VOSS CAPITAL

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February 14th, 2020

Dear Partners,

In Q4 2019, the Voss Value Fund, LP returned 8.1% to investors net of fees and expenses, compared to a 9.9% total return for the Russell 2000 and a 9.1% total return for the S&P 500. At December 31st, 2019, the Fund's total gross exposure stood at 128.9% and the beta-adjusted net long exposure was 62.3%. Our top 10 longs had a 74.0% weighting and our top 10 shorts had a gross weight of 13.7%.

As of the date of this letter, firm assets stand at $169.4M.

Voss Value Fund, LP

ESTIMATED NET MONTHLY PERFORMANCE | 2019

PERIOD	VVF (Net)	VVF (Gross)	Russell 2000 TR	S&P 500 TR
JANUARY	7.44%	9.39%	11.25%	8.01%
FEBRUARY	2.97%	3.72%	5.20%	3.21%
MARCH	1.54%	1.95%	-2.09%	1.94%
1st QUARTER	**12.33%**	**15.68%**	**14.58%**	**13.65%**
APRIL	3.96%	4.91%	3.40%	4.05%
MAY	1.64%	2.06%	-7.78%	-6.35%
JUNE	0.99%	1.26%	7.07%	7.05%
2nd QUARTER	**6.71%**	**8.42%**	**2.10%**	**4.30%**
JULY	-2.84%	-3.33%	0.58%	1.44%
AUGUST	-4.84%	-5.77%	-4.94%	-1.58%
SEPTEMBER	1.17%	1.52%	2.08%	1.87%
3rd QUARTER	**-6.46%**	**-7.52%**	**-2.40%**	**1.70%**
OCTOBER	2.93%	3.65%	2.63%	2.17%
NOVEMBER	0.93%	1.21%	4.12%	3.63%
DECEMBER	4.02%	4.94%	2.88%	3.02%
4th QUARTER	**8.07%**	**10.09%**	**9.94%**	**9.07%**
YEAR TO DATE	**21.17%**	**27.70%**	**25.52%**	**31.49%**

The table below shows the Voss Value Fund's Net Returns compared to some of the relevant indices:

Net Return Comparison as of December 31st, 2019

					Compound Annual Growth Rate		
	1 Month	3 Month	YTD	1-Year	3-Year	5-Year	ITD
Voss Value Fund, LP	**4.0%**	**8.1%**	**21.2%**	**21.2%**	**13.6%**	**15.1%**	**17.2%**
S&P 500	3.0%	9.1%	31.5%	31.5%	15.3%	12.8%	16.0%
Russell 2000	2.9%	9.9%	25.5%	25.5%	8.6%	8.2%	13.8%
Russell 2000 Value	3.5%	8.5%	22.4%	22.4%	4.8%	7.0%	12.7%
Russell 2000 Growth	2.3%	11.4%	28.5%	28.5%	12.5%	9.3%	14.8%
HFRX Equity Hedge Index	1.2%	2.6%	10.7%	10.7%	3.3%	1.5%	2.9%

All 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 Kelli Walter, Chief Operating Officer of Voss Capital, LLC, with any inquiries.

To kick off 2020, market participants are vigorously acquiring stocks. The buying is concentrated mostly in those stocks already on an unmistakable upward trajectory, judging by an eye-popping *27% spread between the price momentum and value factors through February 12th*.[1]

Casting a backwards glance, 2019 was mostly a normal recovery and reversal of the large ~20% correction in Q4 2018. 2019 was the best year for stocks since 2013 on the back of the largest multiple expansion since 1998. S&P 500 earnings were about flat in 2019 while stocks' price return was 28.9%. This is the inverse of 2018 where earnings rose about 23% and stock prices fell by 6.2%.[2] The correction in Q4 2018--when chatter was of imminent recession--lowered the bar of expectations and set the stage for a massive rally as reality subsequently proved less frightful. Add in a few Fed rate cuts and synchronized global central bank easing as fuel to an already burning fire and you got a whopper of a year even with negative equity fund flows. It was another year of below average volatility. When the Fed started intervening in the repo market in October, the market did not have a down 1%+ day the rest of the year. The market action of 2019 was also marked by another unusual pattern: the outperformance of defensive stocks and sectors within a raging bull market. The two areas of the market that we've deemed the "barbell of froth" continue to swell, with the "safe havens" not yet correcting as rates have moved lower once again (10 year treasury yields are down by over 1% from the start of 2019), and the expensive "growth at any price" stocks, for the most part, are explosively making new highs. We might have to soon change the moniker from "barbell of froth" to "double bubble."

Today the mentality is nearly the inverse of the panic of late 2018 as there is less fear of the future, and even perhaps a perceptible trace of euphoria in the air. In what seems a lack of either self or historical awareness, the co-CIO of the world's largest hedge fund declared boom-bust business cycles a thing of the past thanks to coordinated central bank policies. From our vantage point, a growing and glaring consensus is that we will build to a euphoric blow-off peak and the only thing that can de-rail the market's mushrooming momentum is going to be true buyer exhaustion.

