nominate up to five candidates for election to the board. Further, it stated that it agrees with the board of Boston Private that the best way to maximize shareholders' value is to pursue a sales process but noted that the announced sale price undervalues the company. [Source](#)

11. Custodian Ventures announced its plans to nominate Board candidates to Mer Telemanagement Solutions

Market Cap: \$14million | Mer Telemanagement Solutions Ltd. (MTSL) provides solutions for telecommunications expense management (TEM), enterprise mobility management, and call usage and accounting software worldwide.

On January 18, 2021, Custodian Ventures (9.6%) sent a letter to the board stating that it was exercising its right under the Israeli Companies Law to demand that a special general meeting of shareholders be convened with notice of such meeting to be provided by February 8, 2021. The agenda: (i) to terminate the term of office of three board members who are not external directors, and (ii) to nominate three new directors in their place. The fund expresses its willingness to consider providing the company with a loan or make an investment in the company on market terms to cover such requirements. [Source](#)

12. Blackwells welcomes Monmouth's announced strategic review of alternatives / Land & Buildings nominates director candidates to the board of Monmouth Real Estate Investment Corporation

Market Cap: \$1.7 billion | Monmouth Real Estate Investment Corporation (MNR), founded in 1968, is one of the oldest public equity REITs in the world.

- **Strategic alternative:** On January 14, 2021, the company [announced](#) that it has unanimously decided to explore strategic alternatives to maximize stockholder value. The board stated that it intends to consider the full range of available alternatives, including a potential sale or merger of the company.
- **Blackwell supports strategic alternative process:** On January 15, 2021, Blackwells Capital (4%) announced its support for the strategic alternatives process announced by the company, while demanding the board create a special committee of independent directors, unaffiliated with the Landy family. Blackwells stated that it has previously provided the company with notice of its intention to nominate four candidates for election to the board at the upcoming 2021 AGM. [Source](#)
- **Land & Building nominate board candidates:** On January 26, 2021, Land & Buildings issued a [letter](#) to the shareholders regarding the company's flawed strategic alternatives process and Land & Buildings' nomination of four director candidates for election at the 2021 AGM.

13. Kimmeridge nominates three directors to Ovintiv Board

Market Cap: \$4.5 billion | Ovintiv Inc. (OVV), together with its subsidiaries, engages in the exploration, development, production, and marketing of natural gas, oil, and natural gas liquids.

- On January 14, 2021, Kimmeridge Energy Management Company published an investor [presentation](#) where the fund outlined the company's failures and provided a framework for restoring confidence in Ovintiv, applying the core principles previously outlined in its white papers. Kimmeridge has argued that the E&P sector needs to embrace a new business model focused on (i) returning capital to shareholders, (ii) lowering reinvestment rates, (iii) reducing absolute debt, (iv) aligning management compensation with the interests of shareholders, and (v) establishing credible environmental targets aligned with the Paris Agreement.
- On January 26, 2021, Kimmeridge Energy Management Company (2.5%) announced the nomination of three candidates, including its founder Ben Dell, to the board. [Source](#)

14. Starboard nominated director candidates to the board of Corteva

Market Cap: \$31 billion | Corteva, Inc. operates through two segments, Seed and Crop Protection. The Seed segment develops and supplies advanced germplasm. The Crop Protection segment offers products that protect against weeds, insects and other pests, and disease.

On October 8, 2020, Starboard issued a [presentation](#) at the Active-Passive Investor Summit on Corteva. It stated its belief that the company could create substantial value for shareholders through improved operational

execution and lead to improved valuation multiple. It expressed its opinion that Corteva could yield \$47 to \$55 per share.

On January 21, 2021, Starboard issued a [press release](#) and delivered a letter to the board's chairman nominating eight director candidates for election at the 2021 AGM. In its letter, Starboard stated its belief that the company's operating performance can be meaningfully improved and significant opportunities exist within the control of management and the board of directors to unlock substantial value for all shareholders.

15. Carl Icahn, together with CVR Energy, seeks shakeup at Delek US Holdings

Market Cap: \$1.4 billion | Delek US Holdings, Inc. engages in the integrated downstream energy business in the US.

- **Background:** On March 19, 2020, Carl Icahn disclosed a 14.86% stake and expressed his belief that the company could present an excellent synergistic acquisition opportunity for CVI's petroleum segment. [Source](#)
- **Update:** On January 14, 2021, Carl Icahn (on behalf of CVR Energy, Inc) delivered a [letter](#) to the chairman of the board stating his belief that the company desperately needs new strategic direction, and he would like to work collaboratively with the company to replace three nominees at Delek's upcoming 2021 AGM with three independent nominees proposed by CVR. Icahn stated that he expects that these nominees, if elected, would urge a more prudent business model favoring a competitive asset base focused on financial discipline and cash flow generation. The following actions are critical given the current industry outlook: (i) cease Delek's refining operations at the Krotz Springs and El Dorado refineries and convert them to terminals, renewable diesel production or for other purposes; (ii) cease Delek's pattern of dropping down core refining assets into Delek Logistics Partners, LP at value-destroying prices; (iii) sell Delek's retail business at current high prices while retaining wholesale marketing; (iv) exit non-core supply and trading activities and discontinue all other activities that add no value to Delek's core refining business; (v) simplify Delek's corporate structure and reduce G&A expense significantly.

16. Driver Management nominates a candidate to the board of First United Corp

Market Cap: \$119 million | First United Corporation provides various retail and commercial banking services to businesses and individuals.

Background:

- Driver Management lost its proxy campaign in the last two elections.
- On January 8, 2021, Driver Management (5.2%) delivered a notice to the company nominating Mr. Cooper for election to the board at the 2021

annual meeting of shareholders and presented seven shareholder proposals. Please click [here](#) to read more.

17. VIEX Capital Advisors demand Leaf Group for the inspection of certain books and records

Market Cap: \$185 million | Leaf Group Ltd., together with its subsidiaries, operates as a diversified consumer internet company worldwide.

- Shareholder group: Since 2020, an investor group consisting of Osmium Partners, PEAK6, Boyle Capital Opportunity Fund, Oak Investment Partners, Generation Partners, and Spectrum Equity, pushed the company to evaluate strategic alternatives.
- Penderfund Capital Management: (a) In June 2020, Penderfund Capital expressed its belief that strategic opportunities will maximize shareholder value. (b) On January 12, 2021, Penderfund Capital Management reduced its stake to 3.86%.
- The company's stock price has increased by 5X in the last ten months, and the shareholder group has reduced their combined stake from 40% to 23%. Moreover, another shareholder, Penderfund Capital Management, also reduced its stake to less than 5%.
- VIEX Capital Advisors: On January 19, 2021, VIEX Capital Advisors (6.6%) delivered a letter demanding the inspection of certain books and records of the company relating to the company's decision to issue 8.2 million shares.

18. Simon Kukes intends to continue his discussions with the board and management of Ring Energy

Market Cap: \$94 million | Ring Energy, Inc. (REI), an exploration and production company, acquires, explores for, develops, and produces oil and natural gas in Texas.

- Background: In March 2020, Simon Kukes formed a group with SK Energy and American Resources LLC, and delivered a letter to the board expressing their concern over the company's poor stock price performance. The group urged the board to explore various options, including combining with a de-levered E&P company and selling the company to a larger competitor at a significant premium to the current market price. In November 2020, Simon Kukes filed a press release calling upon his fellow shareholders to withhold votes on all members of the board in the upcoming election. At the AGM held on December 15, 2020, the shareholders re-elected all the incumbent directors and approved executive officer's compensation. On December 17, 2020, Simon Kukes (8.1%) filed another press release noting that he believes the lack of support shown by the shareholders at its December 15, 2020 Annual

Meeting shows that the board needs to make changes as they no longer represent the best interests of all shareholders.

- On January 28, 2021, Simon Kukes (8.1%) stated that he had spoken to and intends to continue to speak with representatives of the board and management to discuss enhancing shareholder value and the potential for undertaking transactions that Simon Kukes believes will be beneficial to stockholders, including the requested appointment of new members of the board and the requested withholding (by shareholders of the company) of votes for the board. [Source](#)

2.5 Notable stake increase/decrease

19. After securing three board seats, Senator Investment Group and Cannae Holdings reduced their stake in CoreLogic

Market Cap: \$5.8 billion | CoreLogic, Inc., together with its subsidiaries, provides property information, insight, analytics, and data-enabled solutions in North America, Western Europe, and the Asia Pacific.

