Snowball Research

SNOWBALL RESEARCH NOTES

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Management change

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. Verso: New CEO has relevant experience

Market Cap: $419 million | The company is a leading North American producer of graphic and specialty papers, packaging and pulp.

Summary

Positives

• The new CEO has a relevant background – one of the top five executives of Kapstone ($4.9 billion).
• After Atlas Holdings/Blue Wolf Capital's involvement, the company experienced a majority board change and management change. Atlas Holdings is an operator and claims to have experience in turning around similar companies.
• Debt-free – The company repaid debt from the cash generated from the sale of two mills.
• Trading below the value? The two mills (capacity: 0.66 million ton) that generated $538 million in revenue were sold for $346 million in Feb 2020. At the same time, the remaining business that generates $1.2 billion from the two mills (capacity: 1.2 million tons) is currently trading at an enterprise value of $353 million. On top of it, two more mills are idle. Even though it is beyond the scope of the research to figure out the value of the remaining business, the message is simple: the company seems to be significantly undervalued.

Challenge

• The COVID-19 pandemic has significantly affected the demand for specialty paper.

Overall, the company is poised for success if the industry scenario improves.

What is interesting?

1. Major board and management shakeup after Atlas Holdings involvement

(a) Background

- *Settlement agreement:* After the investment group (Lapetus Capital/Atlas Holdings and Blue Wolf Capital) launched a proxy campaign in January 2020, the company entered into a settlement agreement with Lapetus Capital and Blue Wolf Capital. Pursuant to the agreement, the company added three representatives of the activist investors to the board.

• *Who is Lapetus/Atlas Holdings?*
Lapetus Capital is controlled by Atlas Holdings. Atlas Holdings LLC (www.atlasholdingsllc.com) is an industrial holding company that owns 20 companies that generate revenue of approximately $5 billion annually. Atlas invests in underperforming and challenged businesses and unlocks the full potential of the companies.
• *Blue Wolf Capital?* Blue Wolf Capital Partners LLC (www.bluewolfcapital.com) is a middle-market private equity firm .

(b) Majority board and management shakeup

Board shakeup

• The entire board of directors joined the board on or after November 2019, i.e., after Lapetus Capital/Atlas Holdings' involvement.
• Mr. Erwin, a representative of Lapetus Capital, was appointed as chairman of the board.

Management shakeup

• Four out of the top five executives were appointed in the last 11 months.

• CEO: Oct 2020; SVP - Sales & Marketing: March 2020; SVP - Manufacturing: April 2020; SVP - Human Resources: June 2020

2. Success stories of the activist investors

Atlas and Blue Wolf claim they have turned-around a few paper/pulp mills.

> Atlas and Blue Wolf successfully invested in and "turned-around" Northern Resources Nova Scotia Corporation, a softwood kraft pulp mill, Finch Paper, an integrated pulp and graphic paper mill, and Twin Rivers Paper Company, a specialty paper, graphic paper and kraft paper manufacturer. In each case, under our ownership we have significantly improved financial and operating performance. Atlas and Blue Wolf successfully exited their investment in Northern Resources and continue to own and operate Finch Paper and Twin Rivers, both of which have grown materially through well-priced and synergistic acquisitions.
>
> In addition, for 17 years, Atlas successfully owned and operated Forest Resources, a diversified packaging manufacturer that produced corrugating medium, corrugated boxes, clay coated recycled boxboard and folding cartons. Atlas currently also owns Iconex, a leading provider of receipt, label, imaging and other products for businesses globally and Millar Western, an integrated forest products company that produces and markets softwood and hardwood pulp and softwood lumber.

3. Track record of the new CEO

On January 27, 2021, the board appointed Randy J. Nebel as CEO.

<u>(a) Top executive at KapStone ($4.9 billion)</u>

• Most recently, he served as KapStone Paper's EVP of Packaging, with overall responsibility for manufacturing and commercial operation. KapStone is the fifth largest producer of containerboard and corrugated packaging products; it generated $3.3 billion in revenue in 2018.
• Top executives: He was one of the top five named executives in the company.
• Sale of the company: During his tenure in 2018, the company was acquired by WestRock for $4.9 billion.
• (b) Other experience in the pulp and paper industry
• He served as COO of Longview Paper and Packaging, a producer of unbleached kraft paper products and corrugated products, from 2009 to July 2013.
• From 1997 to 2007, he served in various roles at Weyerhaeuser Company (WY), one of the world's largest owners of timberlands with a market capitalization of $26.2 billion, including vice president and mill manager.

In our opinion, attracting a strong talent is a big positive

4. No debt

No debt. Cash balance: $73 million.

5. Challenges: Apple-to-orange comparison, idle mill, and COVID-19

<u>(a) Sale of three mills results in apple-to-orange comparison:</u>

- In 2019, the company sold three mills (Luke Mill, Androscoggin Mill, and Stevens Point Mil). This resulted in a 28% decline in revenue for the nine months ended September 2020 quarter.
- Unlike the sale of a segment/spin-off, the sale of mills doesn't prompt the company to show "normalized" revenue by removing the exited mill financials from the prior year's financials. This results in an apple-to-orange comparison. Even though the company's revenue declined by a whopping 43% ($812 million) in recent 9M ended September 30, 2020, 28% ($519 million) is due to the sale of two mills.

<u>(b) Idle mill:</u>

- The COVID-19 pandemic reduced print advertising in various industries, which significantly affected the demand for the company's graphic papers.
- As such, the company, in June 2020, idled two mills (Duluth Mill and Wisconsin Rapids Mill).
- This resulted in a 70 million, or 11%, decline in recent 9M ended September 30, 2020.

6. Possible undervaluation

- In February 2020, the company sold two mills (with 0.66 million tons production capacity) that contributed $538 million in revenue for roughly $346 million.
- As of this writing, out of the four mills, only two are operational. The annualized revenue from the recent quarter is $1.2 billion by running two mills located in Michigan. The company's EV is $353 million.
- When the two mills (capacity: .66 million tons), which generated $538 million, were sold for $346 million, the remaining business that generated $1.2 billion from the remaining two mills (capacity: 1.2 million tons) was trading for an EV of $353 million; this doesn't make sense. On top of it, there are two mills that are idle.

2. StarTek, Inc. (SRT): PE firm appointed its representative as CEO

Market Cap: $335 million | Startek is a leading global provider of technology-enabled business process outsourcing solutions. The company provides omni-channel customer experience management, back office and technology services to corporations around the world across a range of industries.

(a) Representative of a major shareholder appointed as new CEO

• 55% owner: In 2018, Capital Square Partners ("CSP"), a Singapore-based PE firm, acquired a controlling stake in StarTek, Inc. and sold Aegis business to StarTek.
• Currently, CSP owns 55% of the o/s shares of the company.

Appointment of an operating partner as CEO:

• The company appointed Aparup Sengupta as CEO, effective January 15, 2020.
• Sengupta is an operating partner of CSP. Moreover, he served as the chairman of Aegis, a portfolio company of CSP.

(b) New CEO has a strong track record

• Grew revenue by 13X: Mr. Sengupta served as the global CEO of Aegis from 2005 to 2012. He claims that he led the company's transformation during his tenure and grew annual revenue from $60 million to more than $850 million in less than seven years. Moreover, during his tenure, the company acquired approximately 14 companies.
• Sengupta served as the executive chairman of The Minacs Group, a global BPO company that was acquired by SYNNEX Corporation, a publicly-traded Fortune 500 company.
• Sengupta has been part of the founding team behind three successful start-ups: 24/7 Customer, Ion Idea, and Think Harbor.

(C) Significant changes after the appointment as CEO

• Major management shakeup: Since the appointment of Sengupta as CEO in January 2020, seven out of the top executives are new.
- Global CFO - Feb 2021
- Chief legal officer and General Counsel - Nov 2020
- President - Mar 2020
- Global CIO - Mar 2020
- EVP - North America – Feb 2020
- Global CEO - Jan 2020
- COO - 2020

• Significant cost-cutting: In the recent nine months ended September 2020 quarter, Sengupta reduced the SG&A expenses by a whopping 35% ($25 million).
• FCF: In the nine months ended September 2020, the company generated $54 million of free cash flow predominantly due to working capital management.

(d) Sign of recovery?

During the nine months ended September 2020, the company's revenue declined marginally by 0.9% (note: revenue increased by 3.5% on a constant currency basis).

• Sequential growth: In the recent three months ended September 2020, its revenue increased 14% sequentially.
• Massive hiring in India: As per this link, in November 2020, the company hired 2,000 employees (4.2% of total employees) in India to meet the surge in demand across domestic e-commerce, food-tech, BFSI (banking, financial

services, and insurance) and consumer durables companies.

Note: As per the report titled "The Global Outsourcing 100," the company is among the fifty companies ranked as "leaders."

https://www.iaop.org/Content/19/165/5076

https://www.iaop.org/Content/19/165/5215

3. Rev Group Inc. (REVG): The new CEO is appointed by a PE firm that owns a controlling stake

Market Cap: $834 million | REV is a leading designer, manufacturer, and distributor of specialty vehicles and related aftermarket parts and services. It operates through three segments:

What we like:

(a) Management shakeup by American Industrial Partners (PE fund & controlling shareholder)

- CEO change: Through a written consent executed by American Industrial Partners on March 23, 2020, the company appointed Rodney N. Rushing as CEO and as a director by removing Timothy Sullivan.
- Executive team changes: In the last 17 months, several top executives changed.
    - January 2021: Chief Supply Officer
    - January 2021: Vice-President/General Manager - KME
    - December 2020: Director of Sales for KME Fire Apparatus
    - September 2020: Director of Sales for Spartan ER
    - June 2020: CFO
    - May 2020: Vice President Strategy and M&A
    - March 2020: President, REV Fire Group
    - March 2020: CEO
    - September 2019: President, REV Ambulance Group
    - July 2019: President, Commercial Segment
    - February 2019: Chief Human Resources Officer

(b) Private equity - clean governance

- American Industrial Partners (AIP) is an operation and engineering-focused private equity firm that holds a 52.9% stake in the company.
- Out of the total nine directors, six directors are employed by AIP.
- The directors who are employed by AIP do NOT receive any compensation for their service.
- Related party transactions: nil.
- Overall, there is no governance red flag despite AIP owning more than 50%.

(c) Leading market share

- The company believes that it is the largest manufacturer by unit volume of fire and emergency vehicles in the United States.
- The company believes that in most of its markets, it holds the first or second market share position, and approximately 62% of net sales during fiscal year 2020 came from products where the company believes it holds such share positions.
- The company believes that its commercial segment is the #1 producer of Type A school buses in the United States.
- Ranking: #1 in North American ambulance; #2 in North American fire apparatus; #2 small- and medium-size commercial bus.

(d) Current problem

- During the fiscal year 2020, the company's revenue declined by 5.2% to $2.27 billion. After adjusting for the divestment (revenue: $135 million) and acquisition (Spartan ER - revenue: $212.4 million), revenue declined by 8.5%.
- The company's revenue in 2020 was affected by the COVID-19 pandemic: (a) absenteeism at two plants near large urban COVID hotspots and unavailability of chassis; (b) the shutdown of schools resulted in a decline in demand for school buses; (c) a decline in cargo and port traffic affected the company's specialty business.
- **Local government under severe budget cuts:**
    - According to an article published in the Washington Post, dated June 23, 2020, over 700 cash-strapped cities postponed capital expenditure. For example, Chattanooga, Tenn., decided to cancel the purchase of a new fire truck.
    - Even though the company has a strong backlog, given the fact that roughly 45% of revenue is tied to government orders, budget cuts could affect the capital expenditure.

(e) Potential catalyst

i) Stimulus package

In February 2021, the House approved President Biden's $1.9 trillion stimulus package. Out of this, roughly $350 billion is set aside for state and local governments, territories, and tribes. This could help state and local governments that are facing deep budget shortfalls.

ii) Operational improvement actions by the new CEO

If you closely look at the stock chart, you will notice that the company's stock has been declining since 2018, so the poor performance is not tied to COVID-19.

Why?

- Poor gross profit: In 2018 & 2019: In 2017, the company achieved a peak gross profit of $294 million. Subsequently, in 2018 & 2019, the company's gross profit declined, and the company blamed production inefficiencies, labor inefficiencies at certain plants in the fire division, chassis supply disruption, tariff, overhead costs, inefficiencies associated with the timing of incoming orders, and product mix.
- New CEO's actions: In the Q4 2020 conference call, the company's CEO talked about leadership alignment, redesigning its operating model and cost structure. The new CEO announced two significant management changes to drive operational excellence: (a) expanding the role of the commercial president to include the role of SVP – Operations, and (b) hiring Rob Vislosky as VP and chief supply officer. He previously led Honeywell's global supply chain and was corporate chief procurement officer and managed an $18 billion annual spin portfolio.
- The new CEO made some strong comments about the past management team.

> Many of these capabilities have been discussed by management previously, but have lacked the commitment and rigor to yield sustainable improvements that create value. We're focused on changing that and made investments in new personnel and technologies to our operating model to build the discipline necessary to drive sustainable improvement in our performance."

Overall, the new CEO has initiated several changes by controlling cost by reviewing and controlling corporate expenses, manufacturing overhead, labor, and direct materials.

4. Waitr Holdings Inc. - Quick turnaround by the new CEO

Market Cap: $352 million | Founded in 2013 and based in Lafayette, Louisiana, Waitr operates an online food ordering platform, providing delivery, carryout and dine-in options.

(a) Problematic 2019

- In January 2019, the company acquired BiteSquad.com, LLC, for $323 million, which resulted in dilution of equity and increased debt. Debt rose to $120 million in March 2019, from $1.5 million in September 2018.
- Due to disappointing results (esp. missing on revenue targets/expectation), the company's stock price crashed significantly in 2019.
- Change in fee structure:
  - In July 2019, the company modified its fee structure –restaurants with higher sales through the Waitr Platform were subject to a rate at the lower end of the range. In contrast, restaurants with lower sales through the Waitr Platform were subject to a rate at the upper end of the range.
  - By September 2019, approximately 22% of the Waitr Platform restaurants did not accept the new agreements and terminated their contracts.
- In Q3 2019, the company announced $192.1 million of goodwill and intangible asset impairment charges, out of which $119 million was due to the Bite Squad merger.
- Overall, the company's stock price fell from $13.8 in March 2019 to 30 cents in December 2019.

(b) Turnaround by the new CEO

On January 2, 2020, the company appointed Carl A. Grimstad as CEO.

- Shift from employees to contractors: Within two months of his appointment as CEO, he terminated all the drivers as employees but joined back as independent contractors.
- In December 2019 and January 2020, the company closed approximately 60 unprofitable, non-core markets, which accounted for 7% of 2019 revenue.
- Workforce reduction: In March 2019, the company had 22,000 employees, including delivery drivers, and by March 2020, the company's employees were 10,585 employees (including 10,100 delivery drivers).
- Massive cost cutting: In the first quarter of 2020, the company reduced its operating expenses (operations cost, SG&A, and R&D) by 39%. Moreover, in the last nine months ended September 2020, the company's operating expenses declined by approximately 54%.
- Debt reduction: The company's debt was reduced from $126 million in Q4 2019 to $94.8 million in Q3 2020. Moreover, the company started to generate positive free cash flow in Q1 2020.
- Interesting article: https://www.restaurantdive.com/news/how-waitrs-ceo-made-the-company-profitable-in-6-months/583494/

(c) Niche market

Now that DoorDash, Grubhub and Uber Eats dominate the industry, how is this company surviving?

Even though the company operates in a few big cities like Houston, Texas, it focuses exclusively on smaller markets. Please see the population (table below) of a few towns that it targets.

(d) Why are we flagging this now?

The stock crashed by 40% in the last six months.

FLORIDA	Population
Destin	13,702
Fort Walton	22,084
Gulf Breeze / Pensacola Beach	6,546
Navarre	37,362
Niceville	15,386
Pace-Milton	22,860
Pensacola	52,642
GEORGIA	
Aiken	30,671
Albany	73,478
Augusta	197,888
Columbus	189,885
LaGrange	29,588
Pooler	19,140
Savannah	144,464
Warner Robins	76,115
Valdosta	56,095
ARKANSAS	
Fayetteville	85,166
Fort Smith	87,743
Rogers	66,344
Texarkana	29,901
TENNESSEE	
Henderson	6,429
Jackson	66,870
Medon	279
SOUTH CAROLINA	
Florence	38,487

5. Support.com: Potential Rosenzweig play

What is interesting?

#1 Track record of the new CEO

In August 2020, the company appointed Lance Rosenzweig as CEO.

- Rosenzweig co-founded PeopleSupport, a BPO company, and served as the CEO from 2002 to 2008. Mr. Rosenzweig raised venture capital from Accel and Benchmark, took the company public, and grew revenues to $150 million. In 2008, he sold the company for $250 million to Aegis and generated a 10X return for early investors.
- Rosenzweig was also a founder of Unisite, a privately held wireless cell site management company, acquired by American Tower in 2000 for more than $200 million.
- For 18 months (July 2018 to January 2020), he served as CEO of StarTek, a BPO company with over 45,000 employees. Mr. Rosenzweig served as its CEO from July 2018 to January 15, 2020. During his tenure, the company's revenue increased 23% to $659 million, and operating income increased from $5.7 million in FY 2018 to $9.7 million in FY 2019. The company's share price increased 15%.

Given his background, it is surprising to see that he joined support.com, a nano-cap company that saw its revenue decline to $50 million.