Despite most talking heads conceding this and the senseless complacency everywhere we look, it is still quite hard to get a read on sentiment and positioning. On the one hand you've had continuous net outflows from equity mutual funds/ETFs (however, flows are finally picking up steam in 2020), a relatively weak IPO market (little new supply), and declining margin loan balances showing skepticism and lack of broad-based euphoria amongst retail investors, who seem to all be concentrating into AAPL, TSLA, NFLX, etc. Perhaps other asset classes such as Bitcoin and the bubble in retro video games are sucking up retail investor capital that 20 years ago would find its way into equities. On the other hand, you have undeniable signs of hysteria/euphoria at many individual stocks and areas of the market, not to mention *the median EV/Sales multiple is already >50% higher than what it was at the peak of the internet bubble in March 2000*.[3] Most people *claim* to be cautious and bearish yet they are concentrated into stocks with bubbly valuations.

Hedge fund net exposure stands at a 12-month high at 49%, but is only in the 34th percentile since 2010, therefore hedge funds are not overly extended on net. On the other hand, hedge fund gross exposure is 199%, in the 100th percentile since 2010.[4] There is limited room to "gross-up" as hedge fund gross is at the highest level ever (gross exposure is equally high across European hedge funds), but since the net is not so high while gross is very high, hedge funds are likely still too short and will de-gross their short book (continuing to squeeze crowded shorts regardless of their reported earnings) as the market continues the path of least resistance: up, up, up. Hedge fund net exposure to "value" as a factor remains at historic lows. History shows that Financials are consistent laggards late in a cycle. If financials lag, so too will Value as financials comprise ~30% of the value indices and just ~7% of the growth indices (Russell 2000 Value/Growth).

We previously highlighted WD-40 (WDFC) as a short. WDFC recently reported their results for fiscal Q1 2020. Revenue growth came in at -3% versus consensus expectations of +4.5%. This is supposedly a steady consumer staple that *missed the top line estimates by a whopping 7.5%*. One would be forgiven for thinking the stock may collapse on the back of such a mighty miss relative to expectations, alas the stock dropped only 4% the day of the report and subsequently rebounded to above its pre-earnings price. For this negative growth staple stock, whose end markets are mostly cyclical industrial production, one has the privilege of paying only 42x 2020 overly optimistic earnings estimates and 50x FCF. If WDFC magically accelerates their sales growth from -3% to a CAGR of +10% for the next five years and has margin expansion, you are paying only 15x their "aspirational" 2025 EBITDA guidance. WDFC's average EV/EBITDA multiple from 1993 through 2011 was 10.6x before inflecting higher. If someone were to only look back 5 years, they would think a low-20s EBITDA multiple is normal, so perhaps 30x doesn't seem that stretched. The real bubble in the equity market is in these so-called defensive stocks, which are no way defensive given the nose-bleed level starting cash flow multiples and underestimated economic sensitivity. In this instance and hundreds of others, their multiples far exceed the S&P 500's P/E at the peak of internet bubble despite weak growth. It is hard to tell for which companies or on which days fundamentals will matter to incremental buyers and sellers. In many ways the game has changed to trying to guess what may get a stockholder to sell a stock. For the most part, it would appear as long a stock is cheap, small, and illiquid, existing holders have no qualms about dumping it.

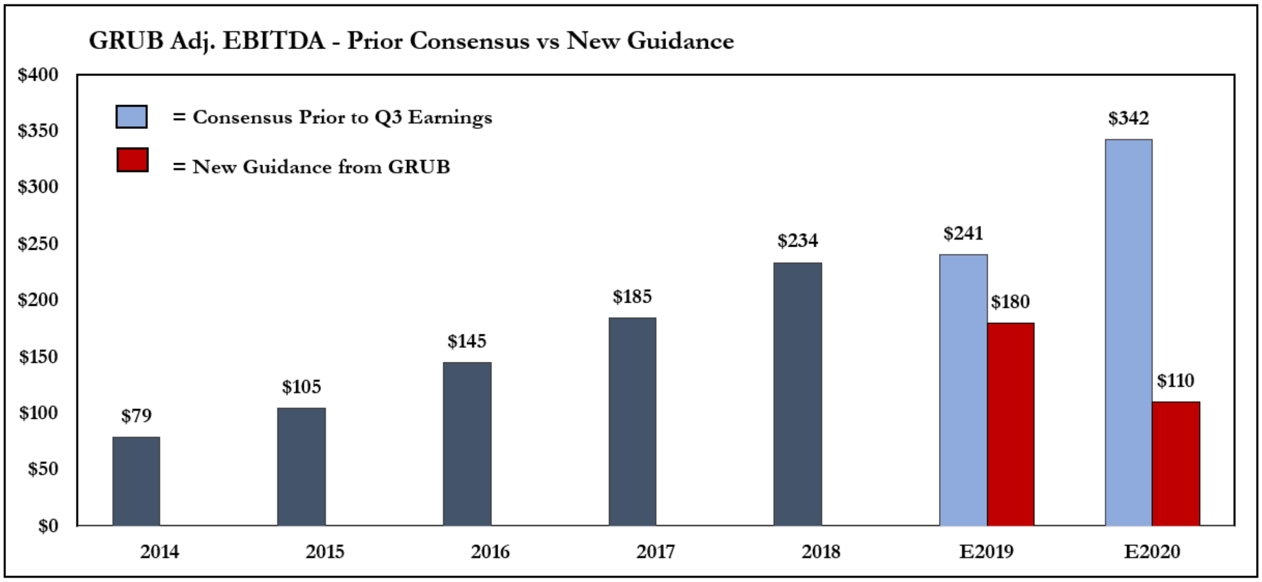
Extreme position and factor crowding, momentum, and dominance of passive flows has marginalized or trampled the returns of those investors who dare act on their contrarian impulses or think independently. Betting on any sort of mean reversion, whether multiple compression of expensive stocks or re-rerating higher of the cheapest stocks has been a perennially money losing and soul-sucking strategy that is the financial equivalent of Chinese water torture. WDFC is another recent reminder of the unfortunate reality that factor exposures, positioning and float dynamics can be equally, if not more, important than idiosyncratic fundamentals.