- Background: In June 2020, Cannae and Senator proposed to acquire the company for \$65 per share. But the company rejected the offer. In July 2020, Cannae and Senator filed proxy materials to solicit revocable consents from shareholders of the company to request a special meeting of shareholders. On November 20, 2020, the company added three representatives of Senator Investment Group to the board.
- Update: On January 6, 2021, Senator Investment Group, LP, and Cannae Holdings, Inc. reduced their stake to 6.31%. Within a week, on January 11, 2021, Senator Investment Group LP and Cannae Holdings further decreased their stake to 5.08%

2.6 Settlement agreement

20. Maran Partners secured a board seat in Scott's Liquid Gold

Market Cap: \$23 million | Scott's Liquid Gold-Inc., through its subsidiaries, develops, manufactures, markets, and sells household products, and skin and hair care products in the United States and internationally.

Background:

- In January 2019, Summers Value Fund expressed its intention to nominate a candidate to the board. In February 2019, IsZo Capital expressed his support for Mr. Summers. In May 2019, Mr. Summers was elected to the board.
- In December 2019, Maran Partners Fund expressed its desire to join the board.

Update: On January 6, 2021, Maran Capital (12.8%) entered into an [agreement](#) with the company and secured a board seat.

21. RC Ventures reaches an agreement with Gamestop Corp.

Market Cap: \$1.4 billion | GameStop Corp. (GME) operates as a multichannel video game, consumer electronics, and collectibles retailer in the US.

- **Background:** (a) Permit Capital and Hestia Capital Partners secured four board seats in 2019 and 2020 through both a settlement agreement and winning a proxy campaign. (b) In April 2020, Scion Asset Management recommended that the board use its excess cash to complete the \$300 million share buyback authorized by the board, invest in the business, and pay down debt. (c) On April 21, 2020, the company added Lancer Capital's principal (5.3%) to the board. (d) After the involvement of multiple activists, many incumbent directors resigned, which resulted in a majority board change in June 2020. As of June 2020, seven out of ten are new directors.

- **RC Ventures:** On December 21, 2020, RC Ventures (12.9%) stated that it had engaged, and intends to continue to engage, in discussions with the board regarding means to drive stockholder value, including changes to the composition of the board and other corporate governance enhancements.

- **Update:** On January 10, 2021, RC Ventures (12.9%) entered into an [agreement](#) with the company. Pursuant to the agreement, the company increased the board's size from ten to thirteen members and appointed three new directors to the board. Moreover, the company agreed to decrease the board's size to nine members at the next AGM.

22. Carl Icahn and Darwin Deason reached an agreement with Xerox Holdings Corporation

Market Cap: \$4.2 billion | Xerox Holdings Corporation (XRX) designs, develops, and sells document management systems and solutions in the US.

- **Background:** In 2016, Icahn Capital's representative was added to the board. He resigned in 2017, citing differences. In May 2018, Carl Icahn entered into an agreement with the company and changed the majority of the board of directors. Since then, Carl Icahn has increased his stake in the company to 11.8% as of August 2020.

- **Update:** On January 26, 2021, the company entered into a [nomination and standstill Agreement](#) with Carl C. Icahn and a separate nomination and standstill agreement with Darwin Deason. Pursuant to the agreement, the company has agreed to include the two Icahn designees, the independent designee and the Deason designee, on the company's slate of director nominees for election at the 2021 AGM.

23. HG Vora Capital Management secured a board seat in ODP Corp

Market Cap: \$2.5 billion | The ODP Corporation (ODP) provides business services and supplies, products, and technology solutions for small, medium, and enterprise businesses.

On January 25, 2021, the company entered into a cooperation agreement with HG Vora Capital Management (9.5%), and pursuant to it, the board increased the size of the board to ten directors and appointed Marcus B. Dunlop (the HG Vora Designee) to the board. [Source](#)

2.3 M&A

24. Mill Road Capital Management terminated its acquisition proposal for Huttig Building Products

Market Cap: \$88 million | Huttig Building Products, Inc., together with its subsidiaries, distributes millwork, building materials, and wood products for new residential construction, home improvement, remodeling, and repair work in the United States.

- **Background:** In August 2020, Mill Road Capital made an unsolicited offer of \$2.75 per share for Huttig, and increased the offer to \$4 per share in mid-October. On October 22, 2020, 22NW (7.9%) issued a public letter to the board stating its belief that the proposed consideration of \$4 per share offered by Mill Road Capital was far too low and urged that the board reject the offer. 22NW stated its belief that the company can achieve an EBITDA run rate of \$32 million or better within the next three years and a potential stock price of \$9 per share in a base case or \$12 per share in a bull case in that time frame.
- **Update:** On January 5, 2021, Mill Road Capital withdrew its proposal to acquire the company.

25. 40 North increases offer for W.R. Grace to \$65 per share

Market Cap: \$3.9 billion | W. R. Grace & Co. produces and sells specialty chemicals and materials worldwide.

Background:

- On February 20, 2019, the company entered into a letter agreement with 40 North Management (14%), and pursuant to it, the company agreed to nominate two new directors to the board at the 2019 AGM.
- On October 13, 2020, Kathleen G. Reiland, 40 North Designee, resigned from her position as a member of the board and each committee of the company's board. She expressed her dissatisfaction with the board stating, "It has become clear during my time serving as a director that my views on how to address Grace's performance are not shared by this board, in particular my views with regard to the company's current strategic

direction. I have no confidence that my continued service would result in the significant, meaningful change I have advocated for at Grace."

- On November 9, 2020, 40 North Management proposed to acquire the company for a price of \$60.00 per share in cash.

- Update

On January 11, 2021, 40 North Management increased its offer to \$65.00 per share in cash.

26. Centene signs definitive agreement to acquire Magellan Health; Starboard supports the merger

Market Cap: \$145 million | Magellan Health, Inc. provides healthcare management services in the United States. It operates in Healthcare and Pharmacy Management segments.

- **Background:** In February 2019, Starboard nominated six director candidates. In March 2019, Starboard entered into an [agreement](#) with the company, and pursuant to it, the company agreed to increase the size of the board from nine to thirteen and appoint one Starboard representative and three new directors to the board.

- **Update:** On January 4, 2021, Magellan Health and Centene Corporation entered into a definitive merger agreement under which Centene will acquire Magellan Health for a total enterprise value of \$2.2 billion. On January 4, 2021, Starboard entered into a merger support agreement with Centene Corporation in connection with the merger agreement.

27. Alta Fox Capital Management opposes the announced merger of Collectors Universe

Market Cap: \$694million | Collectors Universe, Inc. is a leading provider of value-added services to the collectibles markets.

- **Background:** In June 2020, Alta Fox Capital Management nominated six candidates to the board. In September 2020, Alta Fox gained two board seats through an agreement. In November 2020, the company announced that it had entered into a definitive agreement under which an investor group led by entrepreneur and sportscard collector Nat Turner, D1 Capital Partners LP, and Cohen Private Ventures, LLC, would acquire all of the company's outstanding shares of common stock for \$75.25 per share in cash.

- **Update:** On January 5, 2021, Alta Fox (5.5%) stated its belief that the tender offer commenced by Cards Acquisition, Inc. was neither fair nor in the best interests of stockholders. Alta Fox indicated its belief that this transaction significantly undervalues the company's brand and its future

growth prospects, and therefore, the offer does not properly consider the interests of stockholders who may desire to retain their shares in the company and have the opportunity to participate directly in the company's growth potential. As a result, Alta Fox stated that it did not intend to tender its shares in the offer and instead intends to exercise appraisal rights.

