



PROJECT-X

March 2022 | Issue 18

Snowball Research team



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Project-X: Manual

What is Project-X?

This publication focuses on a completely different set of screening methodologies.

We focus on the following:

1. Owner-operators: Research companies that are run by owner-operators.
2. Find ideas from fund letters and fund commentaries. I'm proud to say that our publication would be the first to focus on unearthing comments buried in mutual fund letters that are filed with the SEC. We are still learning and building a process.
3. 13F: Self-explanatory.
4. Segments: We find companies with multiple segments and flag the peculiar ones.
5. OTC: Self-explanatory
6. Business: We focus on companies that generate recurring revenue and/or show "some sign" of competitive advantage.

FAQ:

- Market cap? Stocks under \$5 billion market capitalization.
- Frequency? Even though I plan to publish once a month, my minimum guarantee is 9-10 reports in a year.
- How many stocks? At least 6-9 stocks in a month.

TESTIMONIALS

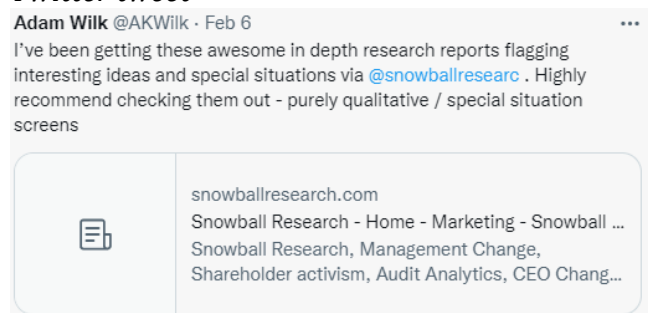
“Snowball is a tremendous research tool for value- and change-orientated investors that literally does the heavy lifting to help you find great, needle-in-the-haystack investment ideas.” - *William C. Martin, Raging Capital Ventures / Raging Capital Management LLC*

“In a world of too many research services providing too many reports of dubious value, Snowball stands out as a worthwhile and differentiated publisher. Further Snowball’s key personnel are responsive to input from clients and always trying to improve their product, which bodes well for the future.” - *Portfolio Manager (AUM: \$200 million*)*

“Your product is a good statistical reminder of companies that are ongoing changes. It exposes me to companies I might not be taking a look at. While limited, it is a good starting point for further investigation.” - *Portfolio Manager (AUM: \$200 million*)*

“Very intriguing research” - *Individual Investor*

Twitter tweet

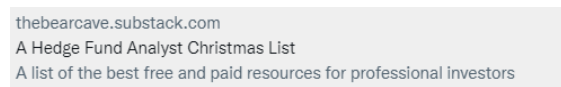


- *Adam Wilk, Portfolio Manager, Portfolio Manager of Greystone Capital Management LLC*



The Bear Cave

Featured in “A Hedge Fund Analyst Christmas List” under the list of the best-paid resources for professional investors, Dec 2021



* *AUM data is extracted from FORM ADV and rounded off*

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Notes

1. The stocks are not listed in the order of “interesting”.
2. Each headline below is “clickable” – it is hyperlinked to the article.
3. At the top of each page, you can see “Go to Index” text. If you click that, you will be taken to the index page.

Special reports

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2. [Identiv \(INVE\): An emerging growth story? A significant percentage of the portfolio for Bleichroeder, Harbert Fund, Millrace Asset, Ophir Asset, Portolan Capital and Jacob Asset](#)
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Fund letters/commentary

7. [Wanger Select | Columbia Wagner Asset Management – Annual report 2021](#)
8. [Segall Bryant & Hamill Trust - Annual report 2021](#)

U.S. Physical Therapy (USPH): Solid growth under the tenure of the current CEO

- Market Cap: \$1.3 billion | U.S. Physical Therapy is a national operator of outpatient physical therapy clinics and provider of industrial injury prevention services.
- Major shareholders: BlackRock - 15.9% | KAYNE ANDERSON RUDNICK INVESTMENT - 11.9% | PRICE T ROWE ASSOCIATES - 9.5% | VANGUARD GROUP - 7.1%
- Screen: 13F & Mutual fund manager commentary

I. BASIC

- The Company operates its business through two reportable business segments.
 - The physical therapy operations segment (91% of revenue) - clinics that provide pre-and post-operative care for a variety of orthopedic-related disorders and sports-related injuries, treatment for neurological-related injuries, and rehabilitation of injured workers
 - The industrial injury prevention services segment (9% of revenue) - onsite injury prevention and rehabilitation, performance optimization, post offer employment testing, functional capacity evaluations, and ergonomic assessments.
- **How does it operate?** The company generally own a 1% general partnership interest and a 10% to 99% limited partnership interest and the managing therapist(s) of the clinics owns the remaining limited partnership interest in the clinics.
- Payor sources for physical therapy operations are primarily managed care programs, commercial health insurance, Medicare/Medicaid and workers' compensation insurance.

II. WHAT WE LIKE

1. Stellar performance under the current CEO, Mr. Reading

- In November 2004, the company promoted Christopher J. Reading as CEO.

He joined the company in 2003 as COO.

- **More than 6X return in 18 years:** During his tenure, the company's market capitalization increased from \$150 million to \$1.2 billion.
- **3X growth in financials:** The Company's revenue increased from \$118 million in 2004 to \$495 million in 2021 due to organic growth and acquisitions. Net income improved from \$10.7 million in 2004 to \$40.8 million in 2021.
- **Acquisitions:** In the last ten years, the company spent over \$350 million on acquisitions of clinical practices and industrial injury prevention services businesses.
- **Increase in clinics:**
 - The company's outpatient physical and occupational therapy clinics increased from 264 in 2004 in 35 states to 591 clinics in 39 states.
 - Since 2012, the number of clinics increased at a CAGR of 3.6%, and daily patient visits per clinic increased at a CAGR of 3.3%.
 - Average visits per clinic per day exceeded 29.0 for the first time in the company's history in March 2021 and continued at that level or higher through the remainder of 2021.