Short GRUB

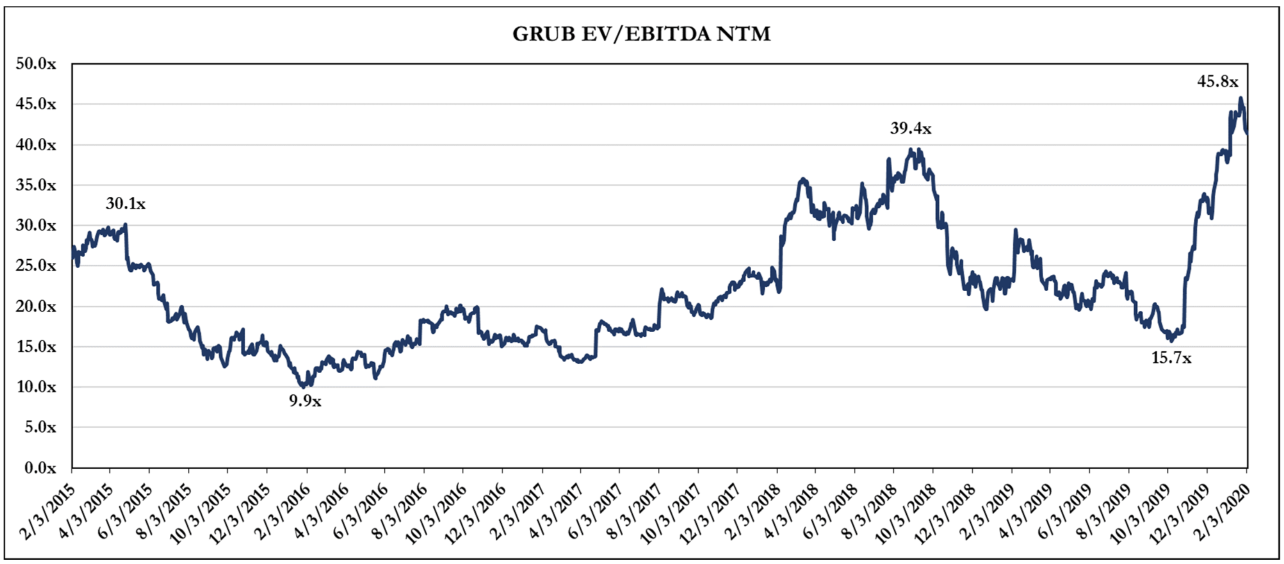
A relatively new core short is GrubHub (GRUB). It has a $5 billion market cap and trades over $170 million worth per day. Our short position is less than 1% of average daily volume.

After reporting Q3 earnings on October 29th, GRUB dropped 44%, from $59 to $33. We were short the stock going into earnings and believe the drop was more than warranted given the particularly dismal outlook management laid out in a lengthy letter released the night before their earnings call, the likes of which we've rarely seen from a public company. Since then, the stock completely recovered back to $59/share (now $52 a few days after Q4 earnings, but still popped to $60 after hours the day of Q4 earnings) on zero positive incremental news and in the face of what we would characterize as more negative news. As we continue to research the company and speak to the investment community, it is clear that the bulls have experienced thesis creep since the disastrous Q3 and now believe the company will be acquired. We believe the probability of an acquisition is sufficiently low enough to make this a core short bet.