2.7 Others & Income fund

28. Starboard delivered a letter to Papa John's International regarding the governance agreement

Market Cap: \$2.9 billion | Papa John's International, Inc. operates and franchises pizza delivery and carryout restaurants

- **Background:** On February 4, 2019, the company announced that Starboard had made a \$200 million strategic investment in the company. On January 13, 2020, Starboard, in accordance with the terms of the governance agreement dated February 4, 2019, delivered a letter to the company electing to exercise the "continuation option" under the governance agreement.
- **Update:** On January 4, 2021, Starboard, in accordance with the terms of the Governance Agreement, delivered a letter to the company electing to again exercise the continuation option under the Governance Agreement, thereby continuing the standstill period for all purposes of the Governance Agreement until the earlier of (x) the date that is 15 business days prior to the deadline for the submission of stockholder nominations for the company's 2022 annual meeting of stockholders pursuant to the Charter or (y) the date that is 100 days prior to the first anniversary of the 2021 Annual Meeting. As a result of Starboard's exercise of the continuation option, the Governance Agreement provides that, subject to certain conditions, including the absence of a resignation event, the board shall take all necessary actions to nominate the appointed directors for election as directors at the 2021 annual meeting and recommend, support and solicit proxies for the election of the appointed directors at the 2021 annual meeting in the same manner as it recommends, supports, and solicits proxies for the election of all other directors. [Source](#)

29. Bulldog Investors submitted a shareholder proposal in New Ireland Fund

Market Cap: \$54 million | The New Ireland Fund, Inc. is a close-ended balanced mutual fund launched by Bank of Ireland Asset Management (U.S.) Limited. It is managed by Kleinwort Benson Investors International Ltd.

On January 7, 2021, Bulldog Investors disclosed a 9.86% active stake and sent a [letter](#) to the secretary of the company submitting the proposal that shareholders of the New Ireland Fund should be allowed to realize a price for their shares at or close to net asset value (NAV) by converting it to an ETF or dissolving it.

30. Saba Capital nominates board candidates to Eaton Vance Floating-Rate Income Plus Fund

Market Cap: \$119 million | Eaton Vance Floating-Rate Income Plus Fund is a close ended fixed income mutual fund launched and managed by Eaton Vance Management.

- **Background:** At the AGM held on April 16, 2020, shareholders overwhelmingly elected all Saba's nominees and voted in favor of Saba's shareholder proposal to improve corporate governance by declassifying the board. It is to be noted that the company announced that it would take the declassification proposal into consideration but did NOT mention that it would definitely declassify the board. On October 30, 2020, Saba Capital filed proxy materials seeking support to vote against the proposal: (a) to approve a new investment advisory agreement with Eaton Vance Management, and (b) to transact any other business that may properly come before the special meeting.
- **Update:** On January 6, 2021, ISS has recommended that fund shareholders vote FOR the proposal to approve each fund's investment advisory agreement with Eaton Vance Management on the WHITE proxy card for shareholders' joint special meeting to be held on January 12, 2021. ISS has recommended that fund shareholders DO NOT VOTE the gold proxy cards solicited by Saba Capital Management.
- **On** January 8, 2021, Saba Capital submitted to the company a notice informing its intention to (i) present a proposal to declassify the board and (ii) nominate a slate of three independent trustee candidates to the board at the 2021 annual meeting of shareholders.

31. Eaton Vance announced that the meeting was adjourned to February 5, 2021

Eaton Vance Floating-Rate Income Trust (EFT) / Eaton Vance Senior Floating-Rate Trust (EFR) / Eaton Vance Senior Income Trust (EVF) / Eaton Vance New York Municipal Income Trust (EVY) are closed-end funds.

Background

- On December 11, 2020, Saba Capital filed a definitive proxy statement to solicit votes in opposition to the fund's proposal to approve a new investment advisory agreement. Also, it issued an investor presentation to ISS.

- On October 8, 2020, Eaton Vance Corp. (Eaton Vance) and Morgan Stanley announced that they had entered into a definitive agreement under which Morgan Stanley will acquire Eaton Vance and its affiliates.

Update:

- On January 6, 2021, ISS has recommended that fund shareholders vote FOR the proposal to approve each fund’s investment advisory agreement with Eaton Vance Management on the WHITE proxy card for the joint special meeting of shareholders to be held on January 12, 2021. ISS has recommended that fund shareholders DO NOT VOTE the gold proxy cards solicited by Saba Capital Management. *Source*
- On January 15, 2021, the fund announced that the meeting was adjourned to February 5, 2021.

32. Saba Capital nominates board candidates and filed a complaint against Nuveen Global High Income Fund

Market Cap: \$354 million | Nuveen Global High Income Fund (NYSE: JGH) is a diversified closed-end management investment company.

Background

- On December 1, 2020, Saba Capital Management disclosed a 9.9% active stake. It stated that it might make binding or non-binding shareholder proposals or nominate one or more individuals as nominees for election to the board in connection with its investment in the company.
- On December 18, 2020, Saba Capital (9.9%) submitted to the company a notice informing its intention to nominate the following two persons for election to the board at the 2021 AGM: Thomas H. McGlade and Abul Rahman. [Source](#)

Update

- On January 12, 2021, Saba Capital submitted an amended and restated nomination notice to the company providing notice of its intention to nominate the following three persons for election to the board at the 2021 annual meeting of shareholders: Thomas H. McGlade, Abul Rahman, and Bryant Paul Rother.
- On January 14, 2021, Saba Capital filed a complaint against the company seeking injunctive relief on the basis that the defendants, through their adoption of bylaws purporting to strip voting rights from shares acquired in a control share acquisition, which is defined to include the acquisition of shares constituting as little as 10% of the voting power of the trusts. It is to be noted that on October 5, 2020, the fund updated its by-law by including a section “Control Share Acquisition.”

33. Icahn Enterprises replaced its nominee in Cloudera

Market Cap: \$4.5 billion | Cloudera, Inc. provides a suite of data analytics and management products in the US.

- **Background:** In August 2019, Carl Icahn entered into an agreement with the company. Pursuant to it, the company added two representatives of Carl Icahn to the board.

- **Update:** On January 7, 2021, the board elected Gary Hu to the board as a replacement to Nicholas Graziano. Mr. Hu is a director designated by Icahn Enterprises. [Source](#)

Activism: Observation and thoughts

1. Engine Capital sues Engine No.1

- When we came across Engine No.1's filings, it was clear that this is a different fund. Given the confusion around the first name in the investment industry, we are "programmed" to figure this out.
- Anyways, the fight over the fund name is not new. In 2010, Och-Ziff Capital Management Group won litigation against an investment adviser to block the use of the Och name. There are plenty of examples: Morgan Stanley, Citadel, Goldman Sachs, etc.
- The brand "Engine Capital" was not built in a single day. The fund has been actively pursuing activism since 2013 (as per our internal record). In 2013, the fund sent a letter to the board of LSB Industries and agitated against the sale price of Vitran Corporation. The journey started in 2013, is still going strong. The fund has built a reputation for being an aggressive activist investor that won't shy away from launching a time-consuming proxy campaign. As per our internal database, more than 80% of the fund's public activism has resulted in a positive return for a follower.
- At the same time, one of the founding members of Engine Number 1 is no stranger to activism. Charlie Penner was a partner at JANA Partners LLC, where he most recently led the firm's impact investing effort. Moreover, the fund has a list of exceptional founding members. The team includes an investor with Bain Capital's private equity funds, founder of Blackrock's iShare business, and an advisor to early-stage technologies at Google X. In short, it is a great team.
- In activism space, former employees of activist funds also gain fan following in no amount of time. There are two good examples: Keith Meister of Corvex Management (former employer- Carl Ichan) and Mick McGuire of Marcato Capital (former employer - Bill Ackman). Penner also enjoys a similar background, so he has a reputation that is not dependent on the name of the fund he chooses to use.
- Overall, if I were to guess, the founders of Engine No. 1 must-have picked the name without thinking about the potential problems.
- Let's hope they find peace.

2. Resignation is not an answer – case study #Enzo Biochem

Enzo Biochem

Insiders own around 7% if you exclude stock options, and there is no dual-class of voting rights. The board size is just five. Overall, this is an ideal activist target. The only drawback is the presence of a staggered board.

In 2019, Harbert Discovery won two board seats after a long and hard proxy fight. The company engaged in all sorts of ways to thwart Harbert's effort—delaying the AGM at the last moment and adding shareholder proposals to increase the board size.