(\$ in millions)	2017	2018	2019	2020	2021
Net revenue	414.0	453.9	481.9	422.9	495.0
Gross profit	90.6	101.6	112.4	94.4	117.1
Operating income	54.7	60.3	67.4	52.4	70.6
Net income attributable to USPH shareholders	22.2	34.8	40.0	35.1	2.8

2. Strong Free cash flow

In the last ten years, the company has consistently delivered positive FCF.

(\$, mm)	2017	2018	2019	2020	2021
FCF	49.5	65.9	52.3	92.3	68.2

3. Dividend: The Company initiated a quarterly dividend in 2011 that has subsequently increased several times to \$0.41 in Q1 2022.

4. Strong recovery

- During FY 2020, the company's revenue declined due to the COVID-19 pandemic.
- The company's revenue started to recover from the quarter ended June 2021. In the recent three quarters, the company's revenue grew not only compared to 2020 but also when compared to 2019 financials.

5. Outlook

- **Market opportunity:** In general, the elderly population continues to grow, and the company believes that demand for rehabilitation services will increase.
- During FY 2022, the company intends to continue to acquire multi-clinic practices and to continue to develop outpatient physical therapy clinics as satellites in existing partnerships.
- The company expects to generate \$3.25 to \$3.35 per diluted share.

III. WHY WE ARE FLAGGING THIS

a) Alpine Peaks Capital

- Alpine Peaks filed its first 13F in Q4 2021, and the stock accounts for 5.5% of its portfolio.

- Jennifer Ralph Oppold founded Alpine Peaks in 2017.

b) Fenimore Asset Management's comment about U.S. Physical Therapy

- **Fenimore Asset Management** holds a 0.8% stake in the company as of December 2021.
- **Comment by Fenimore Asset in 2022:** "Early on during COVID, volumes declined as fewer people had surgeries (e.g., hip replacements) or sports injuries. Volumes have rebounded nicely, but the stock has been under pressure seemingly because a competitor has repeatedly posted disappointing results, there are concerns about upcoming Medicare rate cuts, and there are fears that the new Omicron variant will impact volumes. We continue to believe US Physical Therapy has a bright future and are comfortable holding our shares."

IV. Heads-up

- During the year ended December 31, 2021, approximately 35.4% of the net patient revenue was from patients with Medicare or Medicaid program coverage.
- The Medicare program reimburses outpatient rehabilitation providers based on the Medicare Physician Fee Schedule ("MPFS"). On an annual basis, the reimbursement under the MPFS is subject to changes, which could include reductions in such reimbursement amounts. The company estimates that the Medicare rate reduction for the full year of 2022 will be approximately 0.75%.

Identiv (INVE): An emerging growth story? A significant percentage of the portfolio for Bleichroeder, Harbert Fund, Millrace Asset, Ophir Asset, Portolan Capital and Jacob Asset

- Market Cap: \$360 million | Identiv is a global leader in digital security and identification in the Internet of Things (IoT).
- Major shareholders: BLEICHROEDER - 9.8% | PORTOLAN CAPITAL - 7.8% | BlackRock - 5.9% | OPHIR ASSET MANAGEMENT - 5.2%
- Screen: 13F & Stake increase by a 10% shareholder

I. BASIC

- The company's RFID (radio-frequency identification) devices are designed to digitally enable and secure any physical item.
- By digitally enabling physical 'things,' the company's products make them more secure, responsive, feature-rich, interactive, and customer-connected.
- The company's RFID devices have been integrated into over 1½ billion physical internet of things worldwide.
- Practical use case?
 - RFID enables syringes to track whether the exact right amount of medication is filled into them and dispensed into the patient.
 - Refrigerators can tell when the filter needs to be replaced, and make sure an authentic replacement is installed and working.
 - Running shoes can sense how many steps you've taken.
 - Governments can track the quality and authenticity of cannabis products for compliance and especially for tax collection.
 - Temperature-sensitive medicine can be tracked to ensure it has stayed within its safety parameters and not spoiled.
 - Bicycle and scooter tire pressure and frame wear can be monitored.

- Segment: The company operates in two segments –

- Identity (62% of total revenue): The company's Identity business is focused on digitally enabling and securing every **physical thing**
- Premises (38% of total revenue): The Company's Premises business is focused on digitally enabling and securing every **physical place**.

II. WHAT WE LIKE

1. Signs of moat

- First mover advantage? With over 150 active RFID customers, the company has engaged with some of the most advanced early adopters, built on its reputation as the go-to partner for advanced RFID devices.
- Deeply integrated into the process:
 - The company is involved in the early stage of the sales cycle. The company supports its customers through the entire cycle - concept -> design -> prototype -> production.
 - The CEO claims (Q1 2021 CC) that the company is one of the few in the industry that does small prototype and production runs.
 - The company designs the systems, antennas, software, security, and

physical form that connects the chips, accesses their capabilities and manages RF communications and power conversion. As such, the company's customers get locked in with the company for the long run.

- It doesn't stop there. If the customers' engineers want to improve the product, the company would typically run another rapid cycle of re-design / re-prototype / re-pilot / re-production processes.
- The CEO claims that switching costs are high for its customers.