#2 Top management overhaul

- Since Rosenzweig's appointment as CEO in August 2020, five out of the top seven executives are new.
- Most of the newly appointed executives are his lieutenants from his previous job.
  - The chief sales officer and chief legal officer worked at Startek – a company Rosenzweig led.
  - The chief information officer and CFO worked at PeopleSupport, which Rosenzweig co-founded.

#3 What is ailing support.com?

- Two customers accounted for over 80% of the company's total revenue. The company's revenue is declining, and most recently, in December 2020, Comcast decided to terminate a small section of an agreement that is expected to affect 10% of total revenue. On a different note, the company's stock price did not react from this bad news.
- Even though the company's business model is tied to work-from-agents, the COVID-19 pandemic should have logically boosted the company's business prospects. Unfortunately, the company's business did not see any significant improvement. In fact, it only experienced declining revenue.

Overall-

- Rosenzweig is a serial entrepreneur. He has developed things from scratch and knows how to raise money from VC/PE, build a team and sell a company. Not everyone has this track record. Most interestingly, all his achievements are in the industry where support.com operates.
- Even though we are super excited, given the revenue performance, the entire investment thesis is built on the new CEO. "CEO change" should act as a catalyst – it should NOT be the ONLY hope for the business future.
- Nevertheless, this company is worth monitoring.

6. Stereotaxis: CEO could own 10% of the company (worth: $500 million) if the stock price increases by ten times

Market cap: $486 million | designs, manufactures, and markets robotic magnetic navigation (RMN) systems for use in hospital's interventional surgical suite to enhance the treatment of arrhythmias and coronary artery disease

Notable CEO compensation

On February 23, 2021, the company granted 13 million shares of the company to David L. Fischel, CEO of the company, pursuant to the performance share unit award agreement.

The PSUs are divided into ten (10) vesting tranches. For each tranche, the CEO gets 10% of the granted shares, and the performance is tied to the market capitalization.

The first market capitalization milestone is $1 billion, and each of the remaining nine market capitalization milestones is in $500 million increments, up to $5.5 billion.

Tranche #	No. of Shares Subject to PSU	Market Capitalization Milestones
1	1,000,000	1,000,000,000
2	1,500,000	1,500,000,000
3	1,500,000	2,000,000,000
4	2,000,000	2,500,000,000
5	1,000,000	3,000,000,000
6	1,000,000	3,500,000,000
7	1,000,000	4,000,000,000
8	2,000,000	4,500,000,000
9	1,000,000	5,000,000,000
10	1,000,000	5,500,000,000
Total:	**13,000,000**	

Overall,

- The award is designed to provide Mr. Fischel with approximately 10% equity ownership in the company on a fully diluted basis if this highest threshold is accomplished.
- If the company achieves the maximum target, the CEO's stock award could be worth over $550 million.

https://www.sec.gov/Archives/edgar/data/1289340/000149315221004715/ex10-1.htm

7. CSI Compressco LP (CCLP): Short note about the management and board change

Market cap: $103 million | The company provides compression services for natural gas and oil production, transmission, processing, and storage companies.

I. Significant change in management and board

- On January 29, 2021, Spartan Energy completed the purchase of Tetra's 23% stake in the company, including general partner interests that include the right to appoint directors and executives.
- Pursuant to the acquisition, the company changed its CEO, CFO, and COO and changed five out of six directors.

II. Track record of the new CEO

On February 1, 2021, the company announced that it appointed John Jackson as CEO. He will serve as CEO of both Spartan Energy Partners and CSI Compressco.

- **CEO of PE-backed Spartan Energy:**
  - In 2010, John Jackson founded Spartan Energy (company provides gas compression services) and currently serves as CEO of the company.
  - Spartan's private equity financial partner is Silverhawk Capital.
- Hanover (Revenue: $1.6 billion): From 2004 to 2007, he served as CEO of Hanover Compressor Company, which performs natural gas compression services for oil and gas companies. During his tenure, (a) the company's financials improved from $1.1 billion in 2004 to $1.6 billion in 2006, and (b) he led the company's merger with Universal Compression holdings. At the time of his resignation, the company's market cap was $2.3 billion.
- CFO of a JV that generated $9.5 billion in revenue: Mr. Jackson joined Duke Energy Field Services (DEFS) as a controller in 1999 and served as its CFO in 2001. DEFS is a joint venture of Duke Energy and ConocoPhillips and one of the nation's largest producers and natural gas liquids marketers. DEFS had revenue of $9.5 billion in 2001.

8. SiriusPoint Ltd: Ultrashort notes about the CEO change

Market cap: $975 million |
SiriusPoint Ltd. is a global insurance and reinsurance company

In February 2021, SiriusPoint was formed due to a merger between Third Point Reinsurance Ltd. (NYSE: TPRE) and Sirius International Insurance Group, Ltd. (NASDAQ: SG).

What is interesting?

1. Third Point Reinsurance's investable assets are managed by Third Point LLC, which is wholly owned by Daniel S. Loeb, one of Third Point Reinsurance's founding shareholders.

2. New CEO: In connection with the merger, the company appointed Siddhartha Sankaran as CEO.

- CFO of AIG: From December 2015 to December 2018, Mr. Sankaran served as CFO of American International Group Inc. (Market Cap: $39 billion), a leading global insurance organization.
- He was one of the top ten executives in the company and claims that he oversaw a $500 billion balance sheet at AIG.

9. SPAR Group: Even though the background of the new CEO is exciting, related party transactions with two insiders are alarming

Market cap: $ 32 million | SPAR Inc. is the global leader in retail merchandising solutions, specializing in the setup of new stores, as well as the assembly and installation.

Research

(a) New CEO is a former chief administrative officer of Dollar Tree

On February 16, 2021, the company appointed Mike Matacunas as CEO.

- Mr. Matacunas is a Fortune 500 veteran with more than 30 years of relevant leadership experience.
- He was previously the chief administrative officer at Dollar Tree Inc., where he helped lead the successful multi-billion-dollar acquisition and integration of Family Dollar Stores, including, among other things, merchandising, sourcing, operational, and executive improvements.

(b) Major board shakeup by Brown Group and Bartels Group

- Robert Brown and William Bartels, two co-founders of the company, own roughly 54% of the company's outstanding shares.
- Through a written consent solicitation, Mr. Brown was re-elected to the board in March 2020. Subsequently, within the next 11 months, six new directors joined the board. Overall, six out of nine directors are the shareholder group's representatives.

(c) Why did the CEO and CFO resign in June 2020?

Cancellation of a significant contract

- Out of a plethora of related party transactions with the co-founders, the most significant was the agreement entered between SBS and the company. SBS is owned by Mr. Brown. As per the agreement, in 2018, SBS provided 10,700 field specialists, representing 77% of the total cost the field specialists utilized by the company domestically.
- Within a few months after Mr. Brown resigned from the company's board in May 2018, the company terminated the agreement with SBS. Within a few months, SBS filed for bankruptcy.
- In 2019, the company registered the highest operating profit and net income in its history. It is to be noted that the CEO who led the company during this period was hired in September 2017.

Mr. Brown's reappointment and the resignation of CEO and CFO

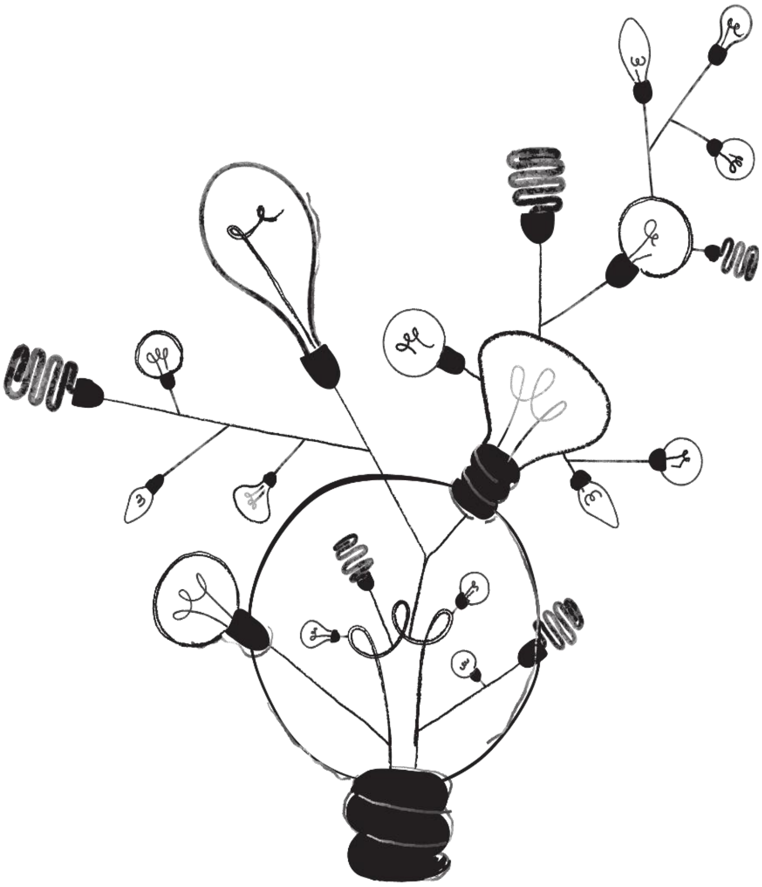
- Within four months (in July 2020) after the appointment of Mr. Brown in March 2020 as a director, the company's CEO and CFO resigned, sending scathing letters.
- In his resignation letter, the CEO wrote, "The two largest shareholders, at times supported by some independent directors, have created a toxic and unproductive business environment. Executives are continually undermined, minimized and attacked when doing the right thing in the best interest of SGRP." A similar reason is expressed in the CFO's resignation letter. Please read the resignation letter of the CEO and CFO.

(d) Now what?

- <u>Rich retirement benefit for Mr. Bartels</u>: Effective as of January 18, 2020, the company's revamped board approved the following benefits for the next five years (Jan 2020 to Dec 2024) for Mr. Bartels in connection with his retirement:
    - Retirement payments: $100K per annum
    - Director fee: $50K
    - Medical benefits: $15.6K per year
- <u>Plenty of related party transactions</u>: Your head would spin if you read the 10-page long related party transactions (including lawsuits) listed in the latest proxy filing, filed on December 10, 2020.

Overall -

Even though (a) the insiders own over 50% of the shares and (b) the new CEO is a former executive of Dollar Tree, we are concerned over several numbers of questionable transactions with the co-founders. Now that the co-founders control the board, they may enter into transactions that could be detrimental to the shareholders. The recent "rich" retirement benefits for the co-founder, Mr. Bartels, is an example.



Membership

Small fund

$2,000/annum

Click here

Large fund

$5,000/annum

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Ultra large fund / Individual investors /start-up fund

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13G filings

1. WidePoint Corporation | Vanguard Group (5.9%): Turnaround after the appointment of CEO in 2017

Market Cap: $114 million | WidePoint Corporation (WYY) is a leading provider of trusted mobility management (TM2) solutions, including telecom management, mobile management, identity management, and digital billing and analytics.

On February 10, 2021, The Vanguard Group disclosed a 5.9% passive stake in the company.

(a) Significant changes after the appointment of Jin Kang as CEO

- In July 2017, the company appointed Jin Kang as CEO. He joined the company in 2008 after Widepoint acquired his company iSYS LLC.
- As soon as he was appointed as CEO, he took several steps to improve the company's profitability.
- After six years of continuous losses, the company registered an operating profit of $0.9 million in FY 2019.

	Revenue	*Revenue growth*	EBIT	Net Income
2017	75.9		(2.3)	(3.5)
2018	83.7	*10%*	(0.2)	(1.5)
2019	101.7	*22%*	0.9	0.2
9M Sep 2019	73.6		0.6	2.5
9M Sep 2020	151.9	*106%*	0.3	2.0

(b) Government contracts

- The company generates roughly 85.5% of revenue from the US government (federal and state).
- The company is one of the two DoD designated external certificate authorities, it offers several different federally certified digital certificates and credentials that enable its customers to conduct business through secure portals owned and managed by the US federal government, to access government facilities and to secure mobile devices that are used to access corporation networks, databases and other IT assets.
- Notable contract: - In November 2019, the company partnered with CDW-G to assist the US Census Bureau in its decennial survey of the American population. The US Census is the largest device-as-a-service project in the US.

> *US census project*: It would be difficult for any organization to undertake such a large project. But for us, it serves as an ideal proof point for one of its core competencies.
>
> - *Jin Kang, CEO, Q4 2019 conference call*

(c) High switching cost and high customer retention

- The customer retention rate is over 95%.
- The costs to switch solutions can be high for a prospective customer even if they know their current solution is not working.
- The company's potential customers typically undertake a significant evaluation process that can last up to a year or more and require coordination and agreement across many departments, which further contributes to our lengthy sales cycle. This long sales cycle could create barriers to entry for a potential competitor.

> However, there are two particular things among all of these contracts that are worth highlighting. Many of the large contracts we announced were expansions with current customers and many of these contracts are long-term. They typically last for three to five years, depending on whether the customer is a commercial or a federal client.
>
> Expansions and contract lengths are critical for two reasons: first, they are a testament to how sticky we are as a business. WidePoint's customer retention is over 95% and that's because we provide a necessary service that simplifies our client's operations and saves them money in the process. And because we're very good at this, clients don't just stay with WidePoint, but they frequently expand their work with us.
>
> Second, these contracts are nearly all long-term. That means the majority of our revenues are essentially recurring. We've built a sticky business with predictable revenues. Those are great qualities for any company, but they're especially pertinent now.
>
> *- FY 2019 conference call, March 24, 2020*

(d) Strong revenue growth

- Q3 2020 was the 13th consecutive quarter of adjusted positive EBITDA.
- Revenue CAGR from 2017 to September 2020 was 33%.
- Recent financials: Revenues for the three months ended September 30, 2020, were approximately $57.5 million, an increase of roughly $27.8 million (or 94%), compared to approximately $29.6 million in 2019.

(e) Recent significant contracts

- <u>$500 million contract</u>**:** In November 2020, the company won the CWMS 2.0 Contract with the US Department of Homeland Security, which is worth $500 million in revenue. This new contract has a one-year base period with four 12-month option periods extending through November 24, 2025.
- <u>Contract with Hutchinson, which enjoys 35% market share in Ireland</u>: In December 2020, the company's subsidiary signed a new contract with Three Ireland (Hutchison) Limited. It is to be noted that Three is one of Ireland's leading mobile operators with a 35% market share and almost 2.4 million customers (August 2020).
- <u>Agreement with Zetacom,</u> which serves 25% of hospitals in the Netherlands: In December 2020, the company's subsidiary signed a multi-year contract with Zetacom, which provides solutions and services to 25% of hospitals and care institutions in the Netherlands.
- <u>ECA certificate</u>: In February 2021, the company secured a new contract to issue external certificate authority (ECA) credentials to a hospital interacting with the US Department of Health and Human Services (HHS).

2. Transcat, Inc. (TRNS) | Broadcrest Asset Management (5.0%)

Market Cap: $340 million | Transcat, Inc. is a leading provider of accredited calibration, repair, inspection and laboratory instrument services and value-added distributor of professional grade handheld test, measurement and control instrumentation.

On February 26, 2021, Broadcrest Asset Management, LLC disclosed a 5.0% passive stake in the company.

(a) Calibration service: Critical, recurring, and enjoys high margin

- This segment accounts for 53% of total revenue.
- The company provides accredited calibrations to customers in highly-regulated targeted market segments.
- A critical process in a regulated industry: The calibration process is critical to ensure that test equipment is operating according to specifications. The company's target customers usually operate in regulated environments like life sciences and aerospace, which require calibration services on a regular, recurring basis, and where the cost of failure is very high.
- Recurring revenue: This segment is supported by a recurring revenue stream. This segment maintains high margins and inherent operating leverage.
- Growing market share: Out of the $1.6 billion calibration service market, 46% is controlled by third-party service providers. In the third-party service providers segment, the company's market share grew to 17% compared to 16% in 2018, and it has now become the #1 player.
- Consistent growth for 47 quarters: In Q3 2021, the segment's revenue grew
- In the last ten years, the company's revenue has grown consistently from

12% (organic growth: 5.9%). The growth represents the 47th consecutive quarter of year-over-year growth.

- Proprietary software:
  - CalTrak® is a proprietary documentation and asset management software that is used to integrate and manage both the workflow of the company's calibration service centers and its customers' assets.
  - C3® provides its customers with web-based asset management capability and a safe and secure off-site archive of calibration and other service records that can be accessed 24 hours a day through a secure password-protected website.
  - The company believes that its proprietary software, CalTrak®, and C3®, is a key differentiator from its competitors and provides a competitive barrier.