Within nine months, in November 2020, the two nominees of Harbert abruptly resigned.

Within a few days, Harbert Discovery Fund commented, “It appears that Chairman and CEO Rabbani has created such an extremely hostile environment that Pete and Fabian found their position untenable as minority members in opposition to Mr. Rabbani’s continued mismanagement.”

Serving as a director of an activist representative is not easy, especially if the activist secured the board seat through a proxy campaign. It is not like a regular board seat where you are “invited.” A hostile environment should be expected. See the below three situations.

- In May 2016, Eric Singer and Elias Nader joined the Board of YuMe after winning the proxy campaign. In June 2016, Mr. Singer filed a lawsuit against the company to get access to and copies of certain books and records.
- In 2018, Park City complained that the company’s board had carried out a dilutive financing strategy while deliberately excluding Park City’s board representative, Michael Fox, from the board’s review process.
- In 2017, Mark H. Ravich complained that he was “shut-out of the boardroom” and that his requests for materials and access to the company’s personnel had been “repeatedly denied.”

Based on Harbert Discovery’s comment, it gives an impression that only a majority board change can bring significant changes, including the removal of the CEO.

To win a majority board seat, Harbert needed just one board seat. The fund could have easily won the fight at the 2021 AGM if they had waged a proxy fight at 2021 AGM.

Unfortunately, it did not happen because two board members resigned.

Long story short, the better outcome of the frustration AFTER securing a board is a proxy fight at the next AGM, not an abrupt resignation.

3. Looting of assets and attempt to kill: Investors who track 13D filings have every right to remain silent

Even though shareholder activism is a fertile hunting ground for finding ideas, there are some situations when it is better to avoid getting involved too early.

One such situation is an “ugly fight” – I’ll explain this with a couple of examples.

1. Sorrento Therapeutics: “Looting of assets” and “Little more than theft”

In May 2016, Wildcat sent a letter to the board of Sorrento Therapeutics highlighting critical “red flags”.

Wildcat argued that the company had been acquiring and/or transferring assets to newly-created wholly-owned subsidiaries and then issuing significant amounts of those subsidiaries’ shares back to the company’s executive officers and directors through significant grants of options, and warrants for Class B super-voting stock, all exercisable for a nominal consideration, thereby engineering a personal benefit for these officers and directors at the direct expense of the company and its shareholders.

Wildcat called this series of transactions, “little more than a looting of company assets” and “little more than theft”.

Wildcat filed a lawsuit against the insiders, and the company entered into a settlement agreement with Wildcat. Pursuant to the agreement, the company agreed to terminate all options and warrants currently outstanding in company subsidiaries that had been granted to Dr. Ji [CEO] and any other directors.

Key takeaways

First things first – Wildcat’s activism is deeply appreciated in this case. It took ten long months for the company to settle with Wildcat. Most importantly, Wildcat’s involvement resulted in the termination of “problematic” options and warrants to insiders.

At the same time, from an investing standpoint, when a shareholder refers to an insider’s transaction as “looting of assets” and “little more than theft”, it is better to stay away from the situation until the “core problem” is solved.

2. Natural Gas: The arguments from both sides are horrible to read

Natural Gas is a Cleveland-based natural gas distributor.

The company terminated Richard M. Osborne as CEO and appointed his son as his successor. Subsequently, in 2014, Richard Osborne argued that he was illegally terminated and launched a proxy campaign.

Arguments by Richard Osborne

Richard Osborne (Former CEO), sent a letter to shareholders that contained inflammatory statements about company executives and board members.

Some of his arguments:

- According to the captain, Greg Osborne, CEO: The company needs to do more to protect dedicated employees from sexual and other forms of exploitation.
- The head of the audit committee was imprisoned for attempting to kill his live-in friend.

- Kevin Degenstein (COO) had previously been fired because of his accounting practices.
- How many board chairmen of publicly traded companies frequent strip bars, let alone debase themselves in such a crude way?
- Here is the [link](#) to the SEC filing.

Argument by the company

The company fought back, saying Richard Osborne illegally stole customers from its Ohio utilities. Some of the company's arguments:

- After Richard Osborne was ousted, he started a competing utility business. In a press release, the company accused Osborne of severing gas lines of one of the company's employee. It notes: "Ohio Rural and Richard Osborne severed gas lines owned by our Ohio utility, terminating service to approximately 50 independently owned businesses we serve, and replaced our meters with their own".
- The company wrote, "In September 2014, employees of Cobra Pipeline Co., another Ohio pipeline company owned by Richard Osborne, tampered with one

of our regulator stations by inserting a solid metal plate in the pipeline, cutting off the flow of gas to some of our customers. We immediately called the police and lodged a complaint with the PUCO, who issued a cease and desist order against Cobra on the same day."

Generally, if you read arguments from both sides (incumbent and activist), you would side with either one or the other. But in this case, you would be scratching your head if you were asked to pick a side.

It is better to avoid this sort of situation.

Key learnings:

- Not all activist filings are investible.
- Not all fights are equal – fighting against a "way the company should move forward" is different from fighting against the "moral character" or "questionable ethical practices" of the insiders.
- Always read the arguments – if the activist's arguments raise red flags, wait until the problems are solved.

Olshan's Shareholder Activism Practice Again Ranked No. 1 Law Firm for Activist Investors by FactSet

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January 26, 2021

Advised on More Campaigns in 4Q 2020 Than the Next 12 Highest-Ranked Law Firms Combined

Olshan's Shareholder Activism Practice has again been ranked #1 by **FactSet's Flashwire Advisor Quarterly 4Q 2020** as Olshan lead the law firm category with 76 activist campaigns, a position held since the inception of the rankings. The report highlights Olshan's continued supremacy of the shareholder activism market, being noted as the top law firm to activists, advising on more campaigns than the next 12 highest ranked firms combined. Read the full report [here](#).

TOP LAW FIRMS TO ACTIVISTS

Rank	Legal Advisor	Total Campaigns**
1.	Olshan Frome Wolosky LLP	76
2.	Schulte Roth & Zabel LLP	24
3.	Kleinberg, Kaplan, Wolff & Cohen PC	8
4.	Akin, Gump, Strauss, Hauer & Feld LLP	7
4.	Cadwalader, Wickersham & Taft LLP	7
6.	Vinson & Elkins LLP	5
7.	Simpson Thacher & Bartlett LLP	3
7.	Sullivan & Cromwell LLP	3
7.	Thompson Hine LLP	3
7.	Willkie Farr & Gallagher LLP	3
11.	Davis Polk & Wardwell LLP	2
11.	Venable LLP	2
11.	Weil, Gotshal & Manges LLP	2
*33 other Firms tied with 1 campaign		

Source: <https://www.olshanlaw.com/resources-mentions-shareholder-activism-FactSet-Quarterly-investors.html>