2. An emerging growth story?

- Since 2017, the company's revenue has consistently grown from \$56 million in 2016 to \$103 million in 2021 due to organic growth & acquisitions (to a smaller extent).
- Growth story?
 - Compared to FY 2019 (growth: 7.2%) and FY 2020 (growth: 3.8%), the company's revenue grew by 19.4% in FY 2021.
 - The company expects its 2022 full-year revenue to be between \$130 million and \$135 million, reflecting year-over-year growth of approximately 25% to 30%.
 - 2023: The Company expects a 30% to 35% year-over-year revenue growth in fiscal 2023.
- Doubled its salesforce: In late 2021, the company more than doubled its salesforce and project management team to support design wins.
- Major management shakeup in the last couple of years.
 - Four of the top executives were appointed after mid-2020.
 - Four out of top executives are appointed after mid-2020.
 - July 2020: VP - Global Sales
 - Nov 2020: VP - Global Marketing
 - Oct 2021: VP- Transponder business

- Dec 2021: CFO

- Backlog: The Company exited 2021 with a total backlog for all future shipments of \$30.2 million, up 45% versus Q4 2020.
- Orders in Q1 2022: The Company's total new orders booked through the first month of Q1 2022 were \$12 million, up 43% over the same prior-year period.
- Retention: In 2020 and 2021, the company enjoyed 100% customer retention in RFID.

3. Transition towards software - recurring revenue (SaaS)

- The company added recurring revenue streams in 2019.
- In 2020, the company launched subscription services for its entire physical security product line.
- In Q3 2021, the company's recurring revenue generated 5% of total revenue and 5% of the trailing 12-month revenue.

4. Debt-free balance sheet

III. WHY ARE WE FLAGGING THIS?

#1 Bleichroeder

- Largest position in the portfolio: As per the latest 13F, Identiv accounts for roughly 9.7% of its portfolio.
- Bleichroeder owns roughly 20% of the o/s shares in the company.
- In March 2022, Bleichroeder bought \$2.5 million worth of shares at an average price of \$15.1 per share.

#2 Plenty of fund managers are betting on the stock.

- Harbert Fund: 5.5% of its portfolio
- Millrace Asset: 4.3% of its portfolio
- Ophir Asset: 3.9% of its portfolio
- Portolan Capital: 3.3% of its portfolio
- Jacob Asset: 3% of its portfolio

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Identity (\$ in millions)	2018	2019	2020	2021
Net revenue	43.5	42.1	52.7	64.7
Gross profit	13.9	14.5	14.7	
Gross profit margin	32%	35%	28%	24%
Premises (\$ in millions)	2018	2019	2020	2021
Net revenue	34.5	41.5	34.1	39.0
Gross profit	19.3	22	18.9	
Gross profit margin	56%	53%	55%	55%

Amedisys (AMED): Stellar performance in the last seven years under the leadership of the current CEO; Segall Bryant & Hamill believe that the current poor performance is a temporary hiccup

- Market Cap: \$5.4 billion | Amedisys is a leading healthcare at home company delivering personalized home health, hospice, personal care, and high acuity care services.
- Major shareholders: BlackRock - 11.5% | VANGUARD GROUP - 9.7% | WELLINGTON MANAGEMENT - 5.5% | AMERIPRISE FINANCIAL - 5.2%
- Screen: Mutual fund manager commentary

I. BASIC

- It is the largest providers of home health and hospice care in the United States, with approximately 21,000 employees in 528 care centers in 38 states within the United States and the District of Columbia.
- The company's services are primarily paid for by Medicare which has represented approximately 74% to 75% of its net service revenue over the last three years.
- The company has four segments:
 - Home health segment (61% of revenue) – Provides healthcare services in the homes of individuals who may be recovering from an illness, injury or surgery
 - Hospice care (36% of revenue) - Provides care that is designed to provide comfort and support for those who are facing a terminal illness
 - Personal care (3% of revenue) - Provides patients assistance with the essential activities of daily living
 - High Acuity Care Segment (less than 1% of revenue) – Established with the acquisition of Contessa Health in August 2021.

Financials:

(\$ in millions)	2017	2018	2019	2020	2021
Net service revenue	1,511.3	1,662.6	1,955.6	2,071.5	2,214.1
Other operating income	0.0	0.0	0.0	34.4	13.3
Gross profit	607.9	669.7	805.3	920.5	994.0
Operating income	78.5	155.1	177.5	219.3	251.9
Net income attributable to Amedisys	30.3	119.3	126.8	183.6	209.1

II. WHAT WE LIKE

1. Largest player with good ratings/reviews

- Amedisys is the second largest provider of home health care and the third-largest provider of hospice care in the United States.
- Satisfactory: In the Centers for Medicare and Medicaid Services ("CMS") report for January 2022, the Quality of Patient Care star average across all Amedisys providers was 4.33, with 95% of its care centers at 4+ stars and 37 care centers rated at five stars. The Patient Satisfaction star average for January 2022 was 3.60, outperforming the industry average by 3%.

2. Growing market:

- Approximately 80% of older adults have at least one chronic disease and 77% have at least two, according to the National Council.
- Due to the growing aging population, there has been an increase in the need for nursing care in recent years. According to Global Market Insights, U.S. post-acute care is to surpass \$578 billion by 2028 from \$419 billion in 2021.

3. Roll-up strategy under the CEO; Stellar financial performance

- In December 2014, the company appointed Paul Kusserow as CEO. During his tenure, the company's stock price increased by 5X, and the company's performance improved significantly.
- 7th consecutive year of revenue growth: The Company's revenue has been growing consecutively since 2015, from \$1.18 billion in 2014 to \$2.2 billion in 2021 due to organic and acquisitions.
- During the same period, operating income (EBIT) increased from \$37 million in FY 2014 to \$251 million in FY 2021.
- Acquisitions: Since 2014, the company has spent over \$1 billion on acquisitions. The company has spent over \$570 million on acquisitions in the last couple of years.