(b) Distribution segment

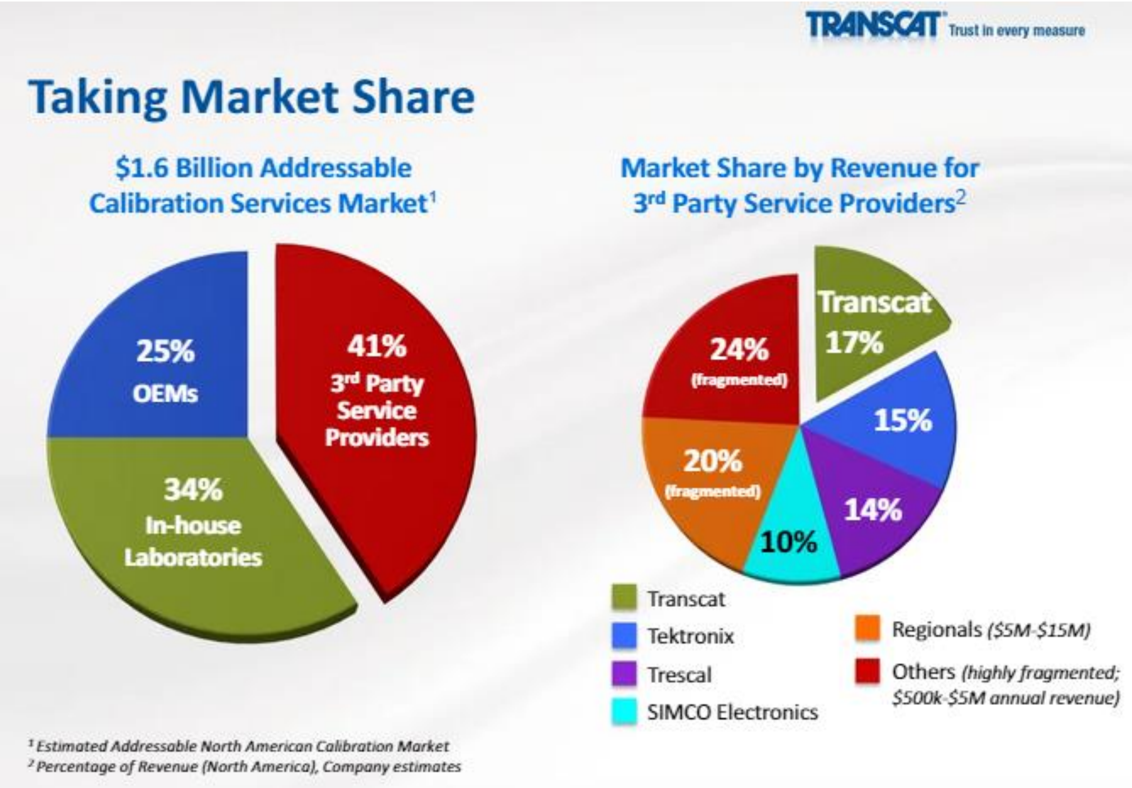
- Through this segment, the company sells and rents professional-grade handheld test and measurement instruments.
- This segment can be heavily impacted by changes in the economic environment. As customers increase or decrease capital and discretionary spending, sales will typically be directly impacted.
- In the recent quarter (Q3 2021), the distribution revenue was down 8.6%, and the company expects the trend to continue due to the current pandemic.

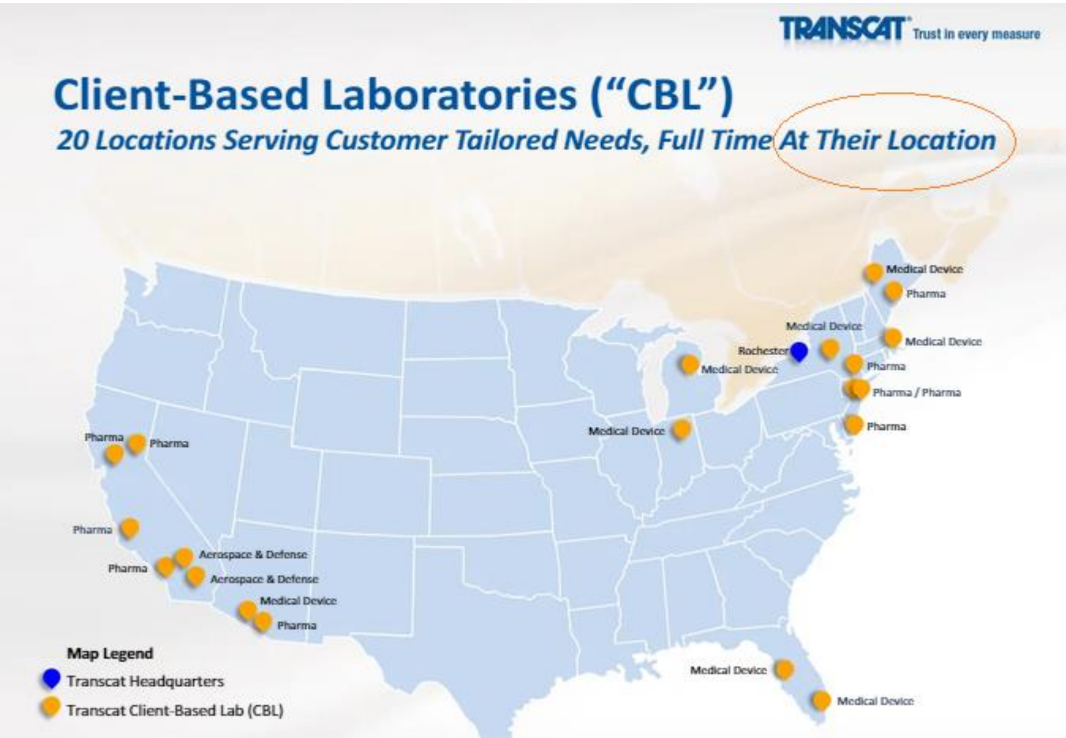
(c) Consistent revenue growth in ten years:

$91 million in FY 2011 to $173 million in FY 2020. The increase was due to both organic growth and acquisitions.

- For the first time in the last ten years, the company's latest nine months ended September 2020 quarterly revenue declined by 2.17% - the decline is predominantly due to the current pandemic.

Overall, given the business profile, the company has a high probability of returning to its pre-COVID-19 level after the economy emerges from the current pandemic.





3. IEC Electronics Corp. (IEC) | Next Century Growth Investors (5.2%)

Market cap: $133 million | IEC Electronics Corp. (IEC) is a provider of electronic manufacturing services to advanced technology companies that produce life-saving and mission critical products for the medical, industrial, and aerospace and defense sectors.

On February 12, 2021, Next Century Growth Investors disclosed a 5.2% passive stake in the company. Next Century Growth Investors, LLC is an independent money management firm located in Minneapolis, MN.

(a) Mission critical: The company focuses on providing services for life-saving and mission-critical products in the medical, industrial, aerospace, and defense sectors that require a sophisticated level of manufacturing support.

- Automated external defibrillators can save a person's life after cardiac arrest. Medical imaging devices help doctors see the human body to diagnose and treat disease.
- Handheld tactical radios enable American troops to communicate in war zones.
- Weather detection instruments allow meteorologists to predict dangerous storms and tornadoes.

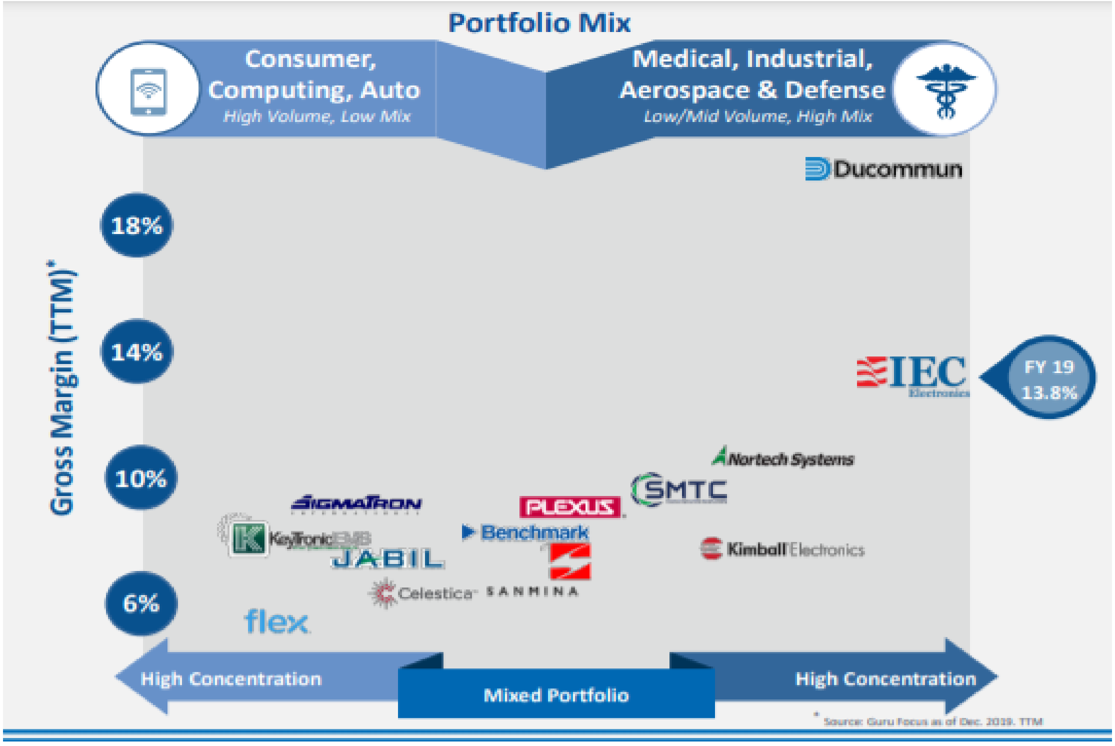
(b) High switching: Most often, the company engages with its customers in the early stages of a product or program design, and it works with customers to evaluate the manufacturability and testability of their products. On top of it, the company's customers operate in a highly regulated environment. As such, customers seek a long-term partnership throughout the life-cycle of their product. In some cases, the company is the sole EMS contract manufacturer for the customer site or division.

(c) High barriers to entry – the only EMS provider approved by DLA: The company is the only EMS provider with an on-site laboratory that has been approved by the Defense Logistics Agency ("DLA") for their Qualified Testing Supplier List ("QTSL") program, which deems the site suitable to conduct various QTSL and military testing standards, including counterfeit component analysis and environmental testing to qualify a part fit for use.

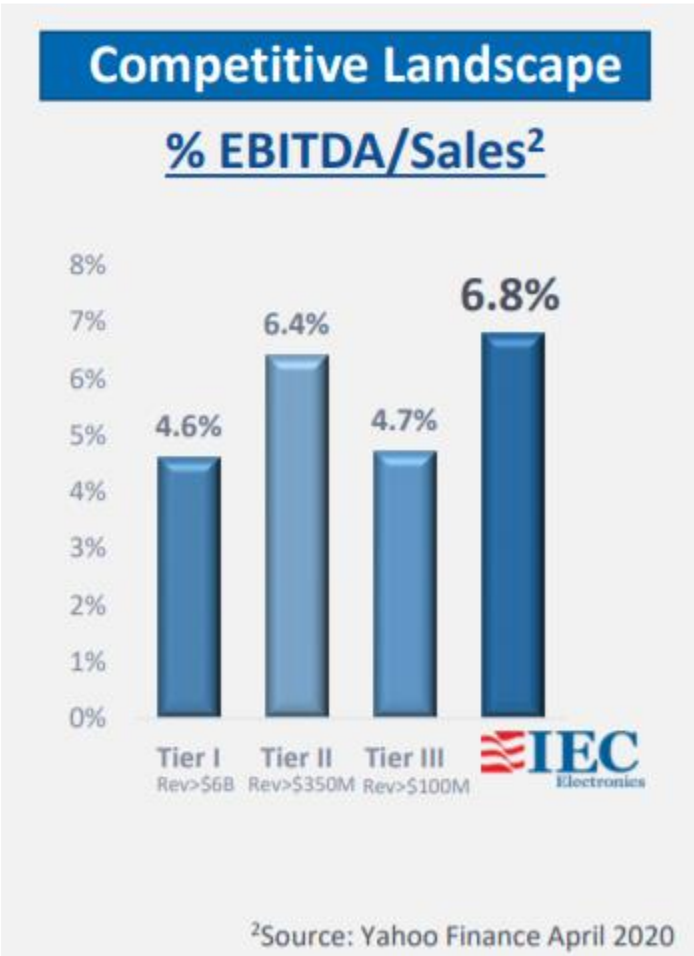
(d) Only USA: The company manufactures its products exclusively in the US. This gives an edge when the company has to win a project that could trigger a national security risk problem.

(e) High margin: As per the company's presentation, the company enjoys a high margin in the industry, predominantly due to its effort on the highly regulated market – medical, defense, aerospace, and industrial.

(f) Recent financials: IEC reported revenues of $47.5 million for the first quarter of fiscal 2021, an increase of 6.1% compared to revenues of $44.7 million for the first quarter of the year ended September 30, 2020. Operating income was $2.2 million for the first quarter of fiscal 2021, an increase of $0.3 million, or 14.5% compared to the same quarter in the prior fiscal year.



Portfolio Mix
Consumer, Computing, Auto
High Volume, Low Mix
Medical, Industrial, Aerospace & Defense
Low/Mid Volume, High Mix
Gross Margin (TTM)*
18%
14%
10%
6%
FY 19
13.8%
High Concentration
Mixed Portfolio
High Concentration
* Source: Guru Focus as of Dec. 2019. TTM



Competitive Landscape
% EBITDA/Sales2
8%
7%
6%
5%
4%
3%
2%
1%
0%
4.6%
6.4%
4.7%
6.8%
Tier I
Rev>$6B
Tier II
Rev>$350M
Tier III
Rev>$100M
2Source: Yahoo Finance April 2020

4. Turning Point Brands, Inc. (TPB) | First Sabrepoint Capital Management (6.12%)

Market Cap: $979 million | The Company is a leading, independent provider of Other Tobacco Products (OTP) in the US.

On November 24, 2020, First Sabrepoint Capital Management disclosed a 6.12% passive stake in the company. First Sabrepoint Capital is a Texas limited partnership and private investment advisory firm formed in February 2016.

(a) Signs of moat

- The company is the 6th largest competitor in terms of "Other Tobacco Products" (OTP) consumer units sold during 2019.
- Stoker's® is the #2 loose leaf chewing tobacco brand with approximately 29% market share. The company manufactures Stoker's® MST using only 100% American Leaf, utilizing a proprietary process to produce what the company believes is a superior product.
- In moist snuff tobacco (MST), Stoker's holds an 8.1% share in the stores with distribution and a 4.5% share of the total US MST market. The company claims that Stoker's pioneered the large 12 oz. tub packaging format and is manufactured using a proprietary process that the company thinks results in a superior product. While competitors have introduced larger format tub packaging, the early entry and differentiation of the Stoker's® product have firmly established the company as the market leader with over 50% of the tub market.
- Zig-Zag® is the #1 premium cigarette paper in the US with approximately 35% total market share in cigarette papers. Management estimates also indicate that Zig-Zag® is the #1 brand in the promising Canadian market.

(b) Strong distribution network

- The company has a robust sales and distribution infrastructure that currently reaches over 210,000 retail outlets in North America. This massive distribution infrastructure gives the company a significant competitive advantage when introducing new products or acquiring companies.
- The company has successfully launched new products and entered new product categories by leveraging its brands' strength. For example, in 2009, the company extended the Zig-Zag® tobacco brand into the MYO cigar wraps market and captured a 50% market share within the first two years.

(c) Asset light business model

- In 2020, over 80% of the company's net sales were derived from outsourced production operations.
- The company's capital expenditures have ranged between $2.0 million and $6.1 million per year over the previous five years.
- At the same time, the company does NOT outsource its MST production due to proprietary manufacturing processes that are substantively different from those of the competitors.
- Strong cash flow generation

($, mm)	2018	2019	2020
Cash from operations	13.09	37.79	43.68
Capex	-2.27	-4.80	-6.13
Free cash flow	10.82	32.99	37.55

(d) Vape market – FDA

- The FDA is currently implementing a process called the Pre Market Tobacco Authorization (PMTA), which required all vape products introduced since 2007 to submit an application to the FDA by September 2020.
- The company spent $17 million to file applications covering 250 products. Out of hundreds of competitors, the company expects only a few competitors to have the capability and resources to navigate this process successfully.
- In the latest conference call, the CEO mentioned that many competitors exited the business.
- Overall, even though the FDA is yet to provide more clarity on the process, the entire regulatory process creates significant barriers for new entrants.

(e) Recent financials:

For the year 2020, overall net sales increased to $405.1 million from $362.0 million for 2019, an increase of $43.1 million or 11.9%. The increase in net sales was primarily driven by increased sales volume across all segments. Net income for the years 2020 and 2019 was $33.0 million and $13.8 million, respectively.

TPB Business Segments

	Zig-Zag	Stoker's	NewGen
	Rolling papers and Make-Your-Own ("MYO") cigar wraps	*Loose leaf chewing tobacco and moist snuff tobacco*	*Innovative alternative and vapor products*
FY20 Sales[1]	$133mm	$116mm	$156mm
Key Brands	ZIG-ZAG	Stoker's, Appalachia, Beech-Nut, Trophy, Havana Blossom, Big Mountain, Durango	nu-x, Solace, vaporfi, FRE, Wild Hemp, Vapor Beast, Direct Vapor, dosist
Strategic Priorities	• Accelerate growth in the near term • Capture growth in cannabinoid consumption • Drive recently launched product offerings and expand penetration in e-commerce and alternative channels (head shops, dispensaries)	• Capitalize on strong growth in Moist Snuff Tobacco and stability of tobacco chew • Stoker's: the leading value brand in tobacco chew with a long runway for growth in MST ▪ "Great dip at a fair price" • Growth predominantly driven by same store sales with opportunity for further expansion and distribution gains	• Focus on margin expansion from proprietary product mix shift and industry dynamics • Consolidate the open tank vape market following the impact of the PMTA process on a number of competitors • Continue to seek new opportunities for growth from innovation and new channel expansion

5. Vocera Communications Inc. (VCRA) | Geneva Capital Management LLC (6.4%)

Market Cap.: $1.3 billion | The company's communication and collaboration solution includes an intelligent enterprise software platform; lightweight, wearable, voice-controlled communication devices; as well as smartphone applications, enables users to connect instantly with other staff simply by saying the name, function or group name of the desired recipient.

