VOSS

CAPITAL

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August 5th, 2015

Dear Partners,

The Voss Value Fund returned -2.85% net of fees for Q2 2015. This compared to a 0.28% total return for the S&P 500. Net exposure averaged 61.5% on the quarter and just 12.8% on a Beta-adjusted basis. Current gross exposure is 153.7%, net exposure is 70.3%, and -17.8% beta-adjusted. Our top 10 long positions make up 66.5% of the portfolio, so we have the highest concentration we have had since inception. Our top 10 short positions make up 27.3% of gross exposure. Contribution from the long book in the quarter was +2.3%. Shorting and hedging (includes bearish oriented options trades) cost the fund dearly, at -4.9%.

Voss Value Fund, LP

ESTIMATED NET MONTHLY PERFORMANCE | 2015

PERIOD	VVF (Net)	VVF (Gross)	S&P 500 TR
JANUARY	-1.21%	-1.13%	-3.00%
FEBRUARY	7.65%	9.34%	5.75%
MARCH	-1.15%	-1.34%	-1.58%
1st QUARTER	**5.13%**	**6.66%**	**0.95%**
APRIL	-0.49%	-0.52%	0.96%
MAY	-0.12%	-0.07%	1.29%
JUNE	-1.91%	-2.28%	-1.94%
2nd QUARTER	**-2.51%**	**-2.85%**	**0.28%**
JULY			
AUGUST			
SEPTEMBER			
3rd QUARTER	**0.00%**	**0.00%**	**0.00%**
OCTOBER			
NOVEMBER			
DECEMBER			
4th QUARTER	**0.00%**	**0.00%**	**0.00%**
YEAR TO DATE	**2.49%**	**3.62%**	**1.23%**

All YTD performance figures are unaudited, estimated, and may be subject to subsequent adjustment. A limited partner's actual returns may vary from published fund returns based on the timing of capital and fee arrangements. This statement represents information based on the policies of the fund's managers and general partner. Please contact Travis Cocke, Managing Partner of Voss Capital, LLC, with any inquiries.

Q2 was a disappointing quarter. We continue to see selling pressure among our long positions and buying pressure among our shorts as the market becomes more bifurcated into the haves (momentum stocks) and have nots (deep value). We believe this short term setback is setting us up future outperformance as most of our longs and shorts are more attractive today than when we first established positions.

Voss' Canadian Software Trifecta

One area of the market embodying much pessimism is Canada. Canada is likely entering a commodity and real estate slowdown driven recession. The companies that interest us are the less economically sensitive ones. Over 70% of Canadian stocks are at least 20% off of their 52-week high[2]. 74% of the TSX Venture listed stocks are commodity related. There is now an opportunity to pick among the babies thrown out with the oil-contaminated bath water.

First, **Absolute Software (ABT.to)**. ABT.to is an under the radar, competitively advantaged software firm available at a cheap valuation. Absolute is well positioned within the niche of data protection and recovery for mobile devices for corporations and schools. Although listed in Canada and Canadian based, ABT.to only derives ~3% of their sales from our neighbors to the north and is actually US centric. The stock has pulled back ~30% in the last three months, prompting us to add to our position.

The company recently provided a mid-quarter financial and operational update to investors that implied a miss on previous sell-side estimates, moderating growth expectations. In addition to the weakness in sales, they took the market by surprise when announcing the proposed divestiture of their second largest segment, Absolute Manage, their enterprise mobility management solution. For the first time with this announcement, it was disclosed that this segment comprised 11% of their total sales. Absolute paid $23 million for this acquisition originally and we think they can re-capture ~$20 million, based on a sales multiple of under 2x, which is well below the 2.12x EV/Trailing Revenue pure-play public comp MobileIron (MOBL) receives. Management claims Absolute Manage was cash-flow breakeven, so a sale lowers pro-forma EV while minimally affecting FCF. The sale also leaves a more focused pure-play business. We think this transaction was misinterpreted in the marketplace and it could be a sign of further preparation of a digestible asset for an eventual sale of the entire company at a premium to the current price. If this does not happen, we are happy holding shares as we collect dividends and free cash flow compounds on an already cash-heavy balance sheet.