4. Positive free cash flow

(\$ in millions)	2019	2020	2021
Adjusted EBITDA	225.2	273.5	299.5
Free cash flow	193.9	282.7	182.5

5. Share repurchase plan

Since FY 2015, the company has repurchased its shares for more than \$390 million.

In August 2021, the company announced another \$100 million repurchase plan to be completed by December 2022.

III. WHY ARE WE FLAGGING THIS?

- The home health and hospice sector continues to be impacted by COVID-19 issues and their subsequent shake-out. Since mid-2021, the company's stock price crashed after the company reduced its revenue and adjusted EBITDA guidance.
- Segall Bryant & Hamill believe this is a temporary hiccup.

• Comments by various mutual fund managers

- Segall Bryant & Hamill Small Cap Growth Fund, December 2021: Amedisys, Inc. (AMED), a leading provider of home health, hospice, and personal care services, after the company reported an unexpected increase in staff turnover in their hospice segment sales force in the second half of the year. While growth expectations have deteriorated, we believe the issue is a short-term setback and new hires will ramp productivity in time
- Columbia Management Investment Advisers, December 2021: Our investments in health care trailed their sector peers as well. Amedisys, Inc., a home healthcare and hospice service provider, declined as the firm saw incrementally lower average length of patient stays. The downturn occurred despite positive trends in Amedisys' core business segments and the broader backdrop of the aging U.S. population.
- American Century Variable Portfolios, December 2021: Home health and hospice care provider Amedisys lagged after it offered disappointing forward guidance as the pandemic hurt its ability to hire and retain staff.

Computer Task Group (CTG): The CEO leads the transformation from a low-margin staffing company to a high-margin IT solution provider; Notes from July 2021 letter by Lowell Capital Management

- Market Cap: \$146 million | Computer Task Group (CTG) is a leading provider of digital transformation solutions and services that accelerate clients' project momentum and achievement of their desired IT and business outcomes.
- Major shareholders: MINERVA ADVISORS - 8.0% | ROYCE & ASSOCIATES - 7.5% | RENAISSANCE TECHNOLOGIES - 6.3% | DIMENSIONAL FUND ADVISORS - 6.2%
- Screen: Fund Letter

I. BASIC

- The company is a provider of IT solutions and services. CTG offers its clients innovative solutions and services that accelerate their strategy and project momentum.
- IT Solutions and Services (69% of revenue): Services include Advisory, Data Strategy, Digital Workplace, Enterprise Platforms, Information Disclosure, and Regulatory and Compliance Solutions that include Application Development, Automation, Cloud, Data Management, Enterprise Platform Implementation, and Testing
- Non-Strategic Technology Services (31% of revenue): It consists of lower-margin IT staffing and related services

II. WHAT WE LIKE

1. Migration from staffing to IT solutions provider:

- Background:
 - New CEO: In March 2019, the company appointed Filip Gydé as CEO.
 - Segment Chief: Turnaround in the European market: Prior to the appointment as CEO, he led the European business segment of the company. The company's revenue recovered in 2018 after five years of negative revenue growth. In 2018, the company's revenue grew pre-

dominantly due to the strong demand for the company's services in the European markets, which Mr. Gydé led.

- Management shakeup:

- Four out of eight executives have been hired/promoted since March 2019.
- CEO: March 2019
- EVP-Operations: May 2019
- SVP - European operations: April 2020
- VP - Global solutions: Jan 2021

- Transformation

- Prior to 2019, the company generated most of its revenue from the staffing segment. Mr. Gydé as CEO is currently transforming the company from a staffing company to an IT solutions and services company.

- Disengaging from the low-margin project:

- In 2019, the company announced that it is not investing in the low margin projects.
- He classified a section of staffing business as "non-strategic technology" segment.
- "Non-strategic technology services" generate a gross margin of roughly 11% compared to 35% and 24% for IT solutions

segment's North American operations and Europe operations respectively.

- As its contracts expire, it is often electing to disengage from the project.

- Strategic acquisitions: In the last couple of years, the company acquired two IT service providers for \$16 million (2019: Tech-IT PSF: \$9.7M; 2020: Stardust: \$6.1M).

• Outcome?

- By focusing on IT solutions and services, its revenue contribution has increased from 56% (\$222 million) in 2019 to 69% (\$271 million) in 2021.

- As a result, the company's gross margin has increased from 19% in 2019 to 22% in 2021.

- The operating margin steadily declined from 5.9% in 2013 to 0.6% in 2018. By reducing the focus on the lower margin IT staffing business, he increased the operating margin to 3.2% in 2021.

- Adjusted EBITDA has increased from \$9.3 million in 2018 to \$18.1 million in 2021.

2. Positive free cash flow

(\$ in millions)	2019	2020	2021
Free cash flow	6.1	27.9	5.5

3. Cash: \$36 million; Debt: \$5 million (excluding lease)

4. Outlook:

- Revenue (2022): \$375 million to \$395 million.

- The company's goal over the next two years is to grow adjusted EBITDA margins to 7% to 8% of revenue, representing an increase of approximately 50% to 75% from 2021 to \$35 million EBITDA in 2023.

III. Investors

a) Major shareholders

• Minerva Advisors (ownership: 8%): Third largest position in the portfolio – 7.4% of the total value.

• Lewis Capital (ownership: 2.3%): Fifth largest position in the portfolio – 3.7% of its portfolio.

b) Comments by Lowell Capital Value Management (May 2021 letter):

- Portfolio Manager: James E. Zimmerman.

- Mr. Zimmerman posted more than 40 ideas to Value Investors Club. A few are posted on his fund's website.