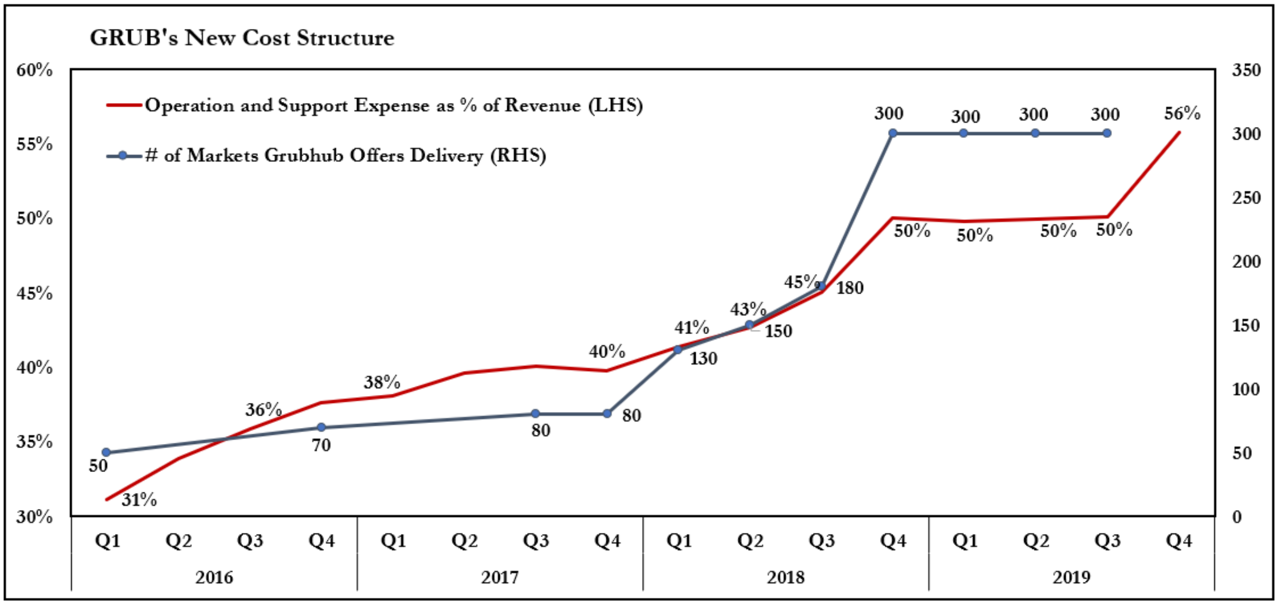
Management's dour account of the state of affairs for the industry and GrubHub itself on the Q3 call included taking an axe to expectations with management guiding for $180 million in adjusted EBITDA for the full year 2019, 25% below consensus, and for "at least $100 million" in 2020, *70% below the consensus estimate prior to the earnings release.* Note this is *heavily adjusted* EBITDA, with an increasing percentage of it coming from stock-based compensation add-backs (68% of it in Q4).



Despite an initial (and well deserved) drop in the stock price, the stock is now back up at an all-time high valuation despite this 70% guide down relative to consensus expectations.



It is important to realize that there has been a significant and, we believe, *permanent* change in the company's cost structure for the worse. The increase in Operations and Support expense as a percentage of sales has risen from 31% in 2016 to 56% last quarter. This astronomical rise came as the company expanded the number of markets in which it offers delivery services. Historically, the company operated as more of a pure marketplace for restaurants in a few major cities like NYC and Chicago where many restaurants already have their own delivery drivers. These restaurants would use GRUB purely as a source of orders and pay a commission to GRUB per order. As the company aggressively expanded to new markets nationwide to compete with the likes of DoorDash and Uber Eats the company needed to build out its own network of delivery drivers in each new market it entered. We believe this is a structural change and not a temporary one that the company will ever leverage going forward given their late entry to the second and third tier markets where DoorDash and Uber Eats are already well established.



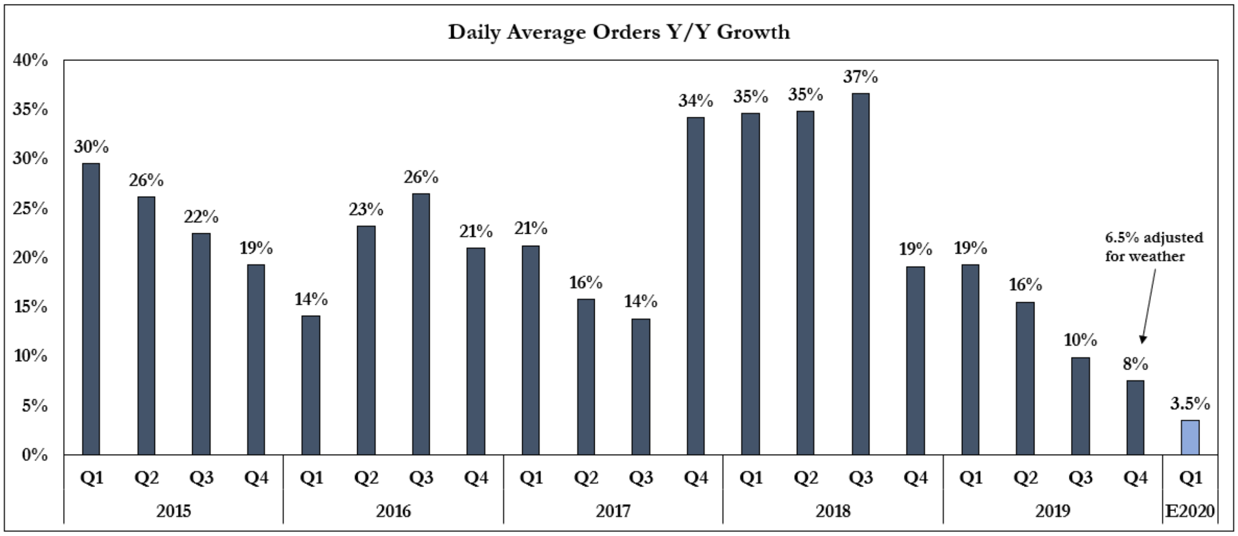
This structural change to the company's cost structure is a major concern in and of itself, but what should be more concerning is what is happening in what were once thought to be the company's impenetrable stronghold cities. GRUB is rapidly losing market share to both DoorDash and Uber Eats across all major markets, none more so than NYC, Boston, Philadelphia and Chicago. New York and Chicago are estimated to make up 80% and 20% of the company's EBITDA, respectively (or what's left of it).