The company has a key competitive advantage in their core product, Absolute Data & Device Security (f/k/a Computrace). Absolute DDS works off of permanent "read-only" software embedded on the hardware of many of the world's leading OEMs of mobile devices. Absolute is generally able to get an exclusive relationship with their OEM partners and their firmware cannot be erased from a device. If a company (or school district) wants to "lock down" their data, they can subscribe to Absolute's DDS service and track and remotely manage their sensitive information, or use their service to physically track down stolen devices. 80% of sales are generated through OEM and VAR partners, allowing the company to bring down their marketing spend over the next few years as they focus on allocating sales dollars more efficiently.

ABT.to just announced a renewal of their share buyback commitment for up to 10% of shares outstanding. With $100 million of estimated pro-forma cash after the sale of Absolute Manage at 1.7x sales, there is ample cash to ratchet up the 3.7% dividend yield. The stock trades at an EV/FCF of 8-9x using our 2016 FCF estimates. A downside valuation floor for levered and shrinking software stocks historically has been solid at an enterprise value of 2x recurring maintenance revenue. Absolute is growing and un-levered and the shares are perched only a few percent above this distress threshold, providing asymmetric returns to the upside. ABT.to is a 7% position in the Fund.

The second leg of our Canadian software tri-fecta is **QHR Technologies (QHR.v)**. QHR's core business called Accuro provides Electronic Medical Record software in Canada. It is quite profitable and growing quickly. QHR has an attractive business model with 90%+ gross margins and 90%+ customer retention. EMR is the ERP of the health care world and is difficult to "rip and replace" providing extra competitive insulation to QHR once a client is onboard. QHR's AccuroEMR is a leading EMR solution in Canada by market share and offers a suite of medical software modules for computer-based medical records, as well as administrative modules for billing and patient scheduling.

QHR has a long runway of growth ahead of it. They currently have ~10,000 doctors on their platform with a stated goal to add at least 1,000 a year. There are 52,000 doctors in the regions they operate in with less than 50% using an EMR product. Much like in the United States, Canadian doctors are being incentivized by the government to adopt an EMR product. Competition is limited and distracted. QHR's main competitor is Canadian telecom giant Telus, who owns four different EMR products that are not core to its business. New competition from the US EMR providers is unlikely due to Canada's smaller market size and completely different regulatory set up. If Cerner or Epic decided they want Canadian exposure, it would be easier for them to just acquire QHR. Looking backwards, QHR's consolidated profitability looks weak due to their unprofitable US-centric Revenue Cycle Management business. This segment has been a $2 million drag on EBITDA and was recently sold with potential future proceeds from an earn-out. Growth also suppresses profitability in the near term as the company incurs one-time implementation costs when adding new physicians. They are then able to retain those clients at a high margin for a long time. Another small acquisition, Medeo, has been an additional drag on near term profitability.

QHR first came across our radar by popping up on our "early deleveraging" screen. This screen flagged the company right after they had sold a major division and de-levered in one fell swoop. It was the type of transaction that will distort financials and could have immediate valuation implications. Our interest was further piqued by our comfort with the business model due to prior experience in the healthcare IT space, as well as Jon's expertise in the industry (he previously worked at US EMR leader, Epic Systems). The company is not likely showing up on many other investors' screens precisely due to the reason it showed up on ours--selling a large division makes revenue growth look negative as well as their US focused Revenue Cycle Management segment being a profitability drag (QHR only just announced sale of RCM assets on July 14th).

Their balance sheet has a nice net cash position. They announced a buyback when stock went to the $1.15 range, a price at which we would add to our position. They continue to make tuck-in acquisitions via pure earn-outs, opportunistically adding doctors to their platform in an accretive manner and accelerating the growth of their recurring revenue base. Industry consolidation is occurring rapidly before our eyes and it is clear that QHR is one of the top two or three companies emerging.

A large activist shareholder has shaken up the Board composition and recently promoted Mike Checkley from within to the position of CEO, replacing the founder. We love internal promotion scenarios where someone has worked their way up and held a variety of operational roles before becoming CEO. Mr. Checkley has been with the company for 11 years and helped develop the Accuro product. He has a lot to prove as a first time CEO.