On February 12, 2021, Geneva Capital Management LLC disclosed a 6.4% passive stake in the company. Geneva Capital Management is an independent, majority employee-owned, investment management firm specializing in US Small Cap, SMID Cap and Mid Cap Growth equities.

(a) A patented software that can recognize 100 spoken commands

- At the core of this solution is a patent-protected, enterprise-class server software platform. The company's software platform is built on a scalable architecture and recognizes more than 100 spoken commands.
- Users can instantly communicate with others using the Vocera Smartbadge or Vocera Badge, or through client applications for iOS and Android mobile devices.
- The company's platform lets users communicate and collaborate with each other using voice or HIPAA-compliant secure texting. Unlike other solutions, users can reach people by their role, room assignment, or department without knowing a person's name or phone number.
- The system can also broadcast emergency messages to a single department or to an entire organization.

(b) No direct competition

- The company claims there is no directly comparable single competitor providing a healthcare market solution that offers a similar communication system to the healthcare market.
- The primary competition for its solutions has consisted of traditional methods using wired and wireless phones, pagers, and overhead intercoms.

(c) Recurring revenue

- As per the company's presentation, over 60% of revenue is recurring in nature, which increased from 50% in FY 2017.
- Maintenance renewal rate: 95%+.

(d) Significant operating leverage

In the FY 2016, the company registered a $132 million revenue and adjusted EBITDA margin of 3%. Adjusted EBITDA margin zoomed to 15% in FY 2020 when the company's revenue grew to $198 million in FY 2020.

(e) Recent financials

Total revenue for the fourth quarter of 2020 was $56.6 million, an increase of 14% compared to last year's revenue of $49.6 million. GAAP net income was $0.1 million compared to a GAAP net loss of $1.7 million last year.

6. Research Solutions Inc. (RSSS) | Cove Street Capital, LLC (6.1%)

Market Cap: $64 million | The company provides seamless access to scientific research and simplifies how organizations & individual researchers discover, acquire, and manage scholarly journal articles, book chapters and other content in scientific, technical, and medical (STM) research.

On February 01, 2021, Cove Street Capital, LLC disclosed a 6.1% passive stake in the company. Cove Street Capital offers concentrated, small cap value investment strategies that capitalize on inefficiencies in public markets.

(a) What does it do? Through the company's platform, individuals, education institutions, and companies can find and access research articles - scientific, technical, and medical (STM).

(b) Recurring revenue/sticky

The company generates revenue from

○ Transactions basis: STM content is sold to customers on a pay-per-article basis - this accounts for roughly 84% of total revenue.

○ Platform: Annual license that allows customers to access and utilize certain premium features of cloud-based software-as-a-service ("SaaS") research intelligence platform account for the remaining 16% of total revenue.

(c) Market share: The company has ~4% market share in the single article market.

(d) Loyalty

Since its inception, the company claims that it has ranked first overall and in every category for every document delivery buyer survey conducted by the industry research and advisory firm Outsell, Inc.: customer satisfaction and loyalty.

The company claims that it has no direct substitute

(e) Three notable points about platform (SaaS/subscription) business

- Annual recurring revenue (ARR) has increased from $1.1 million in Q3 FY17 to $4.7 million in Q1 FY21.
- Platform business enjoys 83.3% gross margin compared to 23.3% gross margin for the transaction business.
- The company's platform business is growing, targeting the underserved small- and medium-sized (SMB) market.

(f) Recent significant news

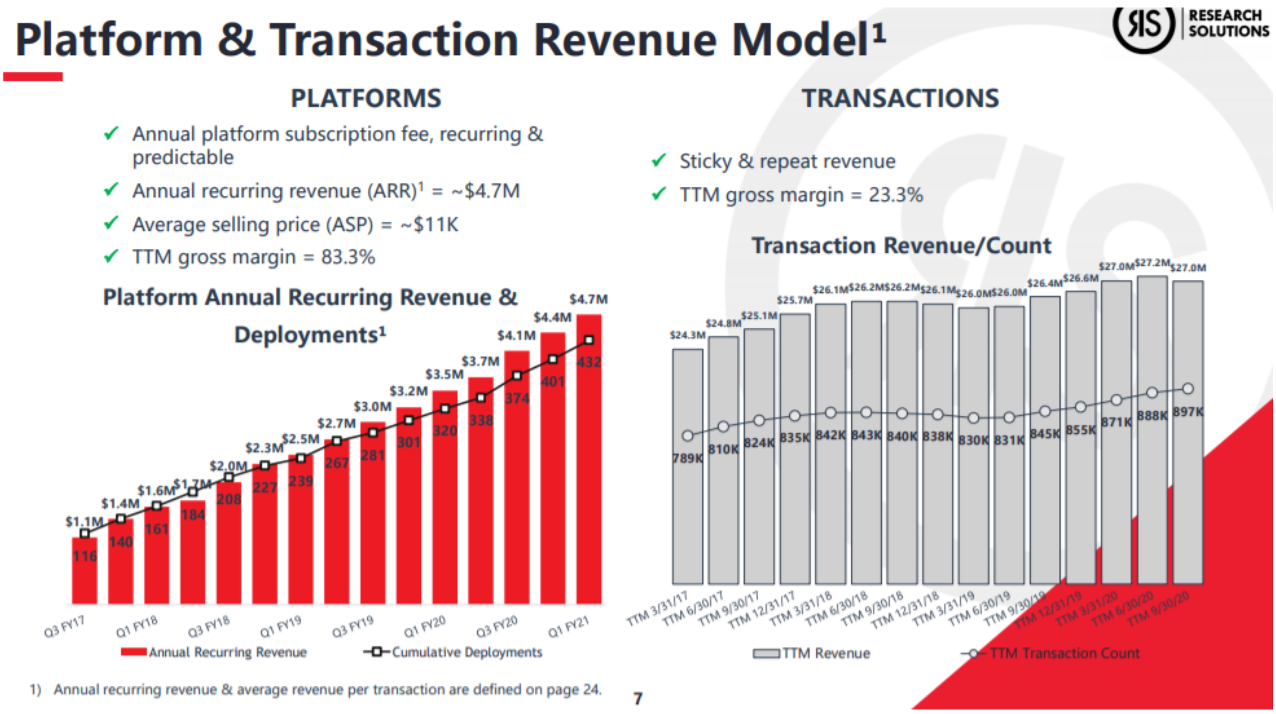
1. Tie-up with Springer Nature

• Springer Nature (2019 revenue: €1.72 billion) is the largest research publisher.
• In May 2020, the company entered into an agreement with Springer Nature.
• What is interesting? Under the agreement, Springer Nature would allow the company's SMB customers to access the expensive database of Springer Nature for a reduced rate. There is a catch: this is only for SMEs who have less than 100 R&D staff. This way, large organizations will continue to use Springer Nature, and small firms (SMB) who cannot afford Springer Nature's subscription can access the database.
• Why is this interesting? This agreement proves that (a) the company has demonstrated its ability to attract SMB customers, and (b) the company

can showcase this model and attract many large publishing houses.

2. New chief product officer: In July 2020, the company hired a new chief product officer who most recently served nine years at industry-leading publisher Springer Nature, where he held executive roles in product technology, product development, and business development.

(G) Recent financials: Total revenue increased $0.15 million for the three months ended September 30, 2020, compared to the prior year; the increase was due to additional deployments to new and existing customers, and expansion from existing customers.



Research Solutions Inc. (RSSS): Interesting observation: How you explain your business matters!

Using the company's online portal/platform, customers access research articles - scientific, technical, and medical (STM).

When I first read the business description of "Research Solutions" in the latest 10-K, it gave a quick impression that this was some sort of software company.

I was puzzled by the way the company explained its business. So, I read the past 10-Ks. Here is what I found-

<u>2014 Vs 2020</u>

- In 2014 10-K, the company explained the business in a standard way and used the words *publisher, journal, article, content, copyright*. The "SaaS" jargon is used in the third paragraph.
- In contrast, in the latest 10-K, the business description is full of tech jargon - *SaaS, platform, software, internet, functionality, automate, systems, app, gadget, web interface, API,* etc. The word "content" is used only twice in the entire three paragraphs! In fact, there is no mention of publisher, article or journal.
- It is clear that the company has hired exceptional writers to draft a business description that "sounds" like a software company. SaaS sells!

Note: It is fun to read the way the business description has "evolved" in the last seven years. If you have time, please read the 10-K from 2014 to 2020.

Source: 10-K, FY 2014

Article Galaxy

Researchers and regulatory personnel in life science and other research intensive organizations generally require single copies of published STM journal articles for use in their research activities. They place orders with us for the articles they need and we source and electronically deliver the requested content to them generally in under an hour. This service is known in the industry as single article delivery or document delivery. We also obtain the necessary permissions from the content publisher so that our customer's use complies with applicable copyright laws. We have arrangements with numerous content publishers that allow us to distribute their content. The majority of these publishers provide us with electronic access to their content, which allows us to electronically deliver single articles to our customers often in a matter of minutes. Even though single article delivery services are charged on a transactional basis, customer order volume tends to be consistent from month to month in part due to consistent orders of larger customers that require the implementation of our services into their work flow, subject to fluctuations due to the addition or loss of customers.

We deliver the aforementioned services through Article Galaxy, which consists of proprietary software and Internet-based interfaces that allow customers to initiate orders, manage transactions, obtain reporting, automate authentication, improve seamless connectivity to corporate intranets, and enhance the information resources they already own, or have access to via subscriptions or internal libraries, as well as organize workgroups to collaborate around scientific information.

As a cloud-based software-as-a-service (SaaS) solution, Article Galaxy is deployed as a single system across our entire customer base. Customers access Article Galaxy securely through online web interfaces and via web service APIs, which enable customers to leverage Article Galaxy features and functionality from within proprietary and other third party software systems. Article Galaxy can also be configured to satisfy a customer's individual preferences in areas such as user experience, business processes, and spend management. As a SaaS solution, Article Galaxy benefits from efficiencies in scalability, stability and development costs, resulting in significant advantages versus multiple instance or installed desktop software alternatives. We leverage these technical efficiencies to fuel rapid innovation and competitive advantage.

#2 Latest 10-K (2021)

Platforms

Our cloud-based SaaS research intelligence platform consists of proprietary software and Internet-based interfaces sold to customers for an annual subscription fee. Legacy functionality allows customers to initiate orders, route orders for the lowest cost acquisition, manage transactions, obtain spend and usage reporting, automate authentication, and connect seamlessly to in-house and third-party software systems. Customers can also enhance the information resources they already own or license and collaborate around bibliographic information.

Additional functionality has recently been added to our Platform in the form of interactive app-like gadgets. An alternative to manual data filtering, identification and extraction, gadgets are designed to gather, augment, and extract data across a variety of formats, including bibliographic citations, tables of contents, RSS feeds, PDF files, XML feeds, and web content. We are rapidly developing new gadgets in order to build an ecosystem of gadgets. Together, these gadgets will provide researchers with an "all in one" toolkit, delivering efficiencies in core research workflows and knowledge creation processes.

Our Platform is deployed as a single, multi-tenant system across our entire customer base. Customers securely access the Platform through online web interfaces and via web service APIs that enable customers to leverage Platform features and functionality from within in-house and third-party software systems. The Platform can also be configured to satisfy a customer's individual preferences. We leverage our Platform's efficiencies in scalability, stability and development costs to fuel rapid innovation and competitive advantage.

7. Chicken Soup for the Soul Entertainment, Inc. (CSSE) | G2 Investment Partners Management LLC (6.9%)

Market Cap: $348 million | Chicken Soup for the Soul Entertainment, Inc. (NASDAQ: CSSE) operates streaming video-on-demand networks (VOD).

I. Basics

• **What is Crackle Plus?** It is one of the largest advertising-supported online video-on-demand ("AVOD") companies in the US. Simply put, it is a completely free streaming video service that is fully supported by video ads that appear before and in the middle of video content. https://www.gadgetreview.com/netflix-vs-crackle

• The networks primarily earn revenue from advertisements placed on the platform through direct and reseller channels.

• **How big is the AVOD market?**

○ As per the company's presentation, the AVOD market is expected to grow to $56 billion in 2024, from $22 billion in 2018.

○ As per Roku, in 2019, 45% of the streamers watch AVOD the most out of all streaming videos.

II. What is interesting?

• **Large market share**:

○ A top performer in Roku platform: Based on the Roku TV app platform, the company is the second-largest ad-supported channel.

○ 11% market share: As per statista.com, Crackle Plus enjoys an 11% market share in the AVOD North America region other than YouTube. It has viewers streaming an average of roughly 30 million programs per month. https://www.statista.com/statistics/1132778/growth-avod-services-north-america/

○ The company claims that it is the only independent AVOD network operator with access to an extensive amount of valuable company-owned and third-party library content.

• **Growing content since 2019 & audience growth**:

○ As of June 2020, Crackle Plus had doubled its content offerings since May 2019 and experienced approximately 40% audience growth since it began to introduce original and exclusive programming in October of 2019.

○ The company has steadily expanded its distribution and production pipeline and its content library, which now comprises over 10,800 movies and 22,000 television episodes available for its AVOD networks.

• **Notable hits:**

○ Going From Broke exceeded five million views on Crackle in just four weeks.

○ The Outpost premiered July 2020; it shot to #1 on several VOD platforms after debut and remained in the top spot for weeks.

III. Recent significant news

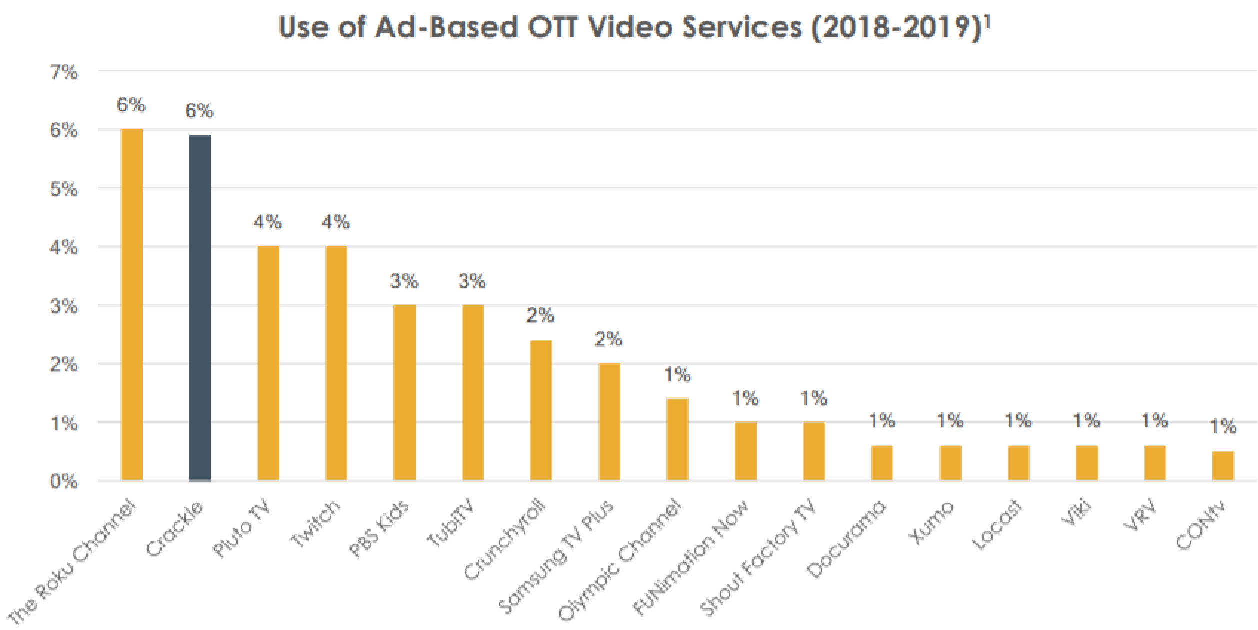
• The company now controls 100% of Crackle Plus: In May 2019, Crackle Plus was formed as a joint venture with Sony Pictures Television Inc. (SPT). In January 2021, the company acquired Sony's remaining equity interest in Crackle Plus by issuing $40 million of preferred stock to Sony.

• <u>Expanding the customer reach</u>: In February 2021, Crackle Plus signed an agreement to launch the Crackle app on Smart TVs with the VIDAA smart operation system. VIDAA is a Linux-based open smart TV operating system, currently used on Hisense TVs since 2014. The VIDAA Smart TV platform has amassed over 20 million global installs since that time.

• <u>Sony veteran added to Crackle Plus</u>: In February 2021, Crackle Plus appointed Jeff Meier as the programming head. Mr. Meier served as SVP of programming for getTV (anchored by Sony Pictures Entertainment's vast TV and film library).

<u>IV. Recent financials:</u> Net revenue for the nine months ended September 30, 2020, increased to $46.1 million from $30.9 million in 2019. This increase in net revenue was primarily due to the $20.3 million increase in distribution and production revenue resulting primarily from TVOD and video distribution revenue increases driven by a strong performance by film library content. In May 2020, a technology platform vendor discontinued operations before the completion of the contractual service period. It led to a 16% decline in online network revenue for the nine months ended September 30, 2020, compared to 2019.

Strong Competitive Position



8. Williams Industrial Services Group Inc. (WLMS): Up Listed in NYSE

Market Cap: $96 million | Williams Industrial Services Group is a construction and maintenance services company. It provides a broad range of construction, maintenance and support services to customers in energy, power and industrial end markets.