- <https://lowellcapitalmgmt.com/investments/>

- The fund focuses on under-followed or misunderstood publicly traded securities, especially in the small-cap area. The firm has a strong focus on businesses with "Ft. Knox" balance sheets, large and sustainable free cash flow yields, and management teams motivated to drive shareholder value.

- He can be reached at jez@lowellcap.com.

- In-depth research

Company Name	Ticker	M.cap. (\$, mm)	Presentation
Issuer Direct Corporation	ISDR	114	https://lowellcapitalmgmt.com/wp-content/uploads/2021/03/Lowell-Capital-1.pdf
Transcontinental	TCL-A.TO	1,520	https://lowellcapitalmgmt.com/wp-content/uploads/2021/03/Lowell-Capital-2.pdf
Saga Communications	SGA	143	https://lowellcapitalmgmt.com/wp-content/uploads/2021/03/144780.pdf
BBQ Holdings (formerly Famous Dave's of America, Inc.)	BBQ	162	https://lowellcapitalmgmt.com/wp-content/uploads/2021/03/142534.pdf
BJ's Restaurants, Inc.	BJRI	659	https://lowellcapitalmgmt.com/wp-content/uploads/2021/04/140200.pdf
Reitmans (Canada) Limited	RET.V	78	https://lowellcapitalmgmt.com/wp-content/uploads/2021/04/136760.pdf

Mr. Zimmerman's write-up on Computer Task Group

Computer Task Group (CTG) is an undervalued information technology (IT) services company in North America, South America, Western Europe, and India. It provides business process solutions, which include strategic advisory, data strategy, digital workplace, enterprise platforms, information disclosure, and regulatory and compliance services. The Company also provides IT and other staffing services, including managed staffing, staff augmentation, and volume staffing services. CTG serves the financial services, healthcare, manufacturing, and energy industries, as well as technology service providers.

CTG has gradually transformed itself from a staffing services company into an IT solutions company with higher margins and more stable performance. Adjusted EBITDA has increased from \$9.5m in 2018 to \$12.5m in 2019 and \$15m in 2020. CTG performed well during the pandemic and its business showed strong resilience as work from home requirements drove increased demand for its technology services.

CEO Filip Gyde ran CTG's European division successfully for many years and was made CEO in early 2019 and has pursued an aggressive program to exit lower margin staffing services and grow higher margin and more resilient solutions services since taking over. This is the same strategy Gyde executed in Europe for CTG which resulted in profitable growth for nine consecutive years. We believe Gyde has a laser-focus understanding of which specific solutions services are most critical to existing and potential customers and is carefully building a strong and resilient solutions business across all of CTG. Non-GAAP operating income and non-GAAP operating margins have consistently improved as IT Solutions continues to become a larger share of total revenues for CTG. CTG's European operations currently provide a dominant share of total operating profits even though they are only about 40% of total revenues. This is due to Gyde's strategy in Europe which has been executed for many years there. Further, CTG is under intense pressure to achieve continued improvements given an aggressive position held by an activist group, which made offers to purchase the company in mid-2019 and early 2020.

CTG's long-term targets include IT solutions revenue of over \$250m and adjusted EBITDA of \$35m by 2023. While we are not convinced CTG can achieve these aggressive targets,

we believe CTG will move aggressively towards them and, as a result, drive strong shareholder value. CTG has a highly cash-generative business model with limited capital expenditure requirements and a “Ft. Knox” balance sheet with a net cash position of about \$33m at Q1 of 2021, or about 20% of total market value.

CTG’s shares currently trade at about \$10 per share with about 15m shares outstanding for a market cap of \$150m. CTG has a “Ft. Knox” balance sheet with net cash position of about \$33m as of 3/31/21 for a total enterprise value (EV) of about \$120m. LTM EBITDA is about \$16m. LTM free cash flow (FCF) is about \$12m. CTG is currently trading at about 7.5x adjusted EBITDA and a 10%+ unleveraged FCF yield.

CTG’s strategy is to grow its IT solutions business to \$250m of revenue by 2023. As indicated below, IT Solutions is growing and becoming a larger part of CTG’s overall business, as CTG is concurrently exiting less profitable IT Staffing business. CTG owns or leases a total of 25 facilities throughout the world, including North America, Europe, South America, and India.

CTG has grown EBIT from \$6m in 2017 to \$11m in 2020. Adjusted EBITDA grew from \$8m in 2017 to about \$16m for LTM ended 3/31/21. We think adjusted EBITDA can grow significantly by 2023 to \$25m or more via modest organic growth in revenues, improved margins due to increased emphasis on IT Solutions, and strategic, targeted acquisitions to add services and geographies required by customers. CTG has completed three small acquisitions recently, one each in 2018, 2019, and 2020, and these have helped to drive growth. We believe CEO Gyde is carefully assessing which services are most critical to existing and potential customers and using this to target accretive bolt-on acquisitions.

We believe CTG can sustainably generate \$10m+ of FCF with current operations for an unleveraged FCF yield near 10% which we believe is attractive with 10-year treasury rates near 2%. We believe CTG will use its free cash flow and “Ft. Knox” balance sheet to grow organically as well as inorganically via bolt-on acquisitions. As IT Solutions continues to become a larger share of total sales and profitability, we expect CTG’s valuation multiple will increase. Based on 10x adjusted EBITDA of \$25m by 2023 plus \$50m in estimated net cash, CTG would have a market cap of \$300m or about \$20 per share vs. the current \$10 share price (+100%).