PROXY ADVISORS | LAW FIRM | OTHERS

Company name	Filer name	Proxy Solicitors / Law firm/Others	Contact person	Phone
MIMEDX GROUP, INC. (MDXG)	PRESCIENCE INVESTMENT GROUP LLC	AKIN GUMP STRAUSS HAUER & FELD LLP	JEFFREY KOCHIAN, ESQ.	(212) 872-1000
NTEQ)	CYRUS CAPITAL PARTNERS	Boies Schiller Flexner LLP	DUANE L. LOFT	NA
CORELOGIC, INC. (CLGX)	SENATOR INVESTMENT GROUP, LP	CADWALADER, WICKERSHAM & TAFT LLP	RICHARD M. BRAND	(212) 504-5757
CORELOGIC, INC. (CLGX)	SENATOR INVESTMENT GROUP, LP	CADWALADER, WICKERSHAM & TAFT LLP	STEPHEN FRAIDIN	(212) 504-6000
CORELOGIC, INC. (CLGX)	SENATOR INVESTMENT GROUP, LP	CADWALADER, WICKERSHAM & TAFT LLP	JOSHUA A. APFELROTH	(212) 504-6391
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OLD POINT FINANCIAL CORP (OPOF)	PL CAPITAL ADVISORS, LLC	FOLEY & LARDNER LLP	PHILLIP M. GOLDBERG	(312) 832-4700
HUTTIG BUILDING PRODUCTS INC (HBP)	MILL ROAD CAPITAL II, L.P.	FOLEY HOAG LLP	PAUL BORK	617-832-1113
TEGNA INC (TGNA)	STANDARD GENERAL	FRIED, FRANK, HARRIS, SHRIVER & JACOBSON LLP	JAMES D. WAREHAM	(202) 639-7000
EXXON MOBIL CORP (XOM)	ENGINE NO. 1 LP	GASTHALTER & CO.	JONATHAN GASTHALTER	212-257-4170
EXXON MOBIL CORP (XOM)	ENGINE NO. 1 LP	GASTHALTER & CO.	AMANDA KLEIN	212-257-4170
EXXON MOBIL CORP (XOM)	ENGINE NO. 1 LP	INNISFREE M&A INCORPORATED	SCOTT WINTER	212-750-5833
EXXON MOBIL CORP (XOM)	ENGINE NO. 1 LP	INNISFREE M&A INCORPORATED	GABRIELLE WOLF	212-750-5833
FIRST UNITED CORP/MD/ (FUNC)	DRIVER MANAGEMENT CO LLC	KLUK FARBER LAW PLLC	EITAN HOENIG, ESQ.	(646) 850-5009
OVINTIV INC. (OVV)	KIMMERIDGE ENERGY MANAGEMENT COMPANY, LLC	OKAPI PARTNERS	BRUCE H. GOLDFARB	212.297.0722
OVINTIV INC. (OVV)	KIMMERIDGE ENERGY MANAGEMENT COMPANY, LLC	OKAPI PARTNERS	PATRICK J. MCHUGH	212.297.0721
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MAGELLAN HEALTH INC (MGLN)	STARBOARD VALUE LP	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN	212-451-2250
ASHFORD HOSPITALITY TRUST INC	CYGNUS CAPITAL, INC.	OLSHAN FROME WOLOSKY LLP	STEVE WOLOSKY	(212) 451-2300, 212.451.2333
ASHFORD HOSPITALITY TRUST INC	CYGNUS CAPITAL, INC.	OLSHAN FROME WOLOSKY LLP	ELIZABETH GONZALEZ- SUSSMAN, ESQ.,	(212) 451-2300, 212.451.2333

PAPA JOHNS INTERNATIONAL INC (PZZA)	STARBOARD VALUE LP	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN	212-451-2250
PAPA JOHNS INTERNATIONAL INC (PZZA)	STARBOARD VALUE LP	OLSHAN FROME WOLOSKY LLP	STEVE WOLOSKY	(212) 451-2300, 212.451.2333
COLLECTORS UNIVERSE INC (CLCT)	ALTA FOX OPPORTUNITIES FUND, LP	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN	212-451-2250
WESTERN ASSET INFLATION-LINKED INCOME FUND (WIA)	KARPUS MANAGEMENT, INC.	OLSHAN FROME WOLOSKY LLP	ADAM W. FINERMAN	(212) 451-2300
THEMAVEN, INC. (MVEN)	180 DEGREE CAPITAL CORP.	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN, ESQ.	212-451-2250
THEMAVEN, INC. (MVEN)	B. RILEY FINANCIAL, INC.	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN, ESQ.	212-451-2250
SCOTT'S LIQUID GOLD - INC. (SLGD)	MARAN PARTNERS FUND, LP	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN	212-451-2250
LEAF GROUP LTD. (LEAF)	VIEX CAPITAL ADVISORS	OLSHAN FROME WOLOSKY LLP	ELIZABETH GONZALEZ- SUSSMAN, ESQ.,	(212) 451-2300, 212.451.2333
DTF TAX-FREE INCOME INC (DTF)	KARPUS MANAGEMENT, INC.	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN	212-451-2250
FIRST UNITED CORP/MD/ (FUNC)	DRIVER MANAGEMENT CO LLC	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN	212-451-2250
EATON VANCE FLOATING-RATE INCOME PLUS FUND (EFF)	SABA CAPITAL MANAGEMENT, L.P.	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN	212-451-2250
BOX INC (BOX)	STARBOARD VALUE LP	OLSHAN FROME WOLOSKY LLP	STEVE WOLOSKY	(212) 451-2300, 212.451.2333
BOX INC (BOX)	STARBOARD VALUE LP	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN	212-451-2250
GAMESTOP CORP (GME)	RC VENTURES LLC	OLSHAN FROME WOLOSKY LLP	RYAN NEBEL	(212) 451-2300
MIMEDX GROUP, INC. (MDXG)	PRESCIENCE INVESTMENT GROUP LLC	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN	212-451-2250
MIMEDX GROUP, INC. (MDXG)	PRESCIENCE INVESTMENT GROUP LLC	OLSHAN FROME WOLOSKY LLP	MOHAMMAD MALIK	212.451.2242
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CIM COMMERCIAL TRUST CORP (CMCT)	ENGINE CAPITAL, L.P.	OLSHAN FROME WOLOSKY LLP	RYAN NEBEL	(212) 451-2300
FIRST TRUST SENIOR FLOATING RATE INCOME FUND II (FCT)	SABA CAPITAL MANAGEMENT, L.P.	OLSHAN FROME WOLOSKY LLP	ADAM W. FINERMAN	(212) 451-2300
EATON VANCE FLOATING-RATE INCOME TRUST (EFT)	SABA CAPITAL MANAGEMENT, L.P.	OLSHAN FROME WOLOSKY LLP	ADAM W. FINERMAN	(212) 451-2300
EATON VANCE SENIOR FLOATING RATE TRUST (EFR)	SABA CAPITAL MANAGEMENT, L.P.	OLSHAN FROME WOLOSKY LLP	ADAM W. FINERMAN	(212) 451-2300
FOSTER L B CO (FSTR)	LEGION PARTNERS ASSET MANAGEMENT, LLC	OLSHAN FROME WOLOSKY LLP	STEVE WOLOSKY	(212) 451-2300, 212.451.2333
TEMPLETON GLOBAL INCOME FUND (GIM)	SABA CAPITAL MANAGEMENT, L.P.	OLSHAN FROME WOLOSKY LLP	NA	NA