What we like

(a) Up Listed in NYSE: On February 16, 2021, the company started trading in NYSE after trading in OTC for more than five years. On a different note, in early 2018, the company emerged from several accounting problems.

(b) Low-risk business model:

- The company generates roughly 86% of its revenue on cost-plus contracts that provide for reimbursement of costs incurred plus an amount of profit.
- The company claims that it rarely experiences project delays or cancellations.

(c) Limited number of players in the nuclear industry

- The company generates roughly 67% of total revenue from the nuclear industry (US:54% Canada:13%).
- The company is one of a limited number of companies qualified to perform comprehensive services anywhere in US nuclear-power facilities under the US Nuclear Regulatory Commission's rules.
- After more than 30 years, in 2012, Southern Company secured approval to build and operate two new reactors, Units 3 and 4, at its Vogtle plant in Georgia. The company operates as a construction subcontractor and won a few direct scopes of work in the Vogtle Plant. The nuclear plant is expected to become operative in 2021 and 2022, respectively.

(d) Strong backlog: Total backlog as of September 30, 2020, was $457.9 million, compared with $494.9 million on December 31, 2019.

Risk: Customer concentration

- In 2019, four customers accounted for roughly 72% of total revenue.
- Roughly 45% of total revenue for the recent quarter (Q3 2020) is generated from the Vogtle project. The Vogtle project is expected to be completed in 2022.

13F filings

1. USA Technologies: New CEO sold two companies under his watch; significant percentage of the portfolio for plenty of funds

Market Cap: $716 million | It is a cashless payments and software services company that provides end-to-end technology solutions for the self-service retail market

This idea was flagged in May 2020, when the company appointed Sean Feeney as new CEO. It was a quite rare combination of three situations – emerging from accounting problem + majority board change by activist + appointment of a new CEO who had a good track record.

So, why are we flagging it now?

While reviewing the latest 13F (Q4 2020), we noticed that more than 40 funds reported the company for the first time. Can we assume that all these funds bought the stock in Q4 2020? Probably not. The company was trading on the OTC market till November 2020. Since OTC stocks are not required to be listed in 13F, the funds wouldn't have reported it in the past.

Nevertheless, it is quite interesting to see a massive list of funds betting on USA Technologies.

What do we like?

Since the company's past accounting problem is no longer relevant, let's skip that discussion.

(1) Business model

- The company generates approximately 87% of its revenue from recurring license and transaction fees related to its ePort Connect service.
- ePort® technology can be installed and/or embedded into everyday devices such as vending machines, a variety of kiosks, amusement games, and commercial laundry via either ePort hardware or Quick Connect solution.

(2) Majority board change after Hudson Executive involvement

- In early 2020, Hudson Executive Capital launched a proxy campaign.
- In April 2020, Hudson Executive Capital entered into a letter agreement with the company and secured eight board seats – eight out of ten directors are Hudson Executive Capital representatives.
- Moreover, the company appointed Douglas Bergeron, managing partner of Hudson Executive Capital, as chairman of the board.

(3) Track record of the new CEO

In May 2020, the company appointed Sean Feeney as CEO.

- During Mr. Feeney's tenure as CEO (April 2012 to April 2016) of GT Nexus, he led the company's sale for $675 million.
- He served as CEO of Inovis from January 2005 to its sale to GXS (OpenText) in 2010.
- He was an operating partner at Golden Gate Capital (GGC), a San Francisco-based private equity firm. While there, he advised on software-focused acquisitions, and he stepped in as an interim CEO for Critigen, a GGC portfolio company providing GPS consulting and data management IT services.

(4) Significant management changes

Since the appointment of Mr. Feeney as CEO, four out of six executives are new.

- Jan 2021: Resignation of COO

- Dec 2020: new CTO (newly created position)
- Sep 2020: new Chief Accounting Officer
- August 2020: new CFO
- July 2020: new General Counsel
- June 2020: Promoted Anant Agrawal as Chief Revenue Officer (he joined the company in Jan 2018)

(5) Relisting

In November 2020, the company was re-listed on the NASDAQ Global Select Market.

(6) Improving cost structure

• In February 2020, Mr. Feeney (CEO) noted that the company was making strides in right-sizing the company's cost structure.
• He noted that the company reported a 28% decrease in operating expenses for the quarter when compared to FY Q2 20 and a 24% decrease in the first six months of this fiscal year. He also added that the company has begun to allocate a portion of the savings to the products, systems, and services that the company needs to scale.

(7) Increased transparency/disclosure:

From the most recent quarter (QE Dec 2020), the company started to report two additional metrics - "active devices" and "active customers." Great effort from Mr. Feeney!

See page number 30.

https://www.sec.gov/ix?doc=/Archives/edgar/data/896429/000162828021001501/usat-20201231.htm

(8) Others

• Patent rich: The company's solutions are supported by an expansive IP portfolio comprised of 72 patents on its products and services.
• Negligible debt

Overall, the company has a revamped management team and board. It has a good business that is waiting to rebound once schools and businesses reopen.

2. Encore Wire Corporation (WIRE): Low cost producer & strong balance sheet

Market cap: $1.38 billion | The Company is a significant supplier of building wire for interior electrical wiring in commercial and industrial buildings, homes, apartments, manufactured housing, and data centers.

Signs of moat

Why are we flagging it?

The company is a manufacturer of wire and cable. This is a commodity product. So, why are we flagging this?

(a) Low-cost producer & single-site campus

- The company's low-cost production capability features an efficient plant design incorporating highly automated manufacturing equipment and an integrated production process.
- Interestingly, the company's plants are all located on one large campus- 445 acres with over 2.1 million square feet under roof. This single-site campus enables and enhances low-cost manufacturing, distribution, and administration.

(b) Vertically integrated

- No middleman: The company produces copper rod from the purchased copper cathode and copper scrap in its rod fabrication facility. The company reprocesses copper scrap generated by its operations as well as copper scrap purchased from others. In 2020, the company's copper rod fabrication facility manufactured virtually all the company's copper rod requirements.
- The company also compounds its wire jacket and insulation compounds. The process involves the mixture of PVC raw material components to produce the PVC used to insulate the company's wire and cable products. The raw materials include PVC resin, clay, and plasticizer. During the last year, the company's plastic compounding facility produced the vast majority of the company's PVC requirements.

(c) Strong balance sheet

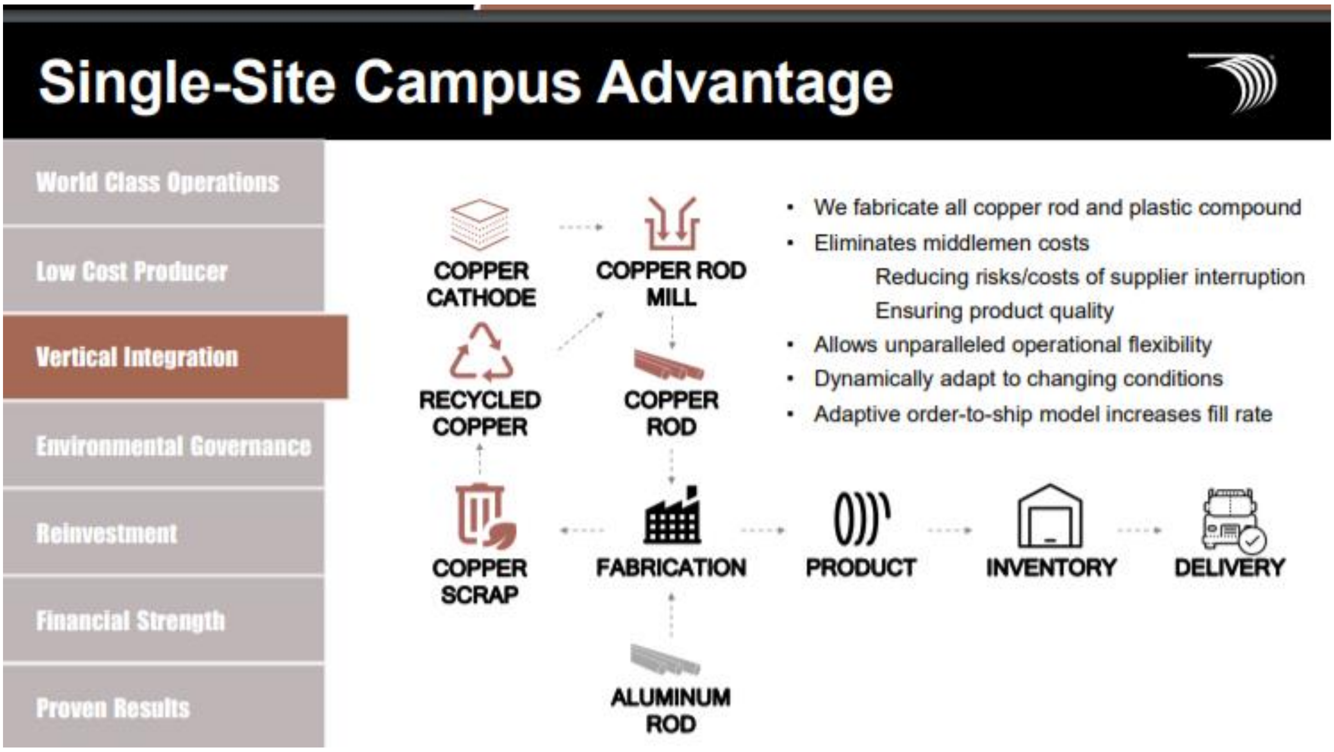
- No debt
- Cash: $183 million
- No goodwill

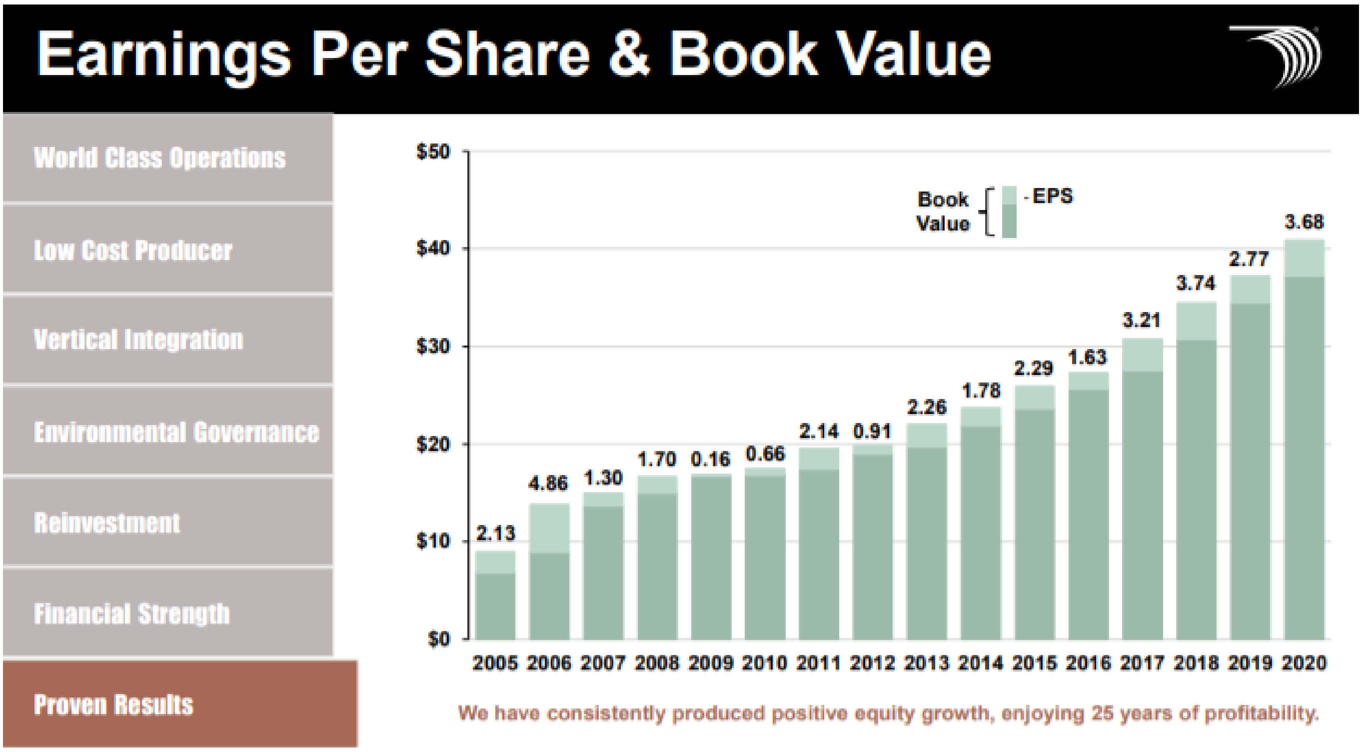
(d) Recent expansion plan

In early 2020, the company announced two-phased expansion plans – (a) the new service center's construction, which is progressing well with a planned opening in the second quarter of 2021, and (b) phase two of the expansion plans, which will focus on repurposing its existing distribution center to expand manufacturing capacity and extend its market reach. Phase two completion is anticipated in early 2022.

(e) Other information

Encore's color-coded wire was so well received by contractors that in 2002, trade publication EC&M/CEE News named it the product of the year.


Single-Site Campus Advantage
World Class Operations
Low Cost Producer
Vertical Integration
Environmental Governance
Reinvestment
Financial Strength
Proven Results
COPPER CATHODE
COPPER ROD MILL
RECYCLED COPPER
COPPER ROD
COPPER SCRAP
FABRICATION
PRODUCT
INVENTORY
DELIVERY
ALUMINUM ROD
• We fabricate all copper rod and plastic compound
• Eliminates middlemen costs
Reducing risks/costs of supplier interruption
Ensuring product quality
• Allows unparalleled operational flexibility
• Dynamically adapt to changing conditions
• Adaptive order-to-ship model increases fill rate


Earnings Per Share & Book Value
World Class Operations
Low Cost Producer
Vertical Integration
Environmental Governance
Reinvestment
Financial Strength
Proven Results
$50
$40
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$20
$10
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Book Value
EPS
2.13
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3.74
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3.68
2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020
We have consistently produced positive equity growth, enjoying 25 years of profitability.

3. Ooma, Inc. (OOMA): Growing SMB clients; report from Frost & Sullivan solidifies its competitive position

Market cap: $367 million | For businesses of all sizes, Ooma provides advanced voice and collaboration features that are flexible and scalable. For consumers, Ooma's residential phone service provides PureVoice HD voice quality, advanced functionality and integration with mobile devices. Ooma's innovative smart security solution delivers a range of wireless security sensors that make it easy for anyone to protect their home or business.

Notable shareholders: 13F filings:

• HCSF Management/Headlands Capital: Headlands Captial runs a concentrated portfolio – 8 stocks; Ooma account for 10% of total portfolio.
• Ophir Asset Management: Australian based fund - Ooma account for 3.4 % of total portfolio.
• Tiger Management (Julian Robertson): Ooma is 11th largest position in the portfolio

1. Signs of moat

• Subscription revenue (92% of total revenue): The company primarily derives revenue from recurring subscription fees related to service plans such as Ooma Business, Ooma Residential, and other communications services.
• As per the company's latest conference call, the company enjoys a 95% net dollar retention rate.
• Ooma's business and consumer phone service solutions are each ranked #1 by customers in third-party surveys – consumerreports.com and PCMAG.com.
• As per the company's presentation, 45% of Telo customers and 22% of Office customers first heard about Ooma by word of mouth.

2. Cash balance & profitability

• In the last five quarters, the company started registering positive EBITDA.
• Cash: $27.6 million; debt: $6.9 million.

3. Growing "Ooma Office/Business" revenue

Ooma Office is a fully-featured multi-user communications system for small businesses of any size.

<u>(a) Two distinguishable factors</u>

• Unlike pure cloud-based phone services that only work with IP phones, the company's unique hybrid SaaS platform allows for the use of standard analog phones, mobile phones, and fax machines, as well as select IP phones and internet fax.
• Ooma Office analog desktop extensions work wirelessly with no wiring infrastructure. This makes setup intuitive and easy enough for the user to install and manage without an IT professional's assistance.

<u>(b) Growing revenue</u>

• Historically, Ooma residential customers accounted for a significant percentage of total revenue. Now, the "Ooma Business" customers are not only contributing substantial revenue, but it is also growing rapidly.
• Ooma Business segment now accounts for 44% of total revenue, up from 22% in the FY 2018.

(c) Interesting comments from the Frost and Sullivan report

In October 2020, Frost & Sullivan honored the company with the "Best Practices Award" for simplifying SMB technology services.

As per the Frost and Sullivan report, it is clear that (a) the company's offering to the SMB space has traditionally only been available as more expensive managed services engagements for mid-sized and large enterprises, and (b) the company has simplified its product, which non-IT workers can deploy.