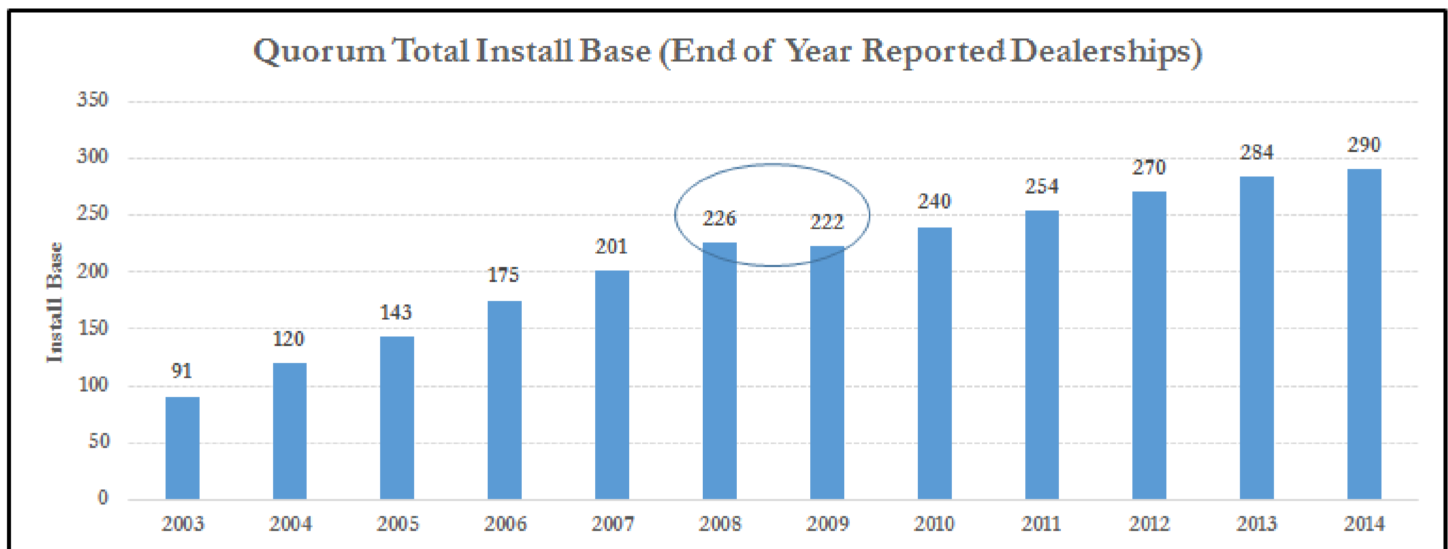
The stock should have limited downside given its stable and growing (high-teens %) recurring subscription revenue base. EBITDA growth should be higher than revenue growth due to operating leverage kicking in with scale. Using the divestiture that alerted us to the situation as a recent transaction comp, we know that QHR garnered a 2x sales multiple for their Enterprise Management Software division. This EMS business had no growth and was less strategically valuable than their core EMR segment. At a current EV/Recurring Revenue multiple of 2.25x shares are cheap compared to various software transaction comps, as well as US trading comps like Cerner (CERN) at an

EV/Sales of 5x (with recurring multiple much higher) sales, and Athena (ATHN) at 6.2x. If QHR were to suddenly stop growing we think there is less than 15% downside in the shares, while if they continue to grow recurring revenues at a high-teens rate the shares have 200%+ upside as operating leverage and free cash flow generating capability become clear in 2016. QHR.v is a 3% position in the Fund.

The third leg of our Canadian Software Trifecta is **Quorum Information Technologies, Inc. (QIS.v).** Quorum is a terrific business and is a large holding in our portfolio. Quorum's supplies enterprise resource planning and customer relationship management software to ~300 car dealerships in Canada and US.