North America IT Solutions & Services (\$ in millions)	2019	2020	2021
Revenue	74.1	67.9	101.5
Gross profit	23.6	23.9	32.6
Contribution profit	14.6	14.6	18.7
Europe IT Solutions & Services (\$ in millions)	2019	2020	2021
Revenue	148.1	154.8	169.3
Gross profit	33.2	37.8	40.3
Contribution profit	13.4	17.4	18.9

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Non-Strategic Technology Services (\$ in millions)	2019	2020	2021
Revenue	171.9	143.2	121.4
Gross profit	18.1	15.1	13.5
Contribution profit	7.5	8.1	8.6

AVID Technology (AVID): Migration to the recurring-revenue business model

- Market cap: \$1.56 billion | The company develops, markets, sells, and supports software and integrated solutions for video and audio content creation, management, and distribution.
- Major shareholders: IMPACTIVE CAPITAL - 15.4% | BlackRock - 5.4% | ROYCE & ASSOCIATES - 5.2% | VANGUARD GROUP - 4.5%
- Screen: Business

WHAT WE LIKE

1. Award

- Avid has been honored for technological innovation with 16 Emmy Awards, one Grammy Award, two Oscars, and the first-ever America Cinema Editors Technical Excellence Award.
- <https://www.avid.com/resource-center/avid-wins-2020-emmy-for-nrcs-and-aaf-technology>

2. Major management shakeup

- All top executives were appointed after the appointment of Jeff Rosica as the new CEO in February 2018.
 - CEO - Feb 2018 (promotion)
 - CFO - May 2018 (External)
 - Chief Revenue Officer - Mar 2019 (promotion)
 - General Manager of Audio and Music Solutions - Oct 2020 (promotion)
 - General Manager of Video, Post & Storage Solutions - Oct 2020 (promotion)
 - General Manager of Media Platform & Cloud Solutions - Nov 2020 (External)
 - Chief Technology Officer - Nov 2020 (External)
- **Significant changes after the appointment of new CEO**
 - Even though the company initiated the migration to the subscription model before the appointment of Mr.

Rosica as CEO in 2018, he rapidly grew the revenue under his tenure. You will learn more about this in the next section.

- He added executives with expertise in enterprise software and SaaS delivery to increase revenue from the subscription revenue.
- Strategy used by the CEO to motivate customers to migrate to the subscription model:
 - In 2019 the company implemented price increases, which influenced the customers to select annual paid upfront contracts.
 - In 2021, the company increased the "maintenance" price as part of the strategy to encourage subscription conversion.
- New supply chain vendor: In 2019, the company transitioned its supply chain partners in China and Thailand to its new partners in Mexico and the United States.
- New product launch/product upgrade
 - In July 2019, the company unveiled two new audio control surfaces, the Avid S4 and Avid S1, for professionals at smaller facilities and project studios.
 - In Jan 2020, the company exhibited major updates of its flagship Pro Tools® and Sibelius® creative tools.
 - In November 2020, the company announced the launch of Pro

Tools | Carbon™, a new generation audio interface.

- In March 2021, the company released its new Avid | Edit On Demand subscription service.
- In July 2021, the company unveiled another breakthrough for independent music artists, producers and record labels by enabling them to distribute tracks mixed in Dolby Atmos® for Apple Music's Spatial Audio from the AvidPlay™ subscription-based DIY music distribution service.
- In Aug 2021, the company announced a new version of Avid Media Composer | Distributed Processing.
- In February 2022, the company introduced Avid NEXIS | EDGE™ - a new software option that enables post-production teams to work from any location, delivering secure, remote access to media and metadata.

3. Migration to subscription-based revenue model; Solid growth

- The company started offering cloud-based subscription licensing options for some of its products and solutions in 2014. Since then, the company has experienced significant growth in revenue from subscriptions.
- The number of subscriptions increased from 42,000 in FY 2015 to 410,000 in FY 2021, and revenue from subscriptions increased from \$10 million in FY 2016 to \$108 million in FY 2021.
- Potential growth:
 - The company has primarily been sold subscriptions to creative professionals and, as of FY 2021, it has transitioned less than 10% of its enterprise customer base to the subscription-based business model.

- The company expects the conversions of its enterprise customers to subscriptions will fuel the subscription-revenue growth.

Year	Subscription revenue (\$, mm)	No of subscriptions
FY 2016	10.4	60,000
FY 2017	20.1	94,000
FY 2018	35.9	125,000
FY 2019	45.2	188,000
FY 2020	72.8	296,000
FY 2021	108.4	410,000

4. Improving profit margin

Due to the shift to higher-margin subscription products, the company's gross margin and operating margin have been consistently increasing in the last four years.

Year	Gross margin	EBIT Margin
FY 2017	59.65%	1.7%
FY 2018	59.76%	4.6%
FY 2019	61.39%	8.0%
FY 2020	63.30%	10.2%
FY 2021	64.84%	11.6%

5. Strong improvement in free cash flow

Year	FCF (\$, mm)
FY 2016	(60.2)
FY 2017	1
FY 2018	5.9
FY 2019	12.4
FY 2020	33.9
FY 2021	55.7

6. Share repurchase

- During the FY 2021, the company repurchased \$44 million worth of shares.
- In the last three years, the company repurchased shares worth \$50 million.

7. Others

a) Shareholders with board representation:

- Impactive Capital holds 15%. A representative of the fund has served on the board since 2019
- Blum Capital Partners holds 14.5%. A representative of the fund has served on the board since 2016.

b) Integrated solutions (32% of total revenue): Sign of recovery?

- This segment accounts for roughly 32% of the o/s shares of the company.
- Integrated solutions are hardware and integrated software.
 - Video solutions consist of product lines, including Media Composer, NEXIS, AirSpeed, Maestro, etc., and software solutions.
 - Audio solutions include the sale of product lines including Pro Tools, S6, Venue, etc., and digital audio software and workstation solutions.
- The company started breaking down the revenue from "integrated solutions" in 2019, i.e., after the appointment of the new CEO.