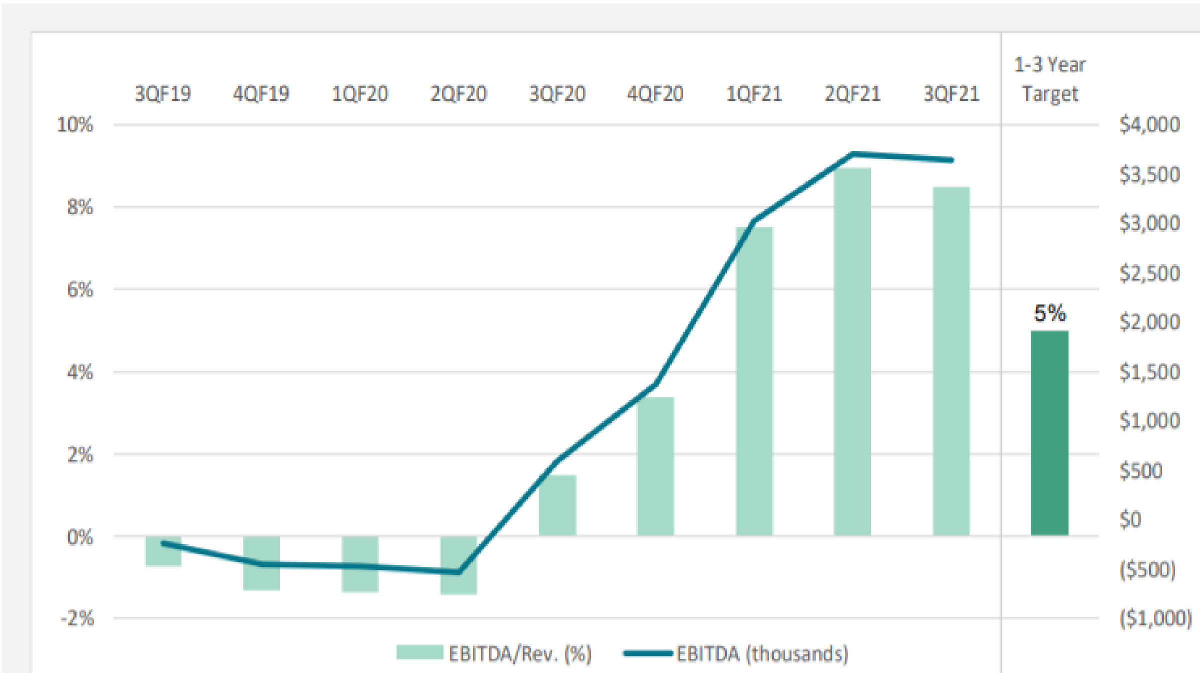
If you plan to invest your time researching this stock, please read the Frost & Sullivan report.

https://www.ooma.com/uploads/pdf/office/frost-sullivan-best-practices-award-for-ooma.pdf

> Developing managed services around UCaaS, connectivity, and Wi-Fi services and making these solutions highly complementary was the first crucial step, but making these services both easy to adopt and budget friendly sets Ooma apart from the competition. Assembling all of the technology components, such as SD-WAN and Wi-Fi gear, UCaaS services and endpoints, and wireless backup services, are a time-consuming process for knowledgeable IT staff and a daunting task for a non-technical SMB employee.
>
> Competitive Differentiation: With the full suite of Ooma Office, Ooma Office Pro, Connect, and new managed Wi-Fi, Ooma clearly distinguishes itself from the vast array of competitors in the UCaaS marketplace. In addition, the type of managed services that Ooma is now offering to the SMB space has traditionally only been available as more expensive managed services engagements for mid-sized and large enterprises. Ooma is creating its own segment with its managed services strategy, the connected SMB market, and it is supporting that market with cost-effective communications and network services designed from the ground up to be easy for non-IT workers to deploy and consume. Most UCaaS providers focus only on their own services and are not interested in being responsible for the customer’s WAN or Wi-Fi services; Ooma’s suite of solutions helps small businesses manage their most critical technology services. While there are certain vendors and service providers offering similar solutions, very few offer them at price points that an SMB would seriously consider.

Customers Rate Ooma #1

Improving EBITDA



4. Bioanalytical Systems, Inc. (BASI): Turnaround by the new management team

Market cap: $161 million

Note: the company is NOT a therapeutics or biotechnology company.

It provides contract research services and monitoring instruments for emerging pharmaceutical companies and the world's leading drug development companies and medical research organizations.

(a) Signs of moat

- Why CRO? A significant portion of innovation in the pharmaceutical industry is now driven by smaller, venture capital-funded drug discovery companies. These developmental companies generally do not have the resources to perform much of their research and are therefore dependent on the CRO industry.
- Nonclinical (77% of total revenue): The nonclinical phase includes safety testing to prepare an investigational new drug ("IND") application for submission to the FDA. To put it simply, the IND must be accepted by the FDA before the drug candidate can be initially tested in humans. (Technical explanation: Clients work with the company's nonclinical services group to establish initial pharmacokinetics (PK), pharmacodynamics (PD), and safety characteristics of the drug candidate. These safety studies range from dose-ranging studies that involve acute safety evaluation of drug candidates and medical devices to chronic, multi-year oncogenicity and reproductive toxicity studies.)
- **High switching costs:** Generally speaking, once a company has selected a CRO, and the study has been initiated, it is complicated to change providers.

(b) Turnaround

- Between mid-2018 and 2019, the company's board undertook major growth initiatives, including acquisitions and management team changes.
- In 2019, the company hired a new CEO, COO, chief human resources officer, chief commercial officer, and critical scientific leadership roles of SVP for DMPK and vice president for Pathology.
- Significant revenue growth after 2019
    - Prior to 2019: From 2013 to 2018, the company's revenue hovered between $22 million and $26 million.
    - Since 2019, the company's revenue started to grow significantly through acquisitions and organic growth.

After the appointment of the CEO

Year	Revenue ($, mm)	*Growth*
2018	26.3	
2019	43.6	*66%*
2020	60.5	*39%*
LTM	65.4	*8%*

Prior to the appointment of the CEO

Year	Revenue ($, mm)
2018	26.3
2017	24.2
2016	20.4
2015	22.7
2014	24.6
2013	21.1

ACTIVISM

I. Special reports

1. The Tile Shop Holdings: Possible uplisting

Market Cap: $347 million | Tile Shop Holdings, Inc. operates as a specialty retailer of natural stone and man-made tiles, setting and maintenance materials, and related accessories in the United States.

I. Background: Delisting drama, subsequent stake increase by insiders, lawsuit and settlement

- On October 18, 2019, the company announced its decision to suspend the company's quarterly cash dividend and determined to delist the company's common stock from NASDAQ voluntarily. On the next day, the company's stock price crashed by 66%.
- Within a week, Kamin, an incumbent director, increased his stake from 4.8% to 13%, and Jacullo, another incumbent director, increased his stake from 12.1% to 16.7%.
- In November 2019, Wynnefield Capital and K-Bar Holdings filed a lawsuit against the company for its decision to delist from Nasdaq.
- In January 2020, the directors of the company delivered "director standstill commitments" to the company – pursuant to which each director committed not to purchase any shares of the company's common stock and stated that the company's serving directors should not hold more than 50 percent of the issued and outstanding shares of the company's common stock.
- In June 2020, the company entered into a settlement with K-Bar Holdings LLC and Wynnefield Capital.

2. Potential uplisting: Cannell Capital, B. Riley, and 272 Capital urges the board to uplist the stock to a major stock exchange

- On January 28, 2021, B. Riley Financial and 272 Capital (together 8.5%) issued a public letter to the board announcing their formation of a group. It urged the board to up-list the stock to a major stock exchange. Moreover, it warned the board that the group would run a proxy contest to replace directors on the board if the company does not up-list.
- On February 3, 2021, Cannell Capital (6.09%) expressed its support for 272 Capital, LP, and B. Riley Financial, Inc., and urged the company to up-list to a major stock exchange.
- Potential uplisting: On February 2, 2021, the company's board unanimously voted to form a special committee to evaluate and to make a recommendation to the board regarding potential relisting of the company's common stock on Nasdaq.
- On a different note, on February 4, 2021, Philotimo Fund (a micro-cap activist investor) disclosed a 5.02% passive stake.

3. Significant board changes

Out of a total of six directors, three directors were appointed in July 2020. Another director is the new CEO, who has served on the board since January 2019.

4. Significant changes after the appointment of the new CEO

a) Management revamp:

Since the new CEO's appointment in January 2019, five out of eight top executives have been appointed in the last 17 months.

- September 2019: Three executives - CFO, CAO & VP sales operation
- July 2020: SVP – Supply chain distribution
- October 2020: Chief information officer

b) Repayment of debt by cutting CAPEX

In the last nine months ended September 30, 2020, the company generated a free cash flow of $56 million by cutting down the CAPEX by a whopping 94%. Moreover, the company repaid $56 million of debt.

2. Aptevo Therapeutics: Potential sale

Market Cap: $168 million | Aptevo Therapeutics Inc., a clinical-stage biotechnology company, engages in the discovery, development, commercialization, and sale of novel oncology and hematology therapeutics in the United States.

(a) Background: On November 18, 2020, Tang Capital offered to buy the company for $50 per share.

(b) Proxy campaign: On February 9, 2021, Tang Capital Partners submitted two director nominees and an advisory proposal - the sale process proposal for consideration at the 2021 AGM. The reason for presenting the sale process proposal is to allow stockholders to express their view on whether the Aptevo Board of Directors should immediately commence a sale process to maximize stockholder value. Source

Our comment

- Even though Tang Capital owns 40%, its decision to seek the shareholder's view on the commencement of the sale process is appreciable.
- Since January 2019, the company's stock price has been trading below $20. Before the announcement of the takeover offer by Tang Capital, the stock price was hovering between$6 and $7/share. So, any shareholder who bought the stock in the last two years would support the deal.
- Given the ownership of Tang Capital, there is a high probability for Tang Capital to acquire the company, or the fund would push the company to sell itself.

3. Cincinnati Bancorp Inc. (CNNB): Repurchase of shares (up to 5%)

Market cap: $37 million | The company operates as the holding company for Cincinnati Federal that provides various banking and financial services to individuals and businesses.

- On May 7, 2020, Joseph Stilwell disclosed 6.9% and stated that he hopes to work with the management and the board of directors to maximize shareholder value.
- Why are we flagging this? On February 16, 2021, the company authorized to repurchase up to 5% of o/s shares.

4. Activists group, which owns 25%, nominated three board candidates at Leaf Group

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

Background

- Formation of 1st shareholder group: Since 2020, an investor group consisting of Osmium Partners, PEAK6, Boyle Capital Opportunity Fund, Oak Investment Partners, Generation Partners, and Spectrum Equity urged the company's board to evaluate strategic alternatives.
- In the last ten months, the company's stock price increased by 5X, and the shareholder group reduced their combined stake from 40% to 23%.

The entry of VIEX Capital & the formation of a new shareholder group

- VIEX entry: 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.
- New shareholder group: On February 17, 2021, the Stockholder Group (VIEX Capital Advisors, Osmium Partners, and Oak Investment Partners) delivered a letter to the company nominating three candidates, Michael McConnell, John Mutch and Eric Singer, for election to the board at the 2021 AGM. The group also submitted a non-binding proposal to declassify the board. Source

(a) Significant stake + significant portion of portfolio

- The shareholder's group collectively owns 25.1%. On top of this, Roumell (3.38%) and Voss Capital (1.26%) may support the shareholder's group.
- As per the Q4 2020 13F, the company accounted for 25% of the total portfolio for Osmium Partners and 13% of the total portfolio for VIEX Capital.
- Overall, (a) the shareholder group owns a significant stake to influence the outcome of a proxy fight, and (b) the shareholder group has substantial capital invested in the company – so they would work aggressively to maximize the shareholder value.

(b) Valuation

As per the joint letter sent by Osmium Partners (June 2020), the group argued that the sum of the parts is worth more than the value of the company. Given the current EV of $112 million, the argument still holds good.

(c) Media asset is a crown jewel

Even though the company operates through three segments, the media segment caught our attention for one reason – even though the media segment accounts for only 25% of total revenue, this segment contributes 76% of total segment profit.

- Rich media assets: The company's media properties include Well+Good, Livestrong.com, Hunker, and OnlyInYourState, as well as approximately 43 other media properties.
- According to similarweb.com, livestrong.com website ranks #2,554 in the US.
- In December 2020, the MyPlate app, which was integrated into the Livestrong.com brand, was used by over 427,000 consumers to track their calories and improve their diet.

5. Indaba Capital Management urges the board of Benefitfocus to explore strategic alternatives

Market cap: $450 million | The company provides cloud-based benefits management platform for consumers, employees, employers, insurance brokers, carriers, and suppliers.

On February 2021, Indaba Capital Management (9.6%) sent a letter to the board urging the board to undertake a full review of strategic alternatives, including a good faith sales process. The fund expressed concerns about the related party transactions with Mr. Holland, executive chairman of the board. Here are the past letters of Indaba Capital: December 14, 2020, and January 28, 2021

Our comments

(a) Multiple activists

- Indaba Capital owns 9.6%, and VIEX Capital owns 1.3%. Even though VIEX Capital is not active in Benefitfocus, it is an aggressive activist fund.
- The company accounts for 8.6% of Indaba Capital's equity portfolio (Q4 2020 13F) and 4.9% of VIEX Capital's portfolio (Q4 2020 13F).

(b) Indaba Capital argument hints that the company is deeply undervalued

Extracted from the latest letter sent by Indaba Capital:

> **Human capital management (Peer group): Relative valuation:** On an enterprise value to revenue basis, the Company trades at a meager 2.1x consensus 2021 revenue. This represents a significant discount to the HCM Peers average of 13.1x and less than half of the lowest multiple in the group. The disparity is similar when compared to the Company's self-identified Peer Group, which trades at an average multiple of 9.0x (more than 4x Benefitfocus' multiple). The valuation gap is equally stark on an enterprise value to gross profit basis. Benefitfocus trades at 3.9x 2021 consensus gross profit versus the HCM Peer average of 19.9x. Again, the analogous average multiple for the Company's self-identified Peer Group is 14.0x.
>
> **Transaction multiple**: Transaction multiples tell the same story as there has been significant strategic and financial sponsor interest for well-managed human capital management companies. In 2019, peer company Ultimate Software was bought by a private equity sponsor for 8x the next 12 months' revenue. In 2020, Cornerstone OnDemand acquired Saba Software, a talent software company, for 4.9x the next 12 months' revenue.13 These multiples and levels of interest are not just a recent phenomenon. In 2011, SAP acquired SuccessFactors for 8.7x the next 12 months' revenue.

A couple of concerns

(a) Declining revenue:

The company's revenue declined in the last three quarters (-3.07%, -9.3%, -11%). The declining revenue trend started from Q1 2020 – i.e., pre-pandemic. In Q1 2020, the company's revenue declined due to the termination of contracts by its customers. In contrast, all the company's peer groups (except ADP) experienced revenue growth in the last three quarters- Workday, Workiva, Paylocity Holding, Ceridian HCM, Paycom Software & Cornerstone OnDemand.

(b) Red flags:

- Lease agreement with the executive chairman and a former executive - Total payments paid since 2014 and owed through the leases' lives amount to approximately $186 million.
- As pointed out by Indaba Capital, the $80mm capital raised by the company from Buildgroup raises serious questions about the quality of the management/board.
  - At the time of the capital raise, the company was sitting on a cash pile of $115 million and repurchased debt that carried 1.25% interest.
  - Lanham, a director of the company, controls Buildgroup and serves as the CEO of Buildgroup.
  - Given the fact that the company is already burdened with debt amid operating losses, the capital raise makes no sense.

Overall, this is an interesting situation from a valuation perspective. At the same time, given the board like this (infested with related party transactions) a cosmetic change to the board is not enough. We will continue to monitor the situation. This stock is worth watching.

6. Thomas Wetherald and Tobias Welo seek board changes at Taronis Fuels

Market Cap: $27 million | Taronis Fuels, Inc. operates as a renewable fuel and power generation company in the United States.

- On February 12, 0221, Thomas Wetherald and Tobias Welo (17.7%) filed proxy materials stating their belief that significant changes to the composition of the board are necessary to address the continued destruction of shareholder value, financial mismanagement, and poor corporate governance at the company. The two shareholders seek to reconstitute the board by removing five incumbent directors and electing five highly-qualified nominees. Source
- On February 25, 2021, Thomas Wetherald and Tobias Welo entered into an amended joint filing and solicitation agreement for, among other things, (i) soliciting written consents or proxies in favor of proposals to reconstitute the and related bylaw amendments or other related actions, (ii) taking such other actions as the parties deem advisable, and (iii) taking all other action necessary or advisable to achieve the foregoing. Source

Our comment

- Even though insiders own 17.2%, if you remove restricted stocks and stock options, the collective insider ownership is less than 0.2%. Yes – you read that right - only 0.2%.
- Given the fact that the shareholders own 17.7%, there is a high likelihood for them to win the election. At the same time, there are no 5% shareholders other than the activist group. So, the winning of the election is dependent on the voting of retail investors.
- We will continue to track the situation.

7. GlaxoSmithKline expresses concerns over the strategic partnership between Innoviva and Sarissa Capital

Market Cap: $1.25 billion | Innoviva (INVA) is a company with a portfolio of royalties that include respiratory assets partnered with Glaxo Group Limited.

(a) Background

- Sarissa capital controls the board: In December 2017, Sarissa Capital's two representatives were added to the board (after litigation). Subsequently, it added three more directors. Now, five out of five directors are Sarissa Capital’s representatives.
- Recent agreement with Sarrisa: In December 2020, the company made a $300 million initial contribution into an investment partnership, which would be managed by Sarissa Capital. Sarissa Capita would invest in "long-only" securities in the healthcare, pharmaceutical and biotechnology industries. The total amount borne by the partnership in respect of the management fee and the asset-based special distribution for a quarter shall be equal to 0.25% (1.00% per annum) of the net asset value.

(b) Update

On February 12, 2021, GlaxoSmithKline plc (31.6%) stated its belief that the strategic partnership between the company and Sarissa Capital creates or may create actual or potential conflicts of interest for certain members of the board.