ONESPAN INC.	LEGION PARTNERS ASSET MANAGEMENT, LLC	OLSHAN FROME WOLOSKY LLP	STEVE WOLOSKY	(212) 451-2300, 212.451.2333
ONESPAN INC.	LEGION PARTNERS ASSET MANAGEMENT, LLC	OLSHAN FROME WOLOSKY LLP	ELIZABETH GONZALEZ- SUSSMAN, ESQ.,	(212) 451-2300, 212.451.2333
BOSTON PRIVATE FINANCIAL HOLDINGS INC	HOLDCO OPPORTUNITIES FUND III, L.P.	OLSHAN FROME WOLOSKY LLP	NA	NA
CAPITAL SENIOR LIVING CORP	COVE STREET CAPITAL, LLC	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN	212-451-2250
CASTLIGHT HEALTH, INC. (CSLT)	RAGING CAPITAL MANAGEMENT, LLC	OLSHAN FROME WOLOSKY LLP	STEVE WOLOSKY	(212) 451-2300, 212.451.2333
EATON VANCE MUNICIPAL BOND FUND (EIM)	KARPUS MANAGEMENT, INC.	OLSHAN FROME WOLOSKY LLP	ANDREW FREEDMAN	212-451-2250
ENZO BIOCHEM INC (ENZ)	ROUMELL ASSET MANAGEMENT, LLC	SARATOGA PROXY CONSULTING LLC	JOHN FERGUSON	(888) 368-0379 or (212) 257-1311
ENZO BIOCHEM INC (ENZ)	ROUMELL ASSET MANAGEMENT, LLC	SARATOGA PROXY CONSULTING LLC	JOE MILLS	212-257-1311
ENZO BIOCHEM INC (ENZ)	HARBERT DISCOVERY FUND, LP	SCHULTE ROTH & ZABEL LLP	ELEAZER KLEIN, ESQ.	(212) 756-2000
STRATUS PROPERTIES INC (STRS)	OASIS MANAGEMENT CO LTD.	SCHULTE ROTH & ZABEL LLP	ELEAZER N. KLEIN, ESQ.	(212) 756-2000
FIRST EAGLE SENIOR LOAN FUND (FSLF)	SABA CAPITAL MANAGEMENT, L.P.	SCHULTE ROTH & ZABEL LLP	ELEAZER KLEIN	(212) 756-2000
VOYA PRIME RATE TRUST (PPR)	SABA CAPITAL MANAGEMENT, L.P.	SCHULTE ROTH & ZABEL LLP	ELEAZER KLEIN	(212) 756-2000
POLARITYTE INC (PTE)	GATEMORE CAPITAL MANAGEMENT LLP	SCHULTE ROTH & ZABEL LLP	ANELIYA CRAWFORD	(212) 756-2000
ODP CORP (ODP)	HG VORA CAPITAL MANAGEMENT, LLC	SCHULTE ROTH & ZABEL LLP	ELEAZER KLEIN, ESQ.	(212) 756-2000
TILE SHOP HOLDINGS, INC.	B. RILEY FINANCIAL, INC.	SCHULTE ROTH & ZABEL LLP	ELEAZER KLEIN, ESQ.	(212) 756-2000
P&F INDUSTRIES INC (PFIN)	LAWNDALE CAPITAL MANAGEMENT LLC	SHARTSIS FRIESE LLP	CHRISTOPHER J. RUPRIGHT, ESQ.	415-421-6500
W R GRACE & CO (GRA)	40 NORTH MANAGEMENT LLC	SULLIVAN & CROMWELL LLP	ROBERT W. DOWNES, ESQ.	(212) 558-4000
W R GRACE & CO	40 NORTH MANAGEMENT LLC	SULLIVAN & CROMWELL LLP	ROBERT W. DOWNES, ESQ.	(212) 558-4000
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BARNWELL INDUSTRIES INC (BRN)	SHERWOOD NED L	THOMPSON HINE LLP	NA	NA
CORELOGIC, INC. (CLGX)	CANNAE HOLDINGS, INC.	WEIL, GOTSHAL & MANGES LLP	MICHAEL J. AIELLO	(212) 310-8000 / 212.310.8552
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XEROX HOLDINGS CORP	DEASON DARWIN	Woolery & Co. PLLC	JAMES C. WOOLERY	(917) 841-4832, (212) 287-7377

6. Random

1. *The Sleuth Investor*: A book worth a relook

Many people wrote about this book during 2007-2014. In the last five years, very few people talk/write about this book.

It is sad to see the below statistics from Amazon.

- The book ranks #3,420 in [Investing \(Books\)](#)
- Only 15 ratings.
- Latest review: Year - 2015

Our take:

- It is the only book dedicated to sleuthing/scuttlebutt research. The book explains the process to track the four physical elements of a company: people (employees, customers, suppliers), product (inventory, the product's physical movement, competing products), plant (production facilities, offices), and periphery (physical surroundings, community, the economic eco-chain).
- Even though it is tough to apply all the methodology, this book provides a useful framework.

Sleuthing is intellectually satisfying and feeds the curious mind. At the same time, it is time-consuming, so one should know when to use and when to stop.

2. Chairman & CEO letter

Stonex Group Inc.

Market Cap: \$1.2 billion

1. Chairman letter

Tested in 2020 by a global pandemic and significant macroeconomic tumult, your company responded by achieving a record return on equity of 24.9% and record earnings per share of \$8.61. That this performance took place amid such unprecedented socioeconomic upheaval deepens our humility and our perspective, and our sympathies go out to all who have suffered personal loss during these trying times.

Indeed, fortune plays a role in any success or hardship, and we recognize that our relative good fortune in 2020 puts us in the minority as compared to many other businesses that have struggled or failed during the pandemic. However, fortune also favours those who are prepared, and as such, we view our record results in 2020 as confirming the wisdom, resilience and efficacy of our strategy, our business model and our approach to managing risk.

As a case in point, the international spread of COVID-19 caused an explosion in volatility of unprecedented proportions. Among the countless examples, the move of WTI crude oil into negative territory perhaps stands out most. This increase in volatility caused a massive expansion of our volumes, and with it, a corresponding increase in our risk – and at a time when our operational risk was exacerbated in unprecedented fashion by having nearly 95% of our people working from home. Yet, we succeeded in capitalizing on the opportunity that the increased transaction flow affords our model while limiting losses related to that same extreme volatility.

Amid 2020's challenges, your company also completed one of the largest and most immediately successful transactions in its history with GAIN Capital Holdings, Inc. We announced the deal in February – prior to the global onset of the pandemic and the market chaos that ensued – with terms based on GAIN's 2019 calendar year financial performance, which included net revenue of \$233.9 million and a loss of \$60.8 million. Looking beyond the numbers at the time, we believed that adding GAIN's businesses and electronic platform expertise would be immediately accretive to our earnings and ROE (per our acquisition criteria) while expanding our client base in the retail financial markets. Yet, the effects of the pandemic-driven volatility benefited GAIN's business even more than ours, as GAIN posted net income of \$91.6 million for the six months ending June 30, 2020. The transaction was completed on our initial terms in fiscal Q4 2020 and resulted in a substantial bargain purchase gain of \$81.8 million in that quarter.

Again, while fortune favoured us with the unexpected boost to GAIN's performance (which accrued entirely to our shareholders), our preparation and approach over the

longer arc of the process enabled us to capitalize on what has become one of the best financial deals your company has done.

As a final note on this matter, the GAIN acquisition also marked our first foray into the institutional debt markets, as we worked with our investment bankers to raise \$350 million in senior secure notes to help us finance the deal. While the price was higher than our liking, the notes were trading at a premium to the issue price at the time of this writing and, perhaps more importantly, this offering opens a new avenue for capital access should we need it in the future.

Unfortunately, our record performance and our outlook going forward are not without headwinds. While market volatility spiked in response to the pandemic, interest rates plummeted to nearly zero across the globe. Interest income on our cash balances is a significant component of our revenue mix and an important driver of earnings, but lower rates led to decreasing interest revenue – even while our cash balances increased significantly due to the GAIN acquisition and our successful organic growth. If, as the Federal Reserve projects, interest rates remain at virtually zero for the next few years, we may have to consider repricing our service offerings.

In June of 2020, the company renamed itself StoneX Group Inc. and began the process of applying the new StoneX brand across our customer-facing subsidiary companies and platforms. More detail can be found in the pages that follow, but I'll note that the new name was well received by the market and our client base and is, in my opinion, a massive improvement over its unwieldy predecessor.

Talented and dedicated people also drive the value of our company, and in this context, I am pleased to welcome Annabelle Bexiga to our Board. She joined us in March 2020 after a distinguished career that includes leadership positions at AIG, J.P. Morgan, Bain Capital and TIAA. We are excited for the IT expertise Annabelle brings to our Board at a time when we are investing heavily in our systems and electronic platforms as keys to our future. In addition, the acquisition of GAIN allowed us to bolster our management ranks with Glenn Stevens (former GAIN CEO) and Diego Rotsztain (former GAIN General Counsel/Head of Corporate Development). They join our own Abbey Perkins (StoneX Group Inc. CIO) as the newest members of our Executive Committee. Numerous GAIN management team members have also taken on expanded responsibilities with us.

As each year passes, we inevitably lose key members, too. This year, we bid a grateful but regretful adieu to Bruce Fields, who has retired from his role as Treasurer. Bruce did an outstanding job for us in managing our liquidity, the lifeblood of our business, enabling us to continue to achieve organic growth and pursue external acquisition targets. Bruce gives way to Kevin Murphy, who knows our company well through his work with us while at JP Morgan and Barclays.

So we come to the end of a record year in which your company demonstrated the ability to grow and prosper in the most difficult conditions. Credit goes to our strategy, our management team and our model, but also to our response to the COVID-19 pandemic as led by our Business Continuity team and carried out by our employees.

Those efforts enabled us to continue our story of consistent, long-term value creation for our shareholders. Since 2002, your company has grown operating revenue from \$5.2 million to \$1,308.3 million and net income from a loss of \$300,000 to a profit of \$169.6 million this year. Over the same period, shareholder equity has grown from \$4.3 million to \$767.5 million.