- Recovery? The segment's revenue declined by 34% in FY 2020 due to the COVID-19 impact and increased by 16% in 2021.

c) Maintenance revenue (30% of total revenue, 81% gross margin)

- The company generates roughly 30% of its revenue from maintenance contract revenue.
- It enjoys an 81% gross margin.
- Maintenance revenues have declined slightly over the past two years, in line with the company's expectations as some of its customers transitioning from "perpetual licenses" to "subscription licenses."
- The company expects maintenance revenues to remain relatively consistent in the coming years as customers with perpetual licenses continue to renew their maintenance contracts, offset by customers who are on maintenance contracts who migrate to its subscription and SaaS-based solutions.

d) CEO letters

- <https://ir.avid.com/financial-information/annual-reports>

e) Suggested further readings

- <https://www.audiotechnology.com/reviews/protools-carbon>
- <https://musictech.com/reviews/studio-recording-gear/the-big-review-pro-tools-carbon/>

Everbridge (EVBG): Recurring revenue with high retention rate; Comments from Segall Bryant & Hamill

- Market Cap: \$1.84 billion | Everbridge is the global leader in critical event management (CEM) and national Public Warning solutions
- Major shareholders: SELECT EQUITY GROUP - 9.3% | VANGUARD GROUP - 8.9% | BlackRock - 5.4% | FRED ALGER MANAGEMENT - 4.7%
- Screen: Mutual fund manager commentary

I. BASIC

- Everbridge is a software company that provides enterprise software applications that automate and accelerate organizations' operational response to critical events.
- What is Critical Event Management (CEM)?
 - A critical event is a disruptive incident that poses a serious risk or threat to assets or people.
 - An effective Critical Event Management program and strategy is an integrated, end-to-end process that enables organizations to significantly speed up responses to critical events and improve outcomes by mitigating or eliminating the impact of a threat.
 - Critical Event Management (CEM) platform is comprised of a comprehensive set of software applications packaged for organizations to address five core use cases, safeguarding: Business Operations, People Resilience, Digital Operations, Smart Security, and Public Safety.
- Public Warning solutions: This addresses the full spectrum of tasks an organization requires to manage a critical event, including Mass Notification, Safety Connection, IT Alerting, Visual Command Center, Public Warning, Community Engagement, Risk Center, Crisis Management, CareConverge, Control Center, 911 Connect,

Travel Risk Management, SnapComms and E911.

II. WHAT WE LIKE

1. Strong growth:

- The company's revenue increased from \$23.3 million in 2012 to \$368 million in 2021 through organic growth and acquisitions.
- The company's customer base grew from 867 customers at the end of 2011 to more than 6,100 customers in 2021.
- Blue-chip customer base: Customers include 47 of the 50 busiest North American airports, nine of the ten largest global consulting firms, eight of the ten largest global automakers, nine of the ten largest U.S.-based health care providers, and seven of the ten largest technology companies in the world.

2. Recurring revenue (89% of total revenue is recurring)

- The critical event management applications are offered on a subscription basis, and the company generally enters into contracts that range from one to three years in length (average contract duration of 1.9 years).
- 89% of the company's revenue is recurring in nature.
- The company's dollar-based net **retention rate** was over 110% for fiscal 2021.

3. Advantages

- **Large data set:** As of December 31, 2021, the company's data asset consists of its contacts databases that manage approximately 545 million contact profiles and connections from more than 6,100 customers based in over 75 countries.
- **Approved list for homeland security:** The company's solutions received designation under the Support Anti-terrorism by Fostering Effective Technology Act of 2002 ("SAFETY Act"), and certification by the U.S. Department of Homeland Security that places us on the approved product list for homeland security
- **Everbridge Network:** The company's Everbridge Network allows its customers to share relevant situational awareness information with each other. Public safety agencies, for example, can publish information to the Everbridge Network about incidents that might prove disruptive to the movement of people, goods, and services for businesses within a certain area. If any of those businesses are also customers of the company, they will receive this information from a source they know is vetted and reliable and will be able to take timely steps to mitigate or remediate the situation.

III. RECENT SIGNIFICANT NEWS: CEO resignation; Revenue lower than market expectation; Ancora pushes for sale

- **Abrupt resignation of CEO:** In December 2021, David Meredith resigned as CEO.

- **Share price crash:** On this news, the company's share price crashed by 45% to \$63 per share.
- **In February 2022,** the company posted its financial results, which were lower than the market's expectation. Subsequently, the company's share price further crashed to the current level of \$45 per share.
- **Shareholders push for sale:** In March 2022, Ancora (4% shareholder) sent a [letter](#) to the company stating that the company is undervalued and a sale to a well-capitalized acquirer could deliver more than **\$70 per share**.

IV. Comments by various mutual fund managers

(i) Segall Bryant & Hamill Small Cap Growth Fund's comment in December 2021

Everbridge, Inc. (EVBG), a leading provider of critical event management software, was also a significant drag on performance in the year. The unexpected departure of its CEO, accompanied by a moderation in growth expectations for 2022 drove shares materially lower in the fourth quarter. While we expect some disruption from the rapid change, we believe the company has a strong competitive position with leading technologies that operate at scale.

(ii) MainStay VP Wellington U.S. Equity Portfolio's comment in December 2021

Everbridge shares slid lower after the company announced the unexpected departure of its CEO in the fourth quarter of 2021, accompanied by a moderation in growth expectations for 2022. The Portfolio continued to hold positions in all three companies.