- GlaxoSmithKline plc believes that the company should establish a standing committee of truly independent directors to ensure transparent governance, reporting, and management of the company's capital allocation.
- GlaxoSmithKline believes that the company should formulate and report a clear and visible path towards returning capital to its owners in the short to medium term.

(c) Our comments

- Innoviva is a cash cow – it generates royalty from GlaxoSmithKline. The company generated a free cash flow of $257 million and $227 million in the year 2019 and in the nine months ended September 2020, respectively.
- To date, the company has not paid dividends.
- GlaxoSmithKline (31.6%) has expressed its concerns over the board's decision to invest up to $300 million in a fund that would be managed by Sarissa Capital. It is to be noted that the entire board is now controlled by Sarissa Capital.
- GlaxoSmithKline has urged the board to declare dividends.
- It is not clear whether GlaxoSmithKline would push this agenda very aggressively or not. If it does, this could lead the company to start declaring dividends.

2. OTHER SIGNIFICANT 13D and NON-MANAGEMENT FILINGS

1. Altabancorp: 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

Background:

- On January 13, 2021, Dale O. Gunther and Blaine C. Gunther, in their capacity as the designated representatives of 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 board of directors of the company. In his resignation letter to the Board, he stated his belief that the Board and his family are on divergent paths concerning the future of the organization. Accordingly, he believes that his support for his family's objectives precludes his continued service on the board of directors.

Update:

On February 1, 2021, Jonathan B. Gunther (representative of Gunther Family Trust) tendered his resignation from the company's board of directors. Source

Our comments

- Long story short – 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.
- Given the fact that Gunther Family owns 31% and insiders own less than 9%, the family has the upper hand.
- Given the fact that the two family representatives resigned from the board, it is not clear what their next plan of action would be.
- 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 forthcoming election. This election is crucial for the family to push ahead with its agenda. Let's wait and watch.

2. Crawford United nominated two candidates to the board of Ampco-Pittsburgh Corporation

Market Cap: $121 million **|** Ampco-Pittsburgh Corporation is a producer of forged and cast rolls for the steel and aluminum industries across the world, as well as ingot and open die forged products for the oil and gas, aluminum, and plastic extrusion industries.

On February 1, 2021, Crawford United (10.3%) nominated Mr. Ambassador Edward Crawford and Mr. John D. Grampa for election as members of the board at the 2021 AGM. Source

Who is Edward Crawford? Edward Francis Crawford is an American businessman and entrepreneur who served as the US Ambassador to Ireland from 2019 to 2021. He previously served as chairman and CEO of Park-Ohio Holdings, an industrial supply chain logistics, and diversified manufacturing business.

3. Camac Fund says Cedar Realty Trust is trading at a 34% discount to its liquidation NAV

Market Cap: $150 million **|** Cedar Realty Trust, Inc. is a fully-integrated real estate investment trust which focuses on the ownership, operation and redevelopment of grocery-anchored shopping centers in high-density urban markets from Washington, D.C. to Boston.

Multiple activists

- Ewing Morris: On February 25, 2021, Ewing Morris (8.1% delivered a letter to the company nominating Darcy Morris, EM Partner's co-president and chief executive officer, for election to the board at the company's 2021 AGM.
- Camac Fund: On February 1, 2021, Camac Fund (4.8%) released a presentation and argued that the company is trading below its liquidating value(discount to liquidation NAV: -34%). It outlined a list of recommendations including a) board representation and improve corporate governance, b) sell non-core assets to deleverage the business, and c) stop all value destruction projects and monetize development portfolio through sales and implement a capital allocation policy that maximizes ROIC, preserves cash flow and improve portfolio quality.
- Barington Companies Equity Partners: On February 26, 2021, Barington Companies Equity Partners expressed its intention to nominate two persons for election as directors at the 2021 AGM. Source

CDR PEER GROUP VALUATIONS

Shopping Center REITs		Market Cap[1]	FFO Multiple[1]
		($MMs)	*(x)*
Federal Realty	$	6,624	18.8x
Urban Edge Prop.	$	1,561	14.9x
Regency Centers	$	7,770	15.3x
Retail Opportunity Investment Corp.	$	1,680	12.9x
Acadia Realty	$	1,278	13.7x
Weingarten Realty	$	2,792	13.1x
Kimco Realty	$	6,428	12.8x
Kite Realty Group	$	1,267	11.5x
Saul Centers	$	992	11.3x
SITE Centers Corp.	$	1,957	10.3x
RPT Realty	$	707	10.4x
Retail Properties of America	$	1,818	9.9x
Brixmor Property Group	$	4,867	11.0x
Total / Weighted Average	**$**	**39,742**	**13.8x**

4. Harvey Kesner, the founder of the company, initiates discussions with Exactus

Market Cap: $8 million | Exactus, Inc. produces and supplies hemp-derived ingredients and feminized hemp genetics.

On February 8, 2021, Harvey Kesner (9.99%), founder of the company, stated that he intends to make recommendations for officers and/or directors' appointments and a broad range of operational and strategic matters. Source

5. David S. Hall, founder and executive chairman of the board of Velodyne Lidar, nominates Eric Singer, managing member of VIEX Capital Advisors, to the Board

Market Cap: $3.9 billion | Velodyne Lidar, Inc. (Revenue: $96.5 million) develops and produces lidar sensors for use in industrial, 3D mapping, drones, and auto applications in North America, the Asia Pacific, Europe, the Middle East, and Africa.

On February 12, 2021, David S. Hall (58.4%), founder and executive chairman of the board, delivered a letter to the company nominating Eric Singer, managing member of VIEX Capital Advisors, for election to the board at the 2021 AGM. Source

6. Engine No. 1 to nominate four director candidates to Exxon Mobil board

Market Cap: $189 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.
• 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.

Update

• On February 1, 2021, Engine No. 1 LLC announced that the company said its plans to reduce the intensity of the greenhouse gas emissions from its operated upstream assets by 15 to 20 percent by 2025. On February 2, 2021, the company announced the appointment of Tan Sri Wan Zulkiflee Wan Ariffin to its Board.
• On February 2, 2021, Engine No. 1 LLC filed proxy materials responding to the Board announcement and financial results. It stated its belief that the company's actions further confirm the need for meaningful board change.
• On February 22, 2021, Engine No. 1 LLC sent a letter to the Board analyzing the company’s recent claims regarding Paris Agreement consistency, emissions reductions, and carbon capture investments. In each case, Engine No. 1 believes that scrutiny of ExxonMobil’s claims reveals that the Company’s efforts fall short of what is needed to position ExxonMobil for long-term value creation in a rapidly changing world, and highlights the significant long-term risks associated with the company’s current business model.

7. 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 its belief that the company could present an excellent synergistic acquisition opportunity for CVI’s petroleum segment. Source

• 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 expect these nominees, if elected, would urge a more prudent business model favoring a competitive asset base focused on financial discipline and cash flow generation, including 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.

Update:

• On February 2, 2021, Carl Icahn (on behalf of CVR Energy, Inc.) notified the company that he intends to nominate and seek to elect three individuals to the board at the 2021 AGM. Source
• On February 18, 2021, Carl Icahn (on behalf of CVR Energy, Inc) sent a letter to the company demanding the right to inspect certain books and records of the company.

8. 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
• 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 value for shareholders is to pursue a sales process but stated that the announced sale price undervalues the company. Source

Update:

• On February 2, 2021, HoldCo Asset Management stated that on January 5, 2021, it had issued a letter and presentation to the board expressing its concerns with the performance and leadership of the company.
• On February 24, 2021, HoldCo Asset Management filed proxy materials seeking support for its nominees and proposals.

9. 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: $1.8 billion | Monmouth Real Estate Investment Corporation (MNR), founded in 1968, is one of the oldest public equity REITs in the world.

<u>Background:</u>

• 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, Blackwell 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. Blackwell 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.

<u>Update</u>:

On February 5, 2021, Blackwells Capital LLC sent an email to Jonathan Litt (Owner, Land and Buildings Investment) criticizing him for running a proxy fight by owning a minuscule amount of stock. Kindly <u>click here</u> to read the mail.

10. JANA Partners nominates director candidates to TreeHouse Foods

Market Cap: $2.9 billion | TreeHouse Foods, Inc. operates as a consumer packaged food and beverage manufacturer in the United States and internationally.

On January 29, 2021, JANA Partners (7.5%) delivered a notice to the company of their intent to propose three nominees for election at the 2021AGM. Source

11. 40 North entered into a letter agreement with W.R. Grace

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 of each committee of the board of the company. 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.
- On January 11, 2021, 40 North Management increased its offer to $65.00 per share in cash.

Update: On February 1, 2021, the company entered into a letter agreement with 40 North Management pursuant to which the 40 North Parties may be furnished with certain confidential information by or on behalf of the company.

12. Icahn Enterprises secured another board seat in Conduent

Market Cap: $790 million | Conduent Incorporated provides business process services with capabilities in transaction-intensive processing, analytics, and automation in the United States and Europe.

Background:

- On December 31, 2016, the company entered into an agreement with Icahn Enterprises. Pursuant to it, Michael Nevin and Courtney Mather were appointed to the board (Icahn representatives).
- At the 2018 AGM (May 2018), Nicholas Graziano was appointed to the board as Icahn's third representative.

• On April 8, 2019, Michael Nevin, an employee of Icahn Enterprises, resigned as a director of the company because of disagreements relating to the board of directors and its chairman's oversight of the company's operations, policies, and practices. Pursuant to the settlement agreement, Icahn Enterprises is entitled to designate, and the company must cause to be appointed as a member of the board, a replacement for Mr. Nevin. On April 11, 2019, Icahn Enterprises designated Jesse Lynn, General Counsel of Icahn Enterprises, as such replacement designee. Source
• On August 18, 2020, Hunter Gary, an employee of Icahn Enterprises, was appointed as a board member.

Update: On February 3, 2021, the board elected Steven Miller, portfolio manager of Icahn Capital LP, to the board. Source

13. WaterMill Asset Management reaches agreement with Ziopharm Oncology

Market Cap: $589 million | Ziopharm (ZIOP) is developing non-viral and cytokine-driven cell and gene therapies that weaponize the body's immune system to treat the millions of people globally diagnosed with a solid tumor each year.

Background:

• In October 2020, WaterMill Asset Management Corp., Robert W. Postma and affiliated parties together holding 3.3% launched consent solicitation to remove four directors, amend several bylaws and elect three individuals to the company's board of directors, press release; presentation.
• In December 2020, WaterMill announced that it had received the requisite number of written consents to add all three of its director candidates to the board. Although each member of WaterMill's slate received support from holders of more than 50% of Ziopharm's outstanding shares, only two directors (Messrs. Vieser and Weis) would be able to join as directors due to the company's board currently being capped at eight members. WaterMill also received the requisite number of consents to remove Scott Tariff from the board.

Update:

On February 4, 2021, the company entered into an agreement with WaterMill Asset Management Corp. and Robert W. Postma. Pursuant to the agreement, the company increased the board's size from eight to nine directors and appointed Mr. Postma to fill the newly created directorship. Source

14. Athersys announces cooperation agreement with Healios

Market Cap: $529 million | Athersys, Inc., a biotechnology company, focuses on the research and development activities in the field of regenerative medicine.

Background:

- On November 13, 2020, Mr. Hardy TS Kagimoto, MD, chairman and CEO of Healios (8.3%), who has been serving on the board of directors of the company since June 2018, stated his belief that the company needs to improve its operational execution and significantly improve its corporate governance. Mr. Kagimoto continues to believe that the company's multistem product can significantly improve outcomes for patients suffering from stroke and ARDS. Source
- On November 21, 2020, Mr. Hardy TS Kagimoto filed a complaint for the inspection of books and records in the Court of Chancery of Delaware against the company. Source

Update:

On February 16, 2021, the company announced that it has entered into a cooperation agreement with Healios and Dr. Hardy TS Kagimoto. Pursuant to the agreement, the parties commit to work in good faith to finalize negotiations, with a spirit of cooperation and transparency as quickly as possible, on open matters important to successful commercialization in Japan. Further, Dr. Kagimoto also agreed to drop the litigation. Moreover, the board will also appoint Mr. Kenneth H. Traub, a former member of the Board of Athersys, as a company director.

15. Joseph Stilwell seeks board representation in Peoples Financial Corp

Market Cap: $70 million | Peoples Financial Corporation operates as the bank holding company for The Peoples Bank that provides banking, financial, and trust services to government entities, individuals, and small and commercial businesses in Mississippi.

Background: On November 23, 2020, Joseph Stilwell disclosed an 8.9% active stake and stated his belief that the company should explore all possibilities to maximize shareholder value. Source

Update: On February 9, 2021, Joseph Stilwell (9.9%) announced that he mailed a letter to the shareholders and stated that he intends to seek board representation at the upcoming annual meeting. Also, he expressed his belief that the company should explore all possibilities to maximize shareholder value.

16. Ancora comments on Forward Air's disappointing earnings report and sets the record straight on certain misleading company disclosures

Market Cap: $2.3 billion | Forward Air Corporation (FWRD) operates as an asset-light freight and logistics company in the United States and Canada.

Background:

On December 28, 2020, Ancora Advisors disclosed a 5.3% active stake in the company and stated that it had engaged, and intends to continue to engage, in discussions with the board and management team regarding means to create shareholder value.

Update:

- On February 10, 2021, Ancora Advisors (6.3%) issued an open letter to shareholders and announced that it had nominated a slate of four candidates for election to the board at the company's 2021 AGM.
    - Ancora Advisors stated that its slate includes Forward Air's founder, Scott M. Niswonger, former CFO, well-respected industry executive Andrew C. Clarke, and shareholder representative James Chadwick of Ancora, and executive leadership specialist Dawn Garibaldi.
    - Ancora believes that the company can execute on what it believes to be a >1,000 bps margin improvement opportunity focused primarily on the core Expedited LTL business, which will be accomplished through a cost rationalization plan and targeted organic growth initiatives.
    - Ancora's plan: (i) strengthen senior management team, (ii) rationalize core Expedited LTL business, (iii) optimize capital allocation strategy, (iv) pursue non-core business divestitures, and (v) elect new representatives and enhance corporate governance.
- On February 16, 2021, Ancora Advisors issued an open letter to shareholders commenting on the company's disappointing fourth-quarter 2020 earnings report and addressing certain misleading statements made by the company in its February 10, 2021 press release.

17. TAFE urges AGCO to split chairman and CEO role

Market Cap: $6.8 billion | AGCO Corporation (AGCO) manufactures and distributes agricultural equipment and related replacement parts worldwide.

Background:

- On November 12, 2020, Tractors and Farm Equipment Limited (TAFE) disclosed a 16.2% active stake in the company and stated its beliefs that the separation of the role of chair of the board and CEO would better fulfill the board's duty of oversight of the company. Moreover, it noted that it is considering a submission of a stockholder proposal to determine if company stockholders broadly support the separation of the roles of chair and CEO.

• On December 4, 2020, TAFE stated that it continues to believe that separating the role of chair and CEO is needed to reset the governance standards at AGCO and ensure independence of the board at the time of CEO succession.

Update:

On February 17, 2021, Ms. Srinivasan sent a letter to the board to express his concern regarding the board's insufficient progress in refreshing board composition and implementing governance, strategic and financial changes intended to maintain and enhance the shareholder value of the company. The letter also reiterated TAFE's proposal that the board appoints three new directors as part of a broad refresh.

18. Cove Street Capital decreased its stake in Capital Senior Living Corp

Market Cap: $58 million **|** Capital Senior Living Corporation is the operator of senior living communities in the United States in terms of resident capacity.

Background:

• On January 11, 2019, Cove Street Capital (8.4%) delivered a letter to the board recommending that the board pursue changes to its composition and seek to declassify itself such that all board members are elected annually.
• On April 9, 2019, Cove Street Capital (10.13%) delivered a letter to the board expressing its disappointment that the board did not consider its suggestion to de-stagger board member elections. Also, it stated that it plans to vote AGAINST all three of the board's proposed nominees in the 2019 election in order to send a message of dissatisfaction.

Update: On February 1, 2021, Cove Street Capital decreased its stake to 3.7%.

19. Raging Capital reduced its stake in Castlight Health

Market Cap: $273 million **|** Castlight Health, Inc. provides a software-as-a-service platform used for health benefits navigation for employees in the United States.

Background:

• On March 30, 2020, Raging Capital disclosed 9.1% and urged the board to take immediate and aggressive steps to reduce costs across all facets of the business and to drive the business to near-term break-even or better. Raging Capital stated that this would protect Castlight's strong balance sheet (cash + marketable securities currently account for over half the company's market cap) and secure the long-term viability of the business. Source
• On June 9, 2020, Raging Capital (9.6%) sent a letter to the board expressing its serious concerns regarding the lack of cost-

consciousness and profitability at the company and imploring the board to take decisive action to address these concerns.

Update: On February 4, 2021, Raging Capital reduced its stake to 6.2%.

20. Silver Ring Value Partners reduced its stake in Charles & Colvard

Market Cap: $69 million **|** Charles & Colvard, Ltd. manufactures, markets, and distributes moissanite jewels and finished jewelries worldwide. It operates through Online Channels, and Traditional segments.

- Background: On September 21, 2020, Silver Ring Value Partners (9.8%) delivered a letter to the board, in which Silver Ring requested that: (1) the company does not consider pursuing any acquisitions until the company has become solidly profitable on a sustained basis; (2) the board pursue an active sale process to sell the company to a strategic acquirer; (3) the board create substantial incentives for the top management team of the company; (4) the company returns excess cash to shareholders once the company is solidly profitable; and (5) the number of seats on the board be expanded from 5 to 7 and that Gary Mishuris and Mr. Philip Butler be nominated to occupy the additional seats.
- Update: On February 5, 2021, Silver Ring Value Partners reduced its stake to 6.4%.