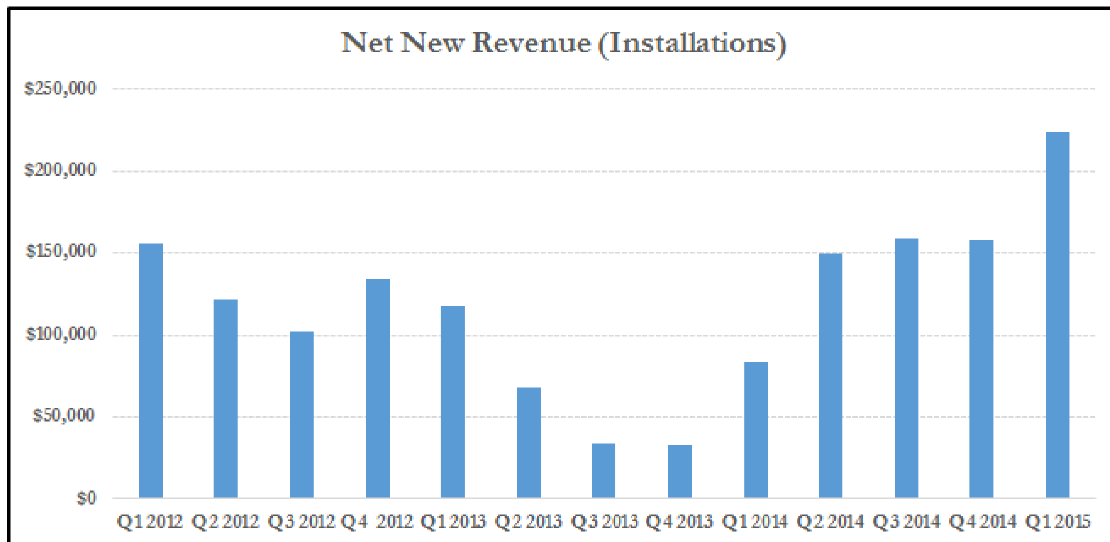
Irrespective of any growth or ancillary revenue, we believe that Quorum's existing base of recurring revenue is worth 2-3x its current enterprise value. We get comfortable performing this hypothetical analysis due to Quorum's dealership base only declining once in the last 12 year (1% in 2009), as well as management's focus on cash flow and their rapidly rising cash flow margins. The company is hitting its groove and will show good operating leverage.

Quorum has several major growth opportunities. Quorum is now able to service Toyota dealerships and is completing development work on Ford integration, increasing their addressable market and cross-selling ability to existing customers that also own Toyota or Ford dealerships. They completed an initial Toyota dealership trial in Q4 2014 and will be rolling out their XSELLERATOR platform to Ford dealerships early next year. Over the next two years we expect their 70% concentration on GM dealerships to decline, simultaneously lowering OEM concentration risk and expanding their TAM. During the Great Recession and GM's bankruptcy, Quorum's business was stress tested and they lost a grand total of 4 dealerships (see chart below). We consider this a more than acceptable "bear case," and given the company's lower dependence on GM and emerging signs of operational leverage, we believe the stock has limited downside even in a severe economic downturn.



One growth driver is the Ontario government is subsidizing training costs for Quorum's customers. The legislation is known as the Canada-Ontario Job Grant, offering $10,000 per employee per year to employers to invest in their workforce. This is allowing Quorum to substantially grow training revenue from existing dealerships. This is 60%+operating margin service revenue that could reach $1 million in 2015, doubling from last year. Quorum also receives significant tax breaks from the government for R&D expenditures that will keep the cash tax rate low. In addition they have $8 million of recorded tax assets on the balance sheet which is quite large relative to the $12 million market cap. We believe the company is at a point where operating leverage should be at an inflection point

and should kick into high gear with any incremental revenue. This is evidenced by the company having now been free cash flow positive for the last five quarters, after being slightly negative for their entire history before that.



A large competitor, Dealertrack (bought by Cox Automotive), announced they are exiting the Canadian market, leaving 125 dealerships up for grabs. Quorum's CEO has laid out an initial target of 40 rooftop additions in 2016, up from a likely 20+ added in 2015, including 10 Toyota dealerships. Regardless of the void left by Dealertrack, Quorum is slowly gaining market share with a cheaper and superior offering. We believe their software is 50% cheaper than competitors, while being much more integrated and having a more modern and intuitive interface. We believe last quarter is the first sign that sales are picking up, as their incremental sales accelerated to an eight quarter high. Note the chart below is a leading indicator for recurring revenue growth to begin accelerating:

Sleepy competition in Canada is focused on margin expansion and not necessarily market share gains. CDK is an adored spin-off from ADP and trades at well over 30x FCF and 4x sales. QIS.v. trades at 1x sales, 5x our forward EBITDA estimates and ~10x EV/FCF.

Given its size, it shouldn't come as a surprise that this stock is not covered by a single research shop. The management team does no marketing of the stock. We like that they are entirely focused on business execution., but this could change soon. Management has insinuated that they would prefer to be a private company and could save at least $200k a year doing so. There are several acquirers that are active in this industry that may pay closer to 4x recurring revenue rather than the 1.2x we can buy shares at today. Software stocks with accelerating revenue growth and expanding margins trading at 1.1x recurring revenues are a rare thing to find.