Market Share Change for 3rd Party Delivery Companies- August vs December 2019

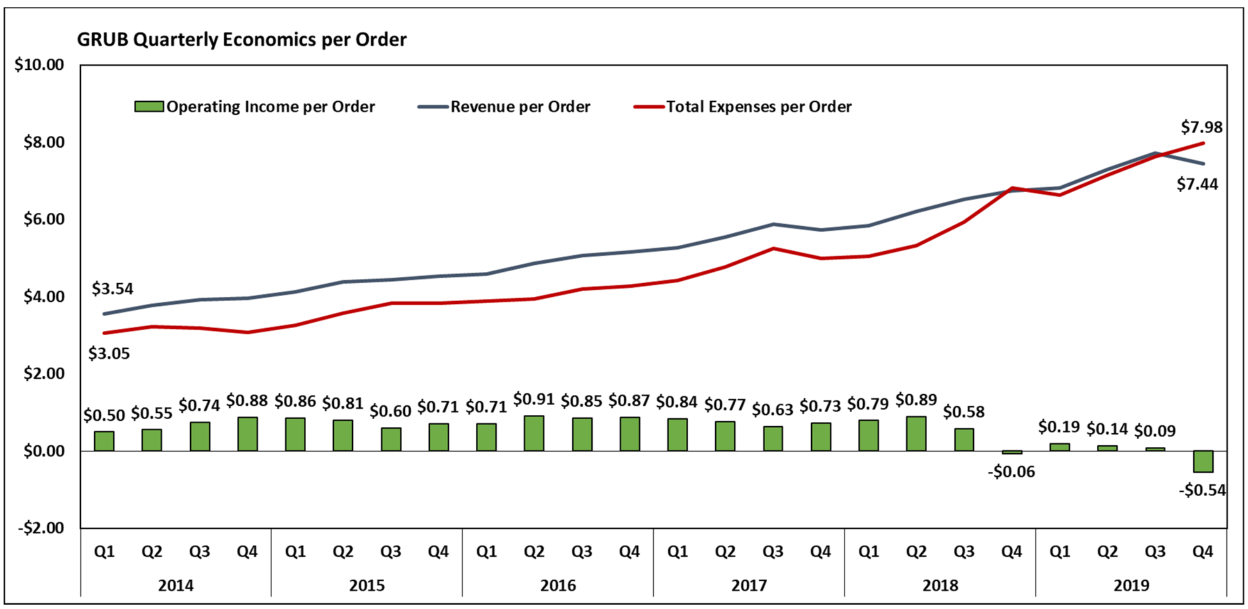
	Grubhub			Door Dash			Uber Eats		
Top Metros	Aug-19	Dec-19	Δ	Aug-19	Dec-19	Δ	Aug-19	Dec-19	Δ
NYC	71%	66%	-5%	11%	15%	4%	10%	16%	6%
Boston	47%	41%	-6%	27%	30%	3%	17%	25%	8%
Philadelphia	44%	42%	-2%	29%	40%	11%	11%	15%	4%
Chicago	41%	37%	-4%	31%	33%	2%	16%	25%	9%
DC	23%	22%	-1%	44%	43%	-1%	22%	30%	8%
LA	20%	19%	-1%	28%	29%	1%	10%	15%	5%
San Francisco	17%	16%	-1%	48%	63%	15%	9%	13%	4%
Atlanta	14%	14%	0%	41%	38%	-3%	35%	40%	5%
Phoenix	14%	16%	2%	41%	38%	-3%	18%	24%	6%
DFW	12%	11%	-1%	58%	52%	-6%	25%	33%	8%
Miami	12%	11%	-1%	19%	16%	-3%	43%	55%	12%
Houston	10%	10%	0%	63%	57%	-6%	23%	30%	7%

Source: Second Measure

Despite the aggressive expansion into new markets, the average daily order volume growth for the company has been decelerating significantly from a strong double-digit pace the past few years to only 8% in Q4 2019. The company made sure to note that even this measly 8% was artificially high due to unusually bad weather which they estimate boosted growth by 150 bps and that investors should benchmark against a 6.5% growth rate going forward. The company guided for a further slowdown from here to only 3% - 4% growth in Q1 2020. This at a time when UberEats grew 44% in Q4 in the US and DoorDash reportedly grew 97% in December.



It's not just growth struggles that GRUB is facing, but profitability challenges as well. After consistently averaging between \$0.70 - \$0.90 in operating income per order for years, the company averaged an operating loss of \$0.54 per order last quarter.