While recognising the potential headwinds that ebbing volatility and persistently low interest rates may pose to our performance, I remain optimistic that the financial network and platforms we are building will continue to prosper and grow, and deliver increasing value to our shareholders and clients – now and over the long term.

My thanks go to our shareholders for your continued confidence and support, and to our employees and service providers for all of the value they bring to our efforts each day.

JOHN RADZIWILL
Chairman

2. CHIEF EXECUTIVE'S LETTER

Amid unprecedented global market conditions in 2020, StoneX achieved record results in nearly every respect – proving the resiliency of our business while increasing the strength, depth and breadth of our global franchise.

Operating revenues exceeded \$1.3 billion, shareholder equity now exceeds \$767 million and net income reached \$169.6 million, significantly eclipsing our prior year's record performance.

Earnings per share (diluted) rose to a record \$8.61, up 96% over the prior year. We achieved a 24.9% ROE (return on equity), which exceeds our long-term target of 15%.

OVERVIEW

We recorded impressive growth in all of our key operational metrics, including trade volumes for listed derivatives (up 20%), OTC contracts (up 19%), average daily volume for securities (up 20%), average daily volume for FX/ CFD's (up 611%), and aggregate client balances. These strong transactional metrics drove growth in operating revenue for each of our segments, while total segment income grew by 29% over 2019. Please see page 22-23 for a segment overview.

We avoided any significant disruption to our business by COVID-19, as we continued to meet our clients' needs while protecting the safety of our employees – approximately 95% of whom transitioned to a work-from-home environment once the scope of the pandemic became clear. More details on our coronavirus response can be found below.

We completed the acquisition of GAIN Capital Holdings, Inc. our largest transaction to date, which has significantly deepened and broadened our retail client segment and added a leading digital capability that we can leverage more broadly. (More to follow.)

Our customer float, a strong indicator of our market share and customer engagement, reached nearly \$5 billion after the acquisition, almost doubling from 18 months ago. We now serve more than 32,000 institutional and commercial clients and more than 330,000 retail clients. The earnings power of the company has been fundamentally transformed by the GAIN acquisition and the strong growth of our client base. This is evidenced by our 2020 results, which speak to the earning power of the combined companies – albeit in a favorable market environment for both.

We rebranded the company as StoneX because we believe it better reflects the company we are today and better serves our goal of becoming a leading global financial franchise. The continued expansion of our capabilities and the growth of our client footprint stand in stark contrast to many of our peers, and we have increased our recognition among clients and talent across the globe as a trusted financial service partner.

For years now, we've been pursuing many of the principles and best practices that now fall under the rubric of environment, social and governance (ESG) policy through our existing corporate culture and its emphasis on ethical conduct toward, and fair treatment of, our clients, employees and other stakeholders. This year, we provide more detail on our approach to ESG on page 24.

In any typical year, our record financial performance would be the lead story of this letter by a long shot. Of course, 2020 proved to be anything but typical, as it posed historic challenges to all of our stakeholders. Yet, this past year also saw us seize some transformative opportunities.

COVID-19 RESPONSE

Clearly, our most significant challenge in 2020 was the global onset of the COVID-19 pandemic, and we share our sympathy and our empathy with those among us who have suffered personal loss. The coronavirus has also roiled markets worldwide and disrupted daily life in countless ways, creating exceptional hardships – and yes, in some cases, opportunities – for nearly all of our clients.

Throughout the pandemic, we have remained focused on maintaining our ability to meet our clients' needs while also protecting the safety of our employees, vendors and other stakeholders. From the beginning, we monitored the virus with an eye toward reacting with prudence over panic. As the global scope and potential impacts of COVID-19 became clear, we acted swiftly to institute new workplace policies and practices to ensure business continuity and safety. These included the transition to a 95% work-from-home model, in-office protocols aimed at reducing potential virus transmission, compliance with all applicable local health guidelines, a pause on all non-essential employee travel, and the dissemination of personal health and prevention guidance informed by CDC guidelines.

One of the most notable successes of our coronavirus response was the nearly seamless transition of our robust in-person events program to an all-virtual footing. Company-hosted events play integral roles in how we deliver value to our clients, and they help drive the client acquisition efforts of our brokers and sales professionals. When the spread of COVID-19 in March 2020 began to trigger mass cancellations of in-person events in favor of "virtual" replacements, our Global Events team and Lead Generation

team worked together to adapt their registration and promotional systems for virtual use quickly, as well as identify and fully implement a new virtual hosting platform in less than 30 days. This nimbleness and flexibility enabled us to not only host nearly as many events in fiscal 2020 as we did in fiscal 2019, but also increase registration for those events by 58% over the prior year.

As a result of our success in these efforts, we've enabled our clients to continue to pursue their business objectives and our employees and vendors to continue supporting their families and their communities. We could not be prouder of the efforts of our Business Continuity and our management teams in "running toward" this challenge and acting decisively to provide solutions. Nor could we be more grateful to our employees for the vigilance, diligence and resolve they've displayed in providing exemplary service to our clients under these fluid and often difficult circumstances.

As global commerce continues, however, so does our need to assess the market trends and dynamics that may affect our business going forward. The economic crises spurred by the effects of COVID-19 have led to increased market volatility and a reduction of interest rates globally. Our business performs best when we have moderate volatility and can earn a carry on our customer float. Volatility can increase risks for hedgers and provides money-making opportunities for speculators, so moderately higher volatility drives more activity over our platform from both types of clients. Conversely, low interest rates limit the amount of revenue we can generate from our customer account deposits. In 2020, our performance suggests that the benefits we captured from elevated volatility outweighed the drag from lower interest rates in the latter half of our fiscal year. While neither trend is likely to change until the pandemic abates, we can't assume that their relative balance will persist in our favor over this time. Therefore, we will keep a close eye on volatility and maintain strict adherence to our risk controls as we move through 2021

GAIN CAPITAL AND OTHER ACQUISITIONS

In July 2020, we completed our purchase of GAIN Capital Holdings, Inc. for \$6.00 per share in an all-cash transaction representing approximately \$237 million in equity value and a total transaction value of \$329 million – a premium of 12% to GAIN's tangible book value at the time. We financed the purchase consideration with a \$350 million high-yield bond issue – effectively making our debut into the institutional debt markets. This in itself was a big step for our company and we were pleased that the offering was well received and many times oversubscribed and has traded strongly in the market since issue. This opens a new avenue for capital to fund our ongoing growth, if needed. Over time, we believe that we will be able to achieve even more-competitive financing terms as we further establish our credit market credentials.

Founded more than 20 years ago with the intention of providing traders with low-cost access to foreign exchange markets, GAIN serves more than 130,000 retail and institutional investors through its FOREX.com and City Index online platforms, as well as a complementary futures business. It is the largest retail FX firm in the U.S. and has a significant presence in the UK, Europe and Asia. GAIN's businesses add significant transaction flow from a new and large global retail client base – that we can process through our existing clearing and execution infrastructure. This enables us to aggregate flow and cross spreads internally more efficiently – in turn driving increased revenue

capture. Additionally, our vertically integrated offering of both execution and post-trade clearing services allows us to internalize margins previously paid to third parties. The integration of GAIN into our business also added nearly \$1bn in customer float and provided some obvious cost synergies through the elimination of GAIN's public company costs and the consolidation of our two global infrastructures.

From a strategic standpoint, we are adding a new retail segment that offers a substantial addressable market for us. We can leverage our global network and our products and services to enhance GAIN's product offering to drive market share growth by capturing additional business from existing clients, as well as enable the acquisition of new clients. Finally, our integration of GAIN's digital assets and expertise will also accelerate the digitization of our own platforms, which remains a strategic priority.

At the time we agreed to the transaction in February 2020, we believed that this was a well-priced and structured transaction that achieved strategic objectives for both businesses and would be accretive in the short term to earnings, EPS and capital. What we could not foresee was the impact of COVID-19, which led to GAIN realizing record results as market volatility spiked, customer engagement soared, and record numbers of new accounts were opened. These positive results accrued to our shareholders under the terms of the contract and enabled us to realize a sizable gain through the income statement when we closed the transaction in July. GAIN's exceptional results significantly de-risked an already well-structured transaction, provided us with additional capital, and boosted our core operating results by some 6% in ROE terms.