Although QIS is an outlier in our portfolio as the smallest, this is the type of stock that populates our portfolio that fits my nano-cap returns analogy of "Ketchup in a bottle"—none'll come and then a lot'll. QIS.v may go nowhere for a while then rise 100-300% all in a single month. We will share a full investment memo on our private portal, for those of you interested in reading all of the nitty gritty details about QIS.v. QIS.v is an 8% position in the Fund.

In each of these investments we believe we have a three pronged "edge" over the market. First, we have an information edge. For example, on Quorum alone, Jon has cumulatively spent hundreds of hours in the last eight months researching the company, including interviews with customers and going through product demos with the CEO. In the fall he will be a fly on the wall at Quorum's user training conference in Canada. And all this for a stock that has no institutional coverage or any other large institutional shareholders to speak of. Secondly, I believe we

have a strong analytical edge given few sophisticated institutions focus on such small companies and Jon's software company modeling expertise is unmatched. We have scoured Quorum's public documents going all the way back to 2000. Lastly, we have a distinct behavioral edge. This edge is simply from acting when other institutions would love to buy but can't or won't due to their institutional imperatives. Also, by possessing a multi-year investment horizon (e.g. "time arbitrage") we have the luxury of looking past any near term volatility that is inherent micro-cap stock thanks to our patient capital from sophisticated investors who are aligned philosophically. Many of our Partners have generated their wealth from value oriented real estate investing and direct, long term private equity investing.

Each leg of the trifecta is an attractive pure-play that would be a strategic asset to an acquirer. If our Fund were larger or our access to capital allowed for it, these are businesses we would like to own outright. That is exactly how we think about them when we are making our investment decisions.

As far as we are aware, of ~115 public software companies in the US, less than five trade below 2x recurring maintenance revenue and each of those generally has collapsing revenue or is free cash flow negative. Our names are growing and FCF positive and either right at 2x or in the case of QIS.v, at 1x. On a weighted average basis, our entire long portfolio is within 5% of our cost basis. The prospect for good returns in the future is bright.

Like these three examples, our long portfolio is populated with cheap, out of favor or under-followed companies. Our focus is on finding safe, simple business models, strong balance sheets and downside protection through liquid tangible assets or recurring revenue and consistent free cash flow generation. From there, we aim to pay such a cheap price that the future hardly matters. Any growth initiatives for our 'Canadian Software Trifecta' that pan out will simply be icing on an already sweet cake. Unlike a trifecta bet in horse racing, I don't know the ranking of the future returns of ABT.to, QHR.v, and QIS.v. My bet is more akin to a "boxed trifecta." I don't need to know which will do best to feel comfortable placing a sizable bet on the group as a whole.

One well known hedge fund manager recently stated that even if stocks are in the 99th percentile of historical valuations they could go to 2x the previous 100th percentile. ***Only then*** might he do something dramatic like lower exposures. This is the mindset we are up against. That the rampant speculation within biotech and elsewhere is going to build to some kind of unprecedented crescendo seems a forgone conclusion. Behavioral studies have shown repeatedly that people will pay the same price for a lottery ticket if the odds are 1 in a 1,000 or 1 in ten million. We are seeing this bias play out in real time. **Investors are more likely to judge opportunities based on upside possibility rather than probability.**

In studying why people are buying certain stocks and shunning others, it is clear at the root of the cause they simply reacting to price momentum in a frenzied emotional swirl. Much of Wall Street revolves around this sort of momentum, everything from the sell-side rating system to the construction of indices and buying patterns of ETFs. Shorts cover as a price rises for risk control, and technical analysts buy as a prices rise and sell as they fall. We can exploit this in the long term. In the near term it is creating a bifurcation and two way vacuum on capital. Capital is taken out of cheap stocks trending lower and put into those few trending higher. Like everyone else we have emotional responses to price action. We do not ignore them. We harness and explore them. We channel them into intellectual energy and greater analytical effort.