We believe the biggest risk to the short would be an ill-advised acquisition. This new hope seems to be what caused the stock to rally after the crummy Q3 and is what is keeping the stock elevated despite management vehemently denying a sales process. Who would step in here and pay > 50x adjusted EBITDA for a company that seemingly doesn't have much going its way? Well given the lack of cash flow outside of one or two markets it doesn't make sense for private equity. In terms of a strategic buyer, DoorDash reportedly has their own financial problems and is running low on cash with trouble raising capital, so we think they are an unlikely acquirer for the time being. We believe the only real potential acquirer would be Uber. But with Uber Eats quickly bleeding GRUB out in its top market of NYC, and possibly being the only potential bidder, they can be patient. Why pay > \$6 billion now?

Another consideration is that either Uber or DoorDash pursuing GRUB would be met with heightened regulatory scrutiny, especially within NYC. Food delivery is a very localized business and would likely be looked at market by market. GRUB has already built up a fair amount of ill will from regulators and law makers in the Big Apple due to its deceptive fake phone number and billing practices exposed last year which came at the expense of independent restaurant owners. Senator Chuck Schumer told the FTC "*to be at the ready to act*" with regards to the fraudulent billing practices and warned GRUB *"if you don't do it [stop the phone/fee scam], we're going to get the feds to go after you."* While there's no telling what the FTC will decide on for any given acquisition, a GRUB and either DoorDash or Uber Eats combination in NYC would give the combined company over 80% market share, which would no doubt raise concerns from many. And if there's a chance that NYC wouldn't pass FTC approval then any acquisition of GRUB is likely a non-starter. In addition to the likelihood of regulators blocking an acquisition in this crucial market, there have also been talks of legislators in NYC capping commission rates charged by third party food delivery companies at 10%--an ever present threat that dangles over GRUB like the sword of Damocles.

= Over 70% market share

= 50% - 70% market share

	Combined Market Share	
Top Metros	**GRUB + Door Dash**	**GRUB + Uber Eats**
NYC	81%	82%
Boston	71%	66%
Philadelphia	82%	57%
Chicago	70%	62%
DC	65%	52%
LA	48%	34%
San Francisco	79%	29%
Atlanta	52%	54%
Phoenix	54%	40%
DFW	63%	44%
Miami	27%	66%
Houston	67%	40%
Average	**63%**	**52%**

As the bull thesis morphs and now hangs mostly on a potential buyout, we believe time will retort with a grimmer reality and GRUB shares will drift back down as bulls realize the deterioration in profitability will persist and there is no white knight coming to bail them out.

With trends going to extremes, both the bull and bear camps (of the market, and of battleground stocks) are full of ideologues in the grips of unexamined dogma, chasing after collective delusions. At the individual stock level, more than ever before, we need cataclysmic events for investors to be aroused from their dogmatic slumber, as philosopher David Hume said that Kant did for him. As shown with WDFC and GRUB shorts, in many cases, accurately forecasting a massive negative earnings/revenue surprise relative to expectations is often no longer enough to profit in the short term. We cannot count on passive fund flows or active investors to de-rate most stocks even remotely efficiently, regardless of how fundamentals play out relative to expectations. Thus to increase the possibility of continued alpha on the long side, we are increasingly focused on shareholder activism and companies that are explicitly shopping themselves, which should serve as a more *concrete catalyst* for long positions that may otherwise drift or be sold by others in order to free up capital for them to chase bubble stocks higher.

Long MIC

One new long with a hard catalyst is Macquarie Infrastructure Corp. (MIC). MIC has a $3.8 billion market cap and has an average daily volume over $15 million. Our 4.5% long position is only 18% of average daily trading volume.