In addition to GAIN, we completed three smaller but strategically significant acquisitions over the course of 2020. In Q1, we purchased the brokerage businesses of Tellimer Group, which increases the access we can offer clients to securities in emerging and frontier markets globally. We also acquired two German firms, GIROXX GmbH and IFCM Commodities GmbH, with the goals of expanding our offerings and buttressing our business lines against disruptions stemming from potential regulatory changes in Europe.

GIROXX provides online payment and foreign exchange hedging services to small and medium sized enterprises (SME's) in Germany, Austria and Switzerland, and will partner with our Global Payments Division to offer SME's the ability to hedge all parts of their production processes through one digital payments and hedging platform. As a long-time partner of our Metals Division, IFCM specializes in providing commodity price-risk management solutions for base metals clients across Germany and continental Europe.

Each of these acquisitions falls in line with our patient and disciplined approach and met our longstanding criteria: a good cultural fit (client first), clear strategic value in the form of either client relationships or added capabilities and the ability to be financially accretive quickly.

As the trend toward consolidation across the financial industry persists, we will continue to pair our opportunistic approach to acquisitions with prudent investments in organic growth.

REBRAND TO STONEX

Following 2019, in which we achieved record financial performance; we grew our franchise not only in strength and reach but also in the esteem of customers, prospects, peers and talent; and we pushed the digitization of our offering further forward through new and innovative trading and analytic platforms, we came to realize that one critical element lagged behind all of it: our brand. A brand plays essential roles in how a company is valued by investors, how it wins business in the marketplace and defends it from competitors, and how it can withstand challenges and risks to its reputation.

For these reasons, we decided to rebrand the company with a forward-looking name that better captures the essence of the company we are today and where we plan to go from here: StoneX. While we considered other names, we chose StoneX for the following strengths: “Stone” is the most tangible, recognizable and long-standing component of our prior name – dating back to the original predecessor company founded by Saul Stone in 1924. In addition to providing continuity, it communicates strength and reliability. The “X” represents 1) exchanges, as in all of the markets we connect clients to, as well as execution and clearing on those exchanges, in OTC markets and within other liquidity venues, 2) the “exchange,” or sharing, of our services, capabilities, insights and expertise with clients, 3) “exchange” in the network sense, as in the point where network components and pathways intersect and increase connectivity, and 4) the multiplier effect, or “X-factor” that our network delivers in value to all of our stakeholders. And to be perfectly frank, its brevity was also a plus.

Although launched in June, the changeover to StoneX continues across our platforms and communications materials as we navigate the myriad legal and regulatory complexities involved in renaming all of our customerfacing subsidiaries across the globe. But we’re confident that all our business lines are already deriving value from the change.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

Increasingly, we find ourselves fielding questions from stakeholders and potential investors about our environmental, social and governance (ESG) policies, and what programs or initiatives we’re pursuing to support them. Our approach has always been more akin to a philosophy than a “policy” per se. We believe in playing by the rules, treating all of our stakeholders fairly, creating opportunities for our employees and rewarding them on merit, and “doing the right thing over the easy thing” in all that we do. Over the years, we’ve let many of our practices that fall today under the rubric of ESG arise organically out of these tenets – without feeling a need to report, catalogue or communicate them beyond this context.

In having these ESG conversations, however, we are reminded of how essential our values, and the practices they inform, are to who we are as a company and the value we deliver to all our stakeholders. For this reason, we’ve decided to make a more concerted effort to share our efforts within the context of ESG going forward – beginning with a new section in this report (on pg. 26) that expresses our core vision. We are also developing a new section for our website that will provide a more thorough accounting of our ESG initiatives as they grow and progress.

One of the highlights of our progress in 2020 is the growth of our Women in StoneX employee affinity group. Organized by one of our female Executive Committee members with support from our Board, Women of StoneX provides a constructive forum in which all of our employees can discuss how women at our company can navigate common workplace challenges and share advice on how to handle performance assessments, advocate for their own advancement, and take greater advantage of the opportunities afforded by the company's entrepreneurial culture.

LOOKING AHEAD

Our core business performed strongly in 2020 despite the global economic tumult brought on by the pandemic, once again demonstrating both the resilience and the earnings power of our business model. Across the various – and often markedly different – market environments that have come and gone, we have been able to maintain our consistent record of growth. Since 2003, we have maintained a consistent record of significant growth – especially relative to peers and our industry overall. Specifically, we've grown operating revenue at a compound annual growth rate (CAGR) of 33%, book value at 30% CAGR and market value at 30% CAGR over this period. In many ways, it is in difficult and tumultuous markets that we see the most opportunity to differentiate ourselves to our customers by providing consistent service and trade execution when they need it most. These conditions also offer prime opportunities for us to expand our franchise through organic growth as other firms falter, or through disciplined acquisition as the industry continues to consolidate.

We have reinvested our capital consistently into expanding our global financial services network, which offers market access across nearly all asset classes, vertically integrated execution and clearing and institutional-grade digital platforms. In effect, we offer bulge-bracket capabilities to mid-size clients, but pair those capabilities with high-touch, boots-on-the-ground service and expertise. This truly unique combination is nearly impossible to find in either the top or the second tier of our industry, and thus differentiates us from both larger and smaller competitors. It also creates "sticky" relationships that we can grow over the long term.

Past performance and present advantages will count for little unless we can leverage them to capture new opportunities, scale our enterprise further and fuel continued growth. The foundations for our continued success depend on management executing on the following key objectives.

- Continue to build our ecosystem and expand our reach within the global financial markets – We must ensure that we constantly remain relevant to our clients by offering the best and most efficient access to financial markets and products. This will drive increased engagement and wallet share from existing customers and continue to drive market share for us as we are seen as the leading market access firm in the industry. We will pursue this objective by adding new trading venues, exchanges and market liquidity sources both organically and through acquisition where appropriate.

Grow and diversify our customer base – We estimate our market share on any given product or service we offer to be anywhere from <1% to 5%, which means that we have a significant addressable market and a long growth runway ahead of us. The financial markets are global and so is the opportunity they offer, which is why we have invested

in a global footprint that enables us to seize that opportunity. Expanding the access we offer to the global markets ecosystem while our industry has been consolidating has driven organic customer growth and will continue to do so. We will also selectively look to grow our customer base through team hires and through acquisitions that meet our criteria. We will also look to diversify our customer base by geography, by size and by type, which adds to the resilience of our business model. We are unique in serving investors, speculators, banks, retail and commercial customers – all of which need the efficient access to the financial markets and the vertically integrated offering we provide.

Digitize our customer engagement – We continue to invest significantly in digitizing our trading platforms and client interfaces in order to provide clients with easier and more intuitive ways to pursue their financial market objectives. Our goal remains to improve client engagement while driving down our delivery costs – enabling us to increase margins and scale up our business globally without being constrained by physical infrastructure.

Drive capital formation – As a regulated financial services business, capital underpins our customer activity and our continued growth. As a public company, we have access to the equity capital markets and now more recently the institutional debt markets, as well as support from our banking partners. However, capital markets are fickle and our focus on ROE allows us to create our own capital runway to support our growth without being dependent on the markets.

As we pursue these objectives and the significant opportunity they represent, we should also recognize all of the people whose efforts power our success every day. On behalf of the executive management team, I want to thank all of our colleagues for their exceptional contributions during this year of unprecedented challenges and achievements, our Board and advisors for their guidance, our bankers for their financial support and our stockholders for entrusting their capital to us.

SEAN M. O’CONNOR
Chief Executive Officer

Articles

<https://www.tipranks.com/news/labs/tipranks-identifies-the-top-100-wall-street-analysts-of-2020>

Feedback

“If someone can prove me wrong and show me my mistake in any thought or action, I shall gladly change. I seek the truth, which never harmed anyone: the harm is to persist in one's own self-deception and ignorance.” - Marcus Aurelius

If you have any comment or feedback, please let us know. You can write to raghu@snowballresearch.com

Thank you for your time.

No Investment Advice

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