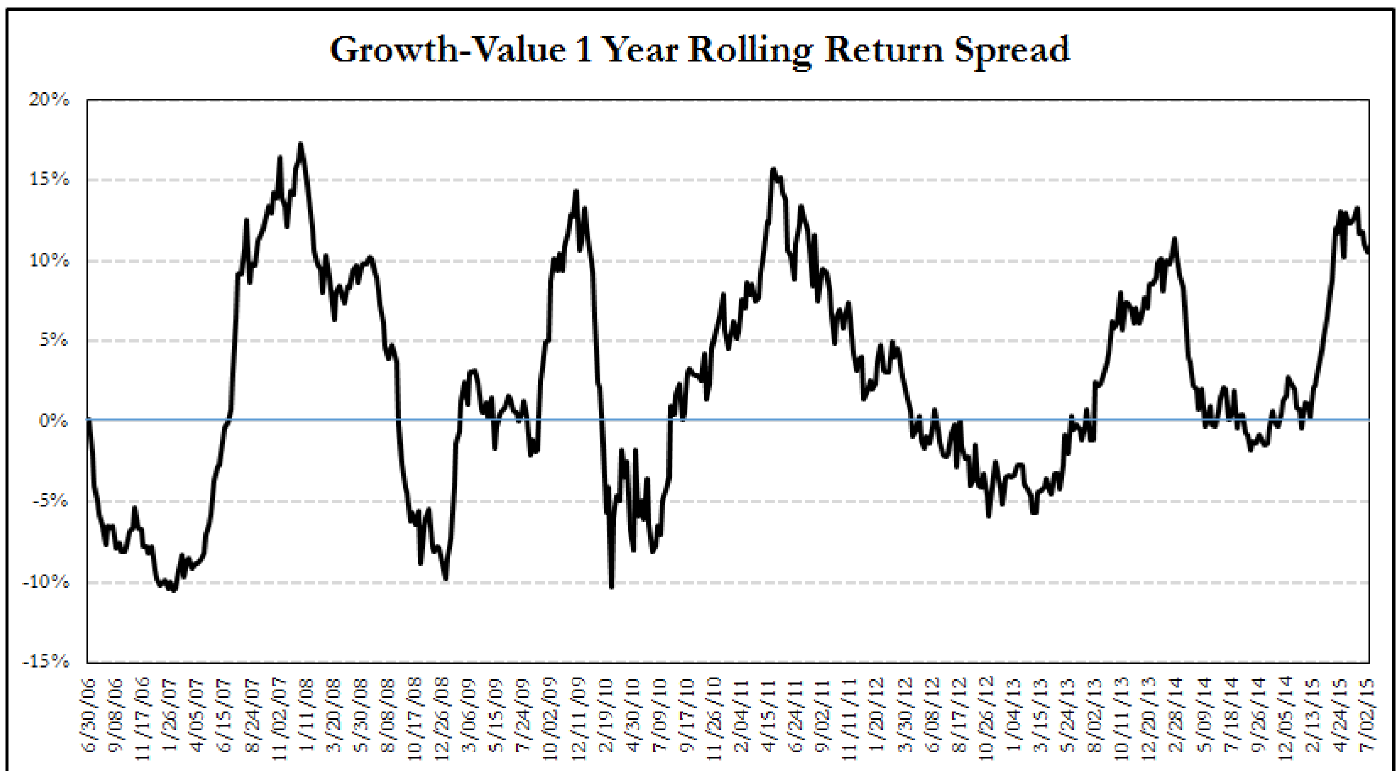
No one follows the cohorts. Many current business icons were cash cows from their inception while still growing like a weed. Take for example, Oracle (ORCL). ORCL grew revenue at a 54% CAGR its first 10 years of being public (and doubled sales in its first 11/12 years of existence) and was profitable throughout with an average EBIT margin of 18%. Within the next four years, EBIT margins expanded to 30% when sales growth moderated. Contrast this to pretty much any recent SAAS IPO receiving a double-digit sales multiple. Many have existed for more than 10 years and still cannot make money. Salesforce (CRM), for example. They have been around for more

than 15 years and still have a negative GAAP EBIT. Revenue is growing at about 20%, which is helped from acquisitions. When ORCL had reached $5 billion in revenues (similar to where CRM is today) they were doing 25% GAAP EBIT margins (and rising) while still growing revenue much faster than CRM is currently. Meanwhile, their market cap was $25 billion, half of what Salesforce's is today. Somewhere in the last few years the nebulous concept of profitability has morphed to become mutually exclusive with more intangible characteristics like "vision" from a business leader or company.