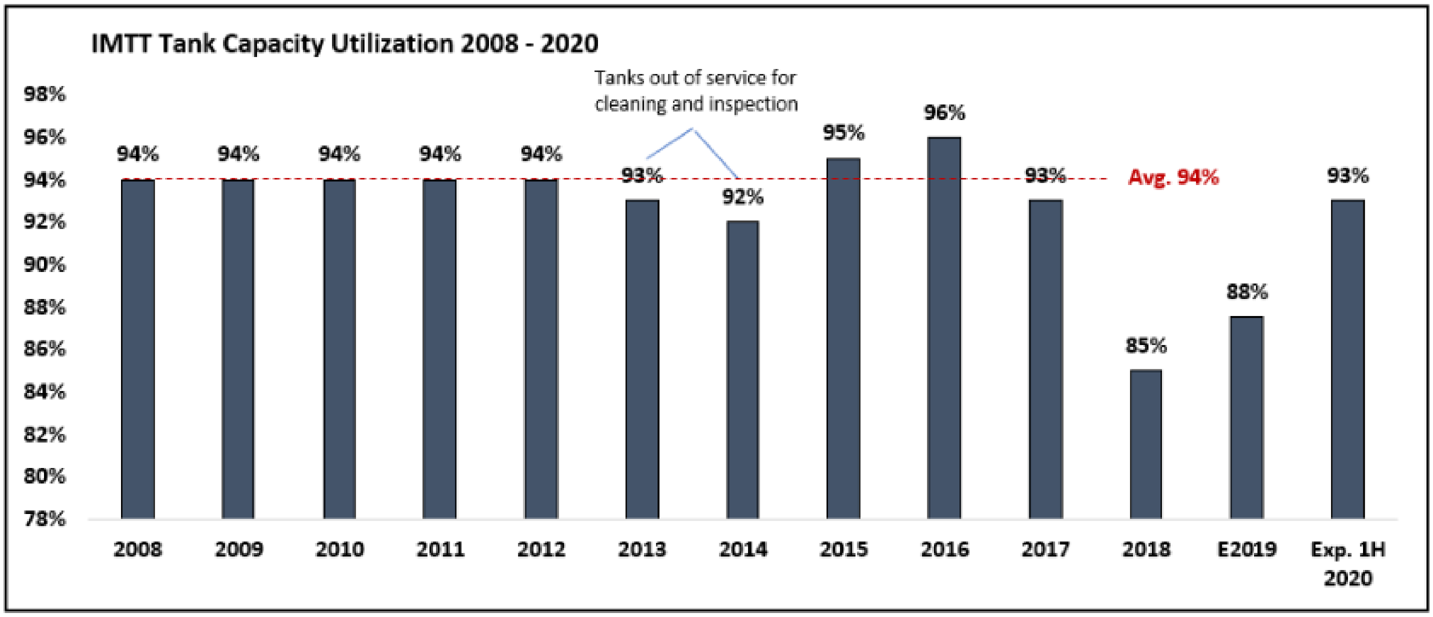
MIC announced in Q4 that they were exploring a sale of their three segments individually or the company as a whole. They reportedly began taking bids in January so news could reasonably come any day now. With over $225 billion of infrastructure specific private equity capital raised in just the last three years that is now looking for a home, we expect them to attract significant interest for these assets.

MIC has three business segments. One is International-Matex Tank Terminals (IMTT), which comprises 45% of EBITDA. This business offers bulk liquid logistics services and rents tank storage capacity on a take-or-pay basis across 19 different locations. 70% of revenue is contractual and business is driven by the overall level of commodity consumption, import/export activity and any geographical imbalances in commodity supply/demand.

The other large segment is Atlantic Aviation. This business provides fixed base operations (FBOs) at 70 airports across the US, meaning they provide fueling services, hangar rental, catering services, and other private jet services. Demand in this business is driven by general aviation traffic. There are high barriers to entry in this incredibly fragmented industry which could be attractive to a private equity buyer who could further consolidate some of the 3,500 other FBOs in the US in a roll up strategy.

MIC's smallest segment is MIC Hawaii which is comprised of a regulated gas utility primarily serving Oahu and a liquefied petroleum gas (propane) distribution business that has 80% market share of propane distribution in Hawaii. This is a solid business with limited growth, but high FCF conversion, and like MIC's other segments, can support a decent amount of leverage. We believe this business could also be attractive to any number of the infrastructure-specific private equity funds or utility companies out there.

Why does this opportunity exist? In February 2018 MIC cut its dividend by 28% and the stock price dropped 45% to $36. The main reason for this cut was that a few large customers who had leases dedicated to heavy oils at one facility didn't renew their tank leases in Q4 2017. This sparked a decline in the historically very stable tank capacity utilization average of 94% to an eventual bottom of 82% in Q3 2018. These non-renewals and the underlying reasons why they didn't renew (exiting the heavy oil business in general) resulted in a repurposing initiative by IMTT, converting their tanks to allow them to handle other types of liquids. This initiative is now largely completed and has driven the rebound in IMTT's capacity utilization back up to the high 80% range to end 2019 and low-to-mid 90% in the first half of 2020. While painful in the short term, we think the move makes sense long term. Repurposing tanks isn't new for IMTT either, they have historically done it to respond to market conditions, and this temporary hiccup in business has allowed for a good investment entry point.



An additional reason for the decision to cut the dividend was that the company's leverage ratio was at 5.0x and they wanted to de-lever. Furthermore, management felt we were long into the economic cycle (hard to disagree) and Atlantic Aviation has some macroeconomic sensitivity because the business usually tracks general air traffic growth in the US (which averages around 2.5% growth per year). Since the dividend cut, the stock has languished around $40/share for the last two years.

We believe there is relatively limited downside in the stock given its valuation (trading in its 25% percentile historically on an EV/EBITDA basis). This along with a 9% current dividend yield and what we believe is a hard catalyst coming within the next six months makes this stock an attractive investment.

In terms of upside we look at it as a sum of the parts using transaction comps for each segment. For the IMTT segment, valuation multiples for acquisitions of similar businesses have ranged from 10x to 18x EBITDA with a median/average around 12x. Note this includes two lower multiple transactions that were MLPs being acquired in uncontested transactions by their GPs so the average is higher for acquisition with multiple competitive bidders. IMTT could potentially absorb at least another two turns of leverage for a PE buyer. Based on a public trading comp and several transaction comps which have ranged from 10.9-13.3x EBITDA, we believe fair value for the Atlantic Aviation division is also in the ~12x EBITDA range.