(\$ in millions)	2019	2020	2021
Revenue	200.8	271.1	368.4
Gross profit	137.3	188.1	254.2
Operating loss	(47.2)	(72.2)	(76.2)
Net loss	(52.2)	(93.3)	(94.7)

Wanger Select | Columbia Wagner Asset Management – Annual report 2021

Source

<https://www.sec.gov/Archives/edgar/data/929521/000168386322001388/f11207d1.htm>

Vroom (VRM, \$350 million)

Vroom, Inc., an e-commerce platform for buying and selling new and used cars, also hurt both absolute and relative performance in consumer discretionary. Vroom has a leading market position in this small but fast-growing area, but its stock lagged due in part to its announcement that it was increasing its investment in infrastructure. While investors focused on the effect this move would have on near-term profits, we believe it can help the company build its brand and achieve longer term scale benefits.

Atkore Inc. (ATKR, Market cap: \$4.2 billion)

Atkore, Inc., a specialized producer of electrical products used in commercial and industrial end markets, is one of only a handful of vendors that supply a very fragmented customer base. This affords Atkore with what we call “niche dominance,” one of the key features we look for in our portfolio holdings. Broader trends were also at the company’s back in 2021, highlighted by rising prices for PVC pipe and steel.

Chegg (CHGG, Market cap: \$4.9 billion)

Chegg, Inc., a provider of online education-related content and support, was a significant detractor in both the sector and the Fund as a whole. Its growth rate moderated more than we expected following its pandemic-assisted gains in 2020, weighing on its shares. Still, we believe the company continues to offer the world’s leading online learning platform.

Segall Bryant & Hamill Trust - Annual report 2021

Source:

<https://www.sec.gov/Archives/edgar/data/357204/000158064222001441/sbhncsr.htm>

Fund Name: Segall Bryant & Hamill Small Cap Value Fund

Portfolio managers: Mark T. Dickherber & Shaun P. Nicholson

Detractors from Return

Orthofix Medical (OFIX, Market cap: \$650 million)

Orthofix has been impacted by delays and suspensions of elective surgeries which has slowed growth materially for the time being. As a result of the stock's weakness, we added to the Fund's position.

eHealth, Inc. (EHTH, Market cap: \$316 million)

eHealth, Inc. (EHTH) had a change in CEO during peak selling season alongside specific market dynamics that led to missing of expectations. However, with a strong activist board and high confidence in the new CEO's pedigree and demeanor, we added to the Fund's position.

Compass Minerals International, Inc. (CMP, Market cap: \$2.1 Billion)

Compass Minerals International, Inc. (CMP) missed Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) expectations given higher logistical costs while in tandem lowering their dividend to allocate more capital to their lithium project. We added to the Fund's position on the pullback.

Fund Name: Segall Bryant & Hamill Small Cap Growth Fund

Portfolio Managers: Brian C. Fitzsimons & Mitch S. Begun

Contributors to Return

SiTime Corporation (SITM, Market cap: \$4.6 billion)

SiTime Corporation (SITM) was also a top contributor in 2021 as it is rapidly disrupting a large segment of the chip industry, most notably in timing solutions that essentially work as the heartbeat of electronic devices. We believe that the company is taking material market share from legacy solutions due to its superior efficiency across a host of attributes

Silicon Labs, Inc. (SLAB, Market cap: \$5.4 billion)

Silicon Labs, Inc. (SLAB) also performed well in the period, particularly after reporting strong third quarter results. This was SLAB's first quarter as a pureplay Internet-of-Things company after selling its legacy business segments. Its attractive growth profile, profitability leverage, and significant share repurchases have helped buoy the stock and we remain constructive on its prospects.

Detractors from Return

Amedisys, Inc. (AMED, Market cap: \$5.4 billion)

The Fund's worst-performing stock in 2021 was Amedisys, Inc. (AMED), a leading provider of home health, hospice, and personal care services, after the company reported an unexpected increase in staff turnover in their hospice segment sales force in the second half of the year. While growth expectations have deteriorated, we believe the issue is a short-term setback and new hires will ramp productivity in time.

Everbridge, Inc. (EVBG, Market cap: \$1.8 billion)

Everbridge, Inc. (EVBG), a leading provider of critical event management software, was also a significant drag on performance in the year. The unexpected departure of its CEO, accompanied by a moderation in growth expectations for 2022 drove shares materially lower in the fourth quarter. While we expect some disruption from the rapid change, we believe the company has a strong competitive position with leading technologies that operate at scale.

Fund Name: Segall Bryant & Hamill Small Cap Core Fund

Portfolio Managers: Jeffrey C. Paulis & Mark T. Dickherber

Contributors to Return

Zurn Water Solutions Corporation (ZWS, Market cap: \$4.3 billion)

Zurn Water Solutions Corporation (ZWS), a designer and manufacturer of water solutions focused on flow control, quality, and safety, was another large contributor. ZWS transformed into a pure-play water company by merging its industrial business with another company. In addition to solid business fundamentals and management execution, we believe the transformation attracted environmental, social, and governance (ESG) investors which resulted in multiple expansion and stock price appreciation.

Detractors from Return

Amedisys, Inc (AMED, Market cap: \$5.4 billion)

Amedisys, Inc (AMED), a provider of home health and hospice services, was the largest detractor. Amedisys faced numerous internal and external headwinds during 2021. Repeated COVID-19 spikes reduced the length of patient stay in its hospice business while elevated staff quarantine levels and pandemic-related nurse burnout caused staffing shortages which impacted the company's short-term financial results. Anaplan, Inc (PLAN), a provider of SaaS planning solutions, was the second largest detractor. Anaplan reported solid, but inconsistent results which, coupled with a CFO and head of sales change during the year, weighed on investor sentiment and the multiple.