PROXY ADVISORS | LAW FIRM | OTHERS

Proxy Solicitors	Company name	Filer name
AKIN GUMP STRAUSS HAUER & FELD LLP1.	BENEFITFOCUS, INC.	INDABA CAPITAL MANAGEMENT, L.P.
AKIN GUMP STRAUSS HAUER & FELD LLP	TRIBUNE PUBLISHING CO	ALDEN GLOBAL CAPITAL LLC
CADWALADER, WICKERSHAM & TAFT LLP	CORELOGIC, INC. (CLGX)	SENATOR INVESTMENT GROUP, LP
CADWALADER, WICKERSHAM & TAFT LLP	EHEALTH, INC.	HUDSON EXECUTIVE CAPITAL LP
COVINGTON & BURLING LLP	AGCO CORP (AGCO)	SRINIVASAN MALLIKA
GASTHALTER & CO.	EXXON MOBIL CORP (XOM)	ENGINE NO. 1 LP
Holland & Knight LLP	TRIBUNE PUBLISHING CO	SLAINE MASON P
ICAHN CAPITAL LP	XEROX HOLDINGS CORP (XRX)	ICAHN CARL C
INNISFREE M&A INCORPORATED	EXXON MOBIL CORP (XOM)	ENGINE NO. 1 LP
KLUK FARBER LAW PLLC	FIRST UNITED CORP/MD/ (FUNC)	DRIVER MANAGEMENT CO LLC
MOELIS & COMPANY LLC	TRIBUNE PUBLISHING CO	ALDEN GLOBAL CAPITAL LLC
OLSHAN FROME WOLOSKY LLP	CAPITAL SENIOR LIVING CORP	COVE STREET CAPITAL, LLC
OLSHAN FROME WOLOSKY LLP	CASTLIGHT HEALTH, INC. (CSLT)	RAGING CAPITAL MANAGEMENT, LLC
OLSHAN FROME WOLOSKY LLP	EATON VANCE MUNICIPAL BOND FUND (EIM)	KARPUS MANAGEMENT, INC.
OLSHAN FROME WOLOSKY LLP	TANDY LEATHER FACTORY INC	BANDERA PARTNERS LLC
OLSHAN FROME WOLOSKY LLP	INGLES MARKETS INC	GAMCO INVESTORS, INC. ET AL
OLSHAN FROME WOLOSKY LLP	BOSTON PRIVATE FINANCIAL HOLDINGS INC	HOLDCO OPPORTUNITIES FUND III, L.P.
OLSHAN FROME WOLOSKY LLP	FIRST UNITED CORP/MD/ (FUNC)	DRIVER MANAGEMENT CO LLC
OLSHAN FROME WOLOSKY LLP	DUFF & PHELPS UTILITY & CORPORATE BOND TRUST INC (DUC)	KARPUS MANAGEMENT, INC.
OLSHAN FROME WOLOSKY LLP	FORWARD AIR CORP	ANCORA ADVISORS, LLC
OLSHAN FROME WOLOSKY LLP	WESTERN ASSET INFLATION-LINKED INCOME FUND (WIA)	KARPUS MANAGEMENT, INC.
OLSHAN FROME WOLOSKY LLP	BENEFITFOCUS, INC.	INDABA CAPITAL MANAGEMENT, L.P.
OLSHAN FROME WOLOSKY LLP	EATON VANCE FLOATING-RATE INCOME PLUS FUND (EFF)	SABA CAPITAL MANAGEMENT, L.P.
OLSHAN FROME WOLOSKY LLP	VELODYNE LIDAR, INC.	HALL DAVID S.
OLSHAN FROME WOLOSKY LLP	LEAF GROUP LTD. (LEAF)	VIEX CAPITAL ADVISORS
OLSHAN FROME WOLOSKY LLP	LEAF GROUP LTD.	OSMIUM PARTNERS, LLC
OLSHAN FROME WOLOSKY LLP	LEAF GROUP LTD.	OAK INVESTMENT PARTNERS XI L P
OLSHAN FROME WOLOSKY LLP	IMMERSION CORP (IMMR)	VIEX CAPITAL ADVISORS, LLC
OLSHAN FROME WOLOSKY LLP	KOHLS CORP	MACELLUM ADVISORS GP, LLC
OLSHAN FROME WOLOSKY LLP	FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND (FAM)	KARPUS MANAGEMENT, INC.
OLSHAN FROME WOLOSKY LLP	ASHFORD HOSPITALITY TRUST INC	CYGNUS CAPITAL, INC.
OLSHAN FROME WOLOSKY LLP	ACI WORLDWIDE, INC (ACIW)	STARBOARD VALUE LP

OLSHAN FROME WOLOSKY LLP	ONESPAN INC.	LEGION PARTNERS ASSET MANAGEMENT, LLC
OLSHAN FROME WOLOSKY LLP	CEDAR REALTY TRUST	EWING MORRIS & CO. INVESTMENT PARTNERS LTD
OLSHAN FROME WOLOSKY LLP	TEMPLETON GLOBAL INCOME FUND (GIM)	SABA CAPITAL MANAGEMENT, L.P.
PERKINS COIE LLP	VELODYNE LIDAR, INC.	HALL DAVID S.
SARATOGA PROXY CONSULTING LLC	BLUCORA, INC.	ANCORA ADVISORS, LLC
SCHULTE ROTH & ZABEL LLP	TILE SHOP HOLDINGS, INC.	B. RILEY FINANCIAL, INC.
SCHULTE ROTH & ZABEL LLP	TREEHOUSE FOODS, INC.	JANA PARTNERS LLC
SCHULTE ROTH & ZABEL LLP	INVESCO DYNAMIC CREDIT OPPORTUNITIES FUND	SABA CAPITAL MANAGEMENT, L.P.
SCHULTE ROTH & ZABEL LLP	ENZO BIOCHEM INC (ENZ)	HARBERT DISCOVERY FUND, LP
SCHULTE ROTH & ZABEL LLP	VOYA PRIME RATE TRUST (PPR)	SABA CAPITAL MANAGEMENT, L.P.
SHARTSIS FRIESE LLP	P&F INDUSTRIES INC (PFIN)	LAWNDALE CAPITAL MANAGEMENT LLC
Sheppard, Mullin, Richter & Hampton LLP	WRAP TECHNOLOGIES, INC.	NORRIS ELWOOD G
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP	ATHERSYS, INC / NEW	HEALIOS K.K.
SULLIVAN & CROMWELL LLP	W R GRACE & CO	40 NORTH MANAGEMENT LLC
WEIL, GOTSHAL & MANGES LLP	CORELOGIC, INC. (CLGX)	CANNAE HOLDINGS, INC.
Willkie Farr & Gallagher LLP	APEX GLOBAL BRANDS INC.	COVE STREET CAPITAL, LLC

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.

1. Granite Construction Inc. (GVA): Emerged from accounting problem

Market cap: $816 million | Granite is one of the largest diversified construction and construction materials companies in the United States as well as a full-suite provider in the transportation, water infrastructure and mineral exploration markets.

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

Research

• 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.

New CFO

On January 26, 2021, the company appointed Elizabeth L. Curtis as EVP, CFO, and assistant secretary.

Filing of delinquent filings

- On February 22, 2021, the company filed its annual report for the year 2019. It includes the restated financial statements.
- On February 22, 2021, the company filed its delinquent quarterly reports for the quarter ended March 31, 2020, June 30, 2020, and September 30, 2020. (Source)

2. Key Tronic Corporation (KTCC): Delinquent filing

Market Cap: $90 million | Key Tronic is a leading contract manufacturer offering value-added design and manufacturing services from its facilities in the United States, Mexico, China and Vietnam.

Delinquent filing

On February 10, 2021, the company announced that it would delay its 10-Q for the quarter ended December 26, 2020.

- The company stated that it received a notification from an employee regarding irregularities in the classification of inventory between raw material and work-in-process at a production facility.
- The Audit Committee immediately took steps to commence an internal investigation. Also, the company is cooperating with the SEC regarding the investigation and related matters.

On this news, the company's share price crashed 11%.

3. Cemtrex Inc. (CETX): Delinquent filing

Market Cap: $45 million | Cemtrex is a technology company driving innovation in Internet of Things (IoT), security, machine vision & artificial intelligence, and augmented & virtual reality

I. Auditor change:

On January 29, 2021, the company dismissed Haynie & Company (no disagreements / no reportable events) and appointed Grassi & CO., CPAs, PC as its new accounting firm on February 9, 2021.

II. Delinquent filing

- On February 17, 2021, the company announced that it would delay its form 10-Q for the quarter ended December 31, 2020. The change in the company's independent auditors has delayed the compilation of the financial statements.
- Share price reaction: On this news, the company's share price crashed by roughly 10%.

RANDOM

1. Why you should put your firm's research files on Google drive?

1) Ease of search:

Retrieval of information is a vital tool for an investment professional. Let's imagine this situation – you want to read the notes of your discussion with an expert in simulation software, but all you can remember is that he is a simulation expert with whom you spoke with say four or five years ago. You don't remember the company name, ticker, the executive's name, or the date of your discussion.

Question: How will you find your "scuttlebutt notes"?

Searching Google drive is like a doing a Google search of your research files. It will retrieve all the documents (Word, Excel, PDF) that contain your keyword in both the content and title. So, to solve the problem of finding the simulation software expert, you simply type "simulation" and hit enter. The system will list all the documents that contains the keyword.

In fact, the Google website claims that "Drive can recognize objects in your images and text in scanned documents. So, you can search for words like "Eiffel Tower" and get text documents with that word, as well as images of the actual Eiffel Tower."

2) Sync across the devices

All the files you store on your Google Drive will be synced automatically across different devices (phone, tablet, computer).

3) Ease of access

To access Google drive, all you need is an internet connection. You no longer need to carry your pen drive.

4) Ease of sharing

Since the document can be simultaneously edited by different users around the world, it helps when you want to work on an assignment that is shared.

2. Pure Cycle Corporation (PCYO): CEO letter | Market cap: $290 million

FY 2019

Dear Shareholders:

It's been a great year! While there are the obvious metrics for this year's performance - record revenues, record profits, record growth - and I am pleased to report these results, there are many other achievements that may not be as obvious. As we embarked on our land development segment seeking to deliver finished lots to our homebuilder customers, we set a pretty ambitious goal of not only building a new Master Planned Community, but also building a new water and wastewater system. Starting a new project is generally more difficult than expanding an existing one, and we started three new projects simultaneously. As the year commenced, there was plenty of skepticism in the market. While our homebuilders were supportive by contracting to buy these new lots, we were in fact opening a new market along the I-70 corridor where market acceptance was not tested. Needless to say, we had our work cut out for us.

While our financial results are the score card for the year, I would like to share with you a bit about how we have built our organization over the past few years and introduce you to the real stars of the organization. We operate on the vertically integration ideology. By that I mean we have a talented team of engineers, led by a 40- year industry veteran Mr. Scott Lehman, who designs our water and wastewater systems. He not only makes sure they operate correctly, but he decides when, where and how big to build. Complementing our engineering staff, we have an experienced group of construction professionals, led by Mr. Raphael Meir, who have decades of construction experience and can operate the heavy equipment that makes difficult tasks attainable. Complementing our construction staff are a dedicated team of water and wastewater operators, led by Mr. Mark Whitlatch, who have decades of experience operating water and wastewater systems and placing systems into service. This integration allows us to have the field personnel who construct much of the components of our water and wastewater systems in direct contact with the engineers who design it, both of whom work with the professionals who operate the systems to collaborate to attain the best outcome. We are a water utility company and have built an excellent team of experienced professionals and have accumulated a valuable portfolio of water rights and other infrastructure through the years. However, starting construction at Sky Ranch required new builds to both our water and wastewater assets from individuals who are dedicated to getting it done right, and I could not be prouder of their work.

While we were confident that we could succeed building our utility assets, we had to do this at the same time as we were building a new Master Planned Community. This year marked the start of our land development segment where we contracted to deliver ready to build "finished" lots to homebuilders. Our land development activities are managed by a 20-year land veteran, Mr. Dirk Lashnits.

Developing finished lots is a massive undertaking and requires extensive planning and coordination among several different contractors from managing the dirt work, the wet and dry utilities, streets, curbs, drainage system, parks, open spaces, trails, entry roadway, traffic system, community lighting, and many more details all the way down to the location of the mail boxes. And doing all this at the same time we were building a new water and wastewater system. Those of you who were able to visit the site witnessed that it was a massive undertaking of equipment and personnel.

I can tell you our dedicated team worked their tails off to meet our objective of delivering 150 finished lots by our fiscal year end. While we surpassed this goal by nearly 70%, delivering 255 finished lots, I would be lying if I said it all went smoothly. 2019 was a year in which mother nature was not kind. We had record snow fall this past winter and more spring rain, and heavier rain, than we've seen in 30 years, which made for challenging construction conditions. Credit truly goes to our construction team, who was able to clean up washed out messes allowing our contractors to get back to work quicker than at other sites throughout the spring rains. Not only have we been able to deliver 170% of our anticipated lots, we were able to deliver these lots within budget during extraordinary conditions, a truly great year.

The result - our homebuilders had finished lots at Sky Ranch when most of their other projects were still recovering from a wet first half of the year. Having finished lots is only part of our success, we had to deliver an extraordinary community where people wanted to live. I credit our land planning team at PCS Inc., who created a well-planned, pedestrian friendly community that provided the look and feel of a beautiful Master Planned Community at a price allowing for the delivery of entry level homes, in what has been described as the most affordable Master Planned Community in the Denver market. Home sales at Sky Ranch have exceeded all our builder's projections, and all three of our builders have asked to accelerate their lot purchases and requested us to deliver their remaining contracted lots as quickly as we can. In some cases, this will accelerate the closing of lots that were originally contracted to be delivery in 2022 into 2020.

While our land development team delivered results, so too did our utility team, somehow staying out of the way of all our land construction contractors to deliver our water system and a state of the art wastewater reclamation facility that treats 100% of the wastewater to a high standard for re-use in Sky Ranch's parks and open spaces. This water reclamation facility recycles and reuses 100% of the community's wastewater for outdoor irrigation, which lowers our initial water requirement per connection. I am so very proud of our team of professionals and their stewardship of our shareholders' invested capital to deliver these assets ahead of schedule and within budget. They are the ones who deserve the true credit for this year's results.

Not wasting time resting on our laurels, we embark on 2020 with full sails, excess capacity in both our water and wastewater systems, and champing at the bit, as are our three homebuilders and nearly a dozen new builders, to break ground on our second phase, which is planned to include a broader product mix of residential offerings, including some multifamily units, as well as 150 acres of commercial land near the Interstate. Expanding Sky Ranch is expected to be easier than starting construction, and having excess capacity in our utility assets will allow for accelerated financial results. I pen this letter with the humble appreciation of our team, our Board of Directors who provide guidance and direction, and our loyal shareholders, new and old, who have supported our investments through the years. We look forward to many more great years.

Very kindly yours,

Mark Harding

3. Never bet against America: Warren Buffett

Warren Buffett letter: 2020

Consistent message

In 1958, Phil Fisher wrote a superb book on investing. In it, he analogized running a public company to managing a restaurant. If you are seeking diners, he said, you can attract a clientele and prosper featuring either hamburgers served with a Coke or a French cuisine accompanied by exotic wines. But you must not, Fisher warned, capriciously switch from one to the other: Your message to potential customers must be consistent with what they will find upon entering your premises.

Productive assets produce wealth

Productive assets such as farms, real estate and, yes, business ownership produce wealth – lots of it. Most owners of such properties will be rewarded. All that's required is the passage of time, an inner calm, ample diversification and a minimization of transactions and fees. Still, investors must never forget that their expenses are Wall Street's income. And, unlike my monkey, Wall Streeters do not work for peanuts.

Power of repurchase

Berkshire's investment in Apple vividly illustrates the power of repurchases. We began buying Apple stock late in 2016 and by early July 2018, owned slightly more than one billion Apple shares (split-adjusted). Saying that, I'm referencing the investment held in Berkshire's general account and am excluding a very small and separately-managed holding of Apple shares that was subsequently sold. When we finished our purchases in mid-2018, Berkshire's general account owned 5.2% of Apple.

Our cost for that stake was $36 billion. Since then, we have both enjoyed regular dividends, averaging about $775 million annually, and have also – in 2020 – pocketed an additional $11 billion by selling a small portion of our position.

Despite that sale – voila! – Berkshire now owns 5.4% of Apple. That increase was costless to us, coming about because Apple has continuously repurchased its shares, thereby substantially shrinking the number it now has outstanding.

But that's far from all of the good news. Because we also repurchased Berkshire shares during the 21/2 years, you now indirectly own a full 10% more of Apple's assets and future earnings than you did in July 2018. This agreeable dynamic continues. Berkshire has repurchased more shares since yearend and is likely to further reduce its share count in the future. Apple has publicly stated an intention to repurchase its shares as well.

Never bet against America

In its brief 232 years of existence, however, there has been no incubator for unleashing human potential like America. Despite some severe interruptions, our country's economic progress has been breathtaking. Beyond that, we retain our constitutional aspiration of becoming "a more perfect union." Progress on that front has been slow, uneven and often discouraging. We have, however, moved forward and will continue to do so.

Our unwavering conclusion: Never bet against America

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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