This perverse anti-Darwinistic environment has gone on for so long it is warping mindsets of an entire generation of investors. I often hear from "value" investors that they "finally broke down" and bought some high flier, usually after it has risen in parabolic fashion in the last few months. This is clear anecdotal evidence that the passage of time creates more converts than reason. The duration of high valuations and endless Wall Street sponsored capital raises is a constant Siren song to others to break with any semblance of a disciplined strategy in pursuit of short term profit and abandon everything that we know to be fundamentally true. A free market should ultimately penalize those who act on impulsive and irrational considerations and never generate economic profit for stakeholders.

No single investment style or strategy is permanently superior in the markets. There are continual tensions in the marketplace between different styles and factors with each enjoying periods of alternating dominance. These are generally mean-reverting relationships. Right now micro-cap value is shunned in favor of larger cap price momentum.

According to JP Morgan's Quantitative Research the style factors of Low Price/Book, Low Price/Cash Flow and High Forward Earnings Yield were the worst three in Q2 (July 2nd, 2015). Each of these can be thought of as proxies for our deep value style.



The chart above shows the rolling 1-year spread between the Russell 2000 Growth and Value Index. At the end of Q2, large cap growth had outperformed small cap value by 11% over the prior year. The spread is larger for the Russell Microcap Value Index and the Nasdaq. Style headwinds hurt us this interval. These headwinds could perhaps flip to tailwinds at some point and help us in future periods. The divergence has been due in large part to

Healthcare's extreme weighting and contribution to the Russell Growth Index, and Energy's drag on the Value. This style headwind is compounded by the ongoing trend toward passive management. It is surprising to know that for an industry that has a high idiosyncratic risk (and failure rate) compared to most industries, fully 2/3s of all capital in biotech is now being passively managed[1], versus 1/3 for the broader equity market. The ETFs that are meant to track an index have become the tail wagging the dog.

Median market valuation remains at an all-time high by a wide margin. Growth adjusted valuation is also at an all-time high. We are 7-years into an economic expansion and have gone 4+ years without a 10% correction. I have underestimated investors' preference for abstraction and their appetite for speculation. The tide will eventually go out as it always does, and we will be well prepared to capitalize. For now we want refrain from acting on impulse or taking undue risk with the Fund's capital. As the Roman poet Quintus Horatius Flaccus (Horace) wrote in *Ars Poetica*, "Many shall be restored that now are fallen, and many shall fall that now are in honor." I think the quote is fitting for the style divergences within stocks currently.

Our compulsion to compound our Partner's capital in a risk controlled fashion is unrelenting and intensifying with each month that passes. Partners' well-being and trust in us are at the forefront of our minds each day and help guide our long term orientation and developing business culture. Each day working for you is a privilege. Thank you for your continued support.

Sincerely,

Travis

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Past performance does not guarantee future results. There is a possibility for loss as well as the potential for profit when investing in the funds described herein. Performance of the Voss Value Fund is presented on both a net and gross basis. Performance information labeled (Net) is net of all fees and expenses and includes the reinvestment of dividends and other income. Performance information labeled as (Gross) does not reflect the deduction of fees. Gross numbers include the reinvestment of dividends and other income. Portfolio characteristics and other information are provided as of the dates set forth herein. Current or future characteristics and other information may vary significantly from those provided herein and the firm undertakes no obligation to notify the recipient of any such variances. Indexes are unmanaged and have no fees or expenses. An investment cannot be made directly in an index. The funds consist of securities which vary significantly from those in the benchmark indexes listed above and performance calculation methods may not be entirely comparable. Accordingly, comparing results shown to those of such indexes may be of limited use. The S&P 500 Index™ is an unmanaged index and a market-capitalization-weighted index of 500 stocks designed to be a broad measure of United States stock market. The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. THIS SHALL NOT CONSTITUTE AND OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY INTEREST IN ANY FUND MANAGED BY VOSS. SUCH AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY INTEREST MAY ONLY BE MADE PURSUANT TO DEFINITIVE SUBSCRIPTION DOCUMENTS BETWEEN A FUND AND AN INVESTOR.

1: Source: Bank of America Merrill Lynch report, July 30th 2015: Sizing up Small vs. Large: Biotech Bubble?

2: source GaveKal Research