Using these median transaction comp multiples for the IMTT and Atlantic Aviation segments we think the businesses together are worth around $58/share in a sale. Remember we are also receiving a $1/share dividend per quarter until a sale is completed.

Equity Per Share

		Atlantic Aviation Multiple					
		10.5x	11.0x	11.5x	12.0x	12.5x	13.0x
	12.0x	$51.42	$53.05	$54.67	$56.29	$57.91	$59.53
	12.5x	$53.11	$54.74	$56.36	$57.98	$59.60	$61.23
	13.0x	$54.81	$56.43	$58.05	$59.67	$61.30	$62.92
IMTT Multiple	13.5x	$56.50	$58.12	$59.74	$61.36	$62.99	$64.61
	14.0x	$58.19	$59.81	$61.43	$63.06	$64.68	$66.30
	14.5x	$59.88	$61.50	$63.13	$64.75	$66.37	$67.99
	15.0x	$61.57	$63.20	$64.82	$66.44	$68.06	$69.68

The above sensitivity table doesn't ascribe any value for MIC Hawaii. At 10x EBITDA, the sale of that business would provide another $5/share in value which would roughly offset the disposition fee that will be paid back to the management company on the completion of a sale. Adding it all up, MIC has about 40% potential upside from the current price of $44.00, providing an attractive IRR as we believe a deal likely happens within the next nine months.

Conclusion

Stock market prices are not exactly a supreme expression of reason and the market has never been 'logical' in the traditional sense. With the majority of funds now managed by passive vehicles and the majority of active participants being momentum driven, it will likely only keep getting worse as the market cycle advances. Capital markets history offers up a lengthy catalogue of human folly and irrationality and many facets of the present time will certainly make for a nice addition.

Nothing is more commonplace in a hedge fund quarterly letter than the manager lamenting that the market is whacky and inefficient (as I admittedly just did). We are not using this environment as an excuse for poor performance or abandoning our discipline. Amidst all of the constant macro noise and sociological bluster, our focus remains squarely on identifying out of favor companies shopping themselves while trading at extreme discounts to our estimate of private market value and intelligently hedging that exposure. Both our long and short opportunity set remains vast.

To continued Alpha,

Voss Team

Sources:

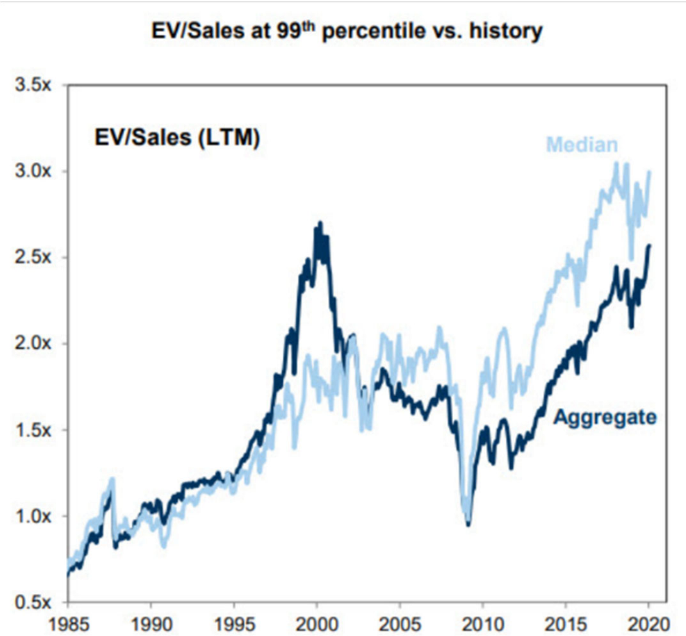
1: Morgan Stanley Research, custom factor baskets as of 2/12/2020.

MS Factor Baskets	YTD % Return
US Momentum	12.00%
US GROWTH	6.38%
US Size	3.25%
US Quality	1.88%
US 6-Month Momentum	-0.44%
US Leverage	-3.39%
US Passive Factor	-3.88%
US Beta	-4.24%
US 3-Month Momentum	-4.40%
US Dividend Yield	-4.80%
US Realized Vol	-6.18%
US VALUE	-14.95%
MS Factor Neutral Indices	**YTD % Return**
MS Factor Ntrl US Size	2.52%
MS Factor Ntrl US Mom	0.93%
MS Factor Ntrl US Beta	-1.62%

Source: MS Custom Baskets as of 2/12/2020

2: Bloomberg data

3: Median EV/Sales data for S&P 500 companies chart source is Goldman Sachs equity strategy research team.



4: Source Morgan Stanley Prime Brokerage Strategic Content Group (1/24/2020)

***Common Terms*:**

CAGR – Compound Annual Growth Rate	*GDP – Gross Domestic Product*
DCF – Discounted Cash Flow	*IRR – Internal Rate of Return*
EBITDA – Earnings Before Interest, Taxes, Depreciation & Amortization	*LTM – Last Twelve Months*
EPS – Earnings per Share	*NTM – Next Twelve Months*
EV – Enterprise Value	*P/E – Price to Earnings*
FCF – Free Cash Flow	*YTD – Year to Date*

Disclosures and Notices:

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