Value Investor
INSIGHT
The Leading Authority on Value Investing
September 30, 2021

Tale of Two Markets

Despite what might appear to be the market's calm surface, Voss Capital's Travis Cocke – whose picks in VII less than a year ago have performed exceedingly well – is finding plenty of opportunity today in the relative turmoil down below.

INVESTOR INSIGHT

Travis Cocke
Voss Capital

Editor's Note: *We try not to call too frequently on the talented investors we speak with for VII each month. We appreciate the time they spend with us and don't want to overstay our welcome.*

But after looking at the performance of the highlighted stock ideas Travis Cocke of Voss Capital shared with us last November [VII, November 30, 2020], we decided to take the risk. Since the issue appeared, the five ideas – Nintendo, Avid Technology, Extreme Networks, Louisiana-Pacific and Rimini Street – are collectively up more than 80%, vs. a 20% rise in the S&P 500. We asked Travis and colleague Jon Hook if they were still finding interesting ideas in today's market and if so, whether they'd share a few of them with us. Happily, they answered yes to both questions.

When we last spoke you described finding a pretty rich environment for investment ideas. Is that still the case?

Travis Cocke: It's sort of a tale of two markets. You've got quality mega-caps that have been consistently strong, while further down the market-cap spectrum there's quite a bit of turmoil. There has been a flood of new IPOs, secondary offerings and SPACs. Retail traders are anchoring on only a dozen stocks or so at a time. We find all that leading to many of the small- and micro-cap companies we tend to follow getting even less attention than usual. At the same time, it's a confusing and difficult-to-analyze time. You've got to assess normal business cycles and the Covid cycle. How persistent will supply-chain issues be? How much of recent demand is real and how much pulled forward by the pandemic? Companies are trying to respond to all that, operationally and in exploring strategic options. It's muddied the waters for investors, resulting in a wider dispersion of potential outcomes and a wider dispersion in valuation. That to us creates a fertile environment for ideas.

Let's dive right into some examples. What do you think the market is missing in International Money Express [IMXI]?

Jon Hook: Intermex provides money-remittance services, focusing on transactions emanating from the U.S. and going to Mexico, Guatemala and other Latin American countries. It makes its money by charging a fixed fee for each transaction – which accounts for 85% of total revenue – and from earning a variable spread on the currency exchange. The customer base is primarily low-income and underbanked.

With money remittance, one can execute a transaction either in person through retail agents or do it online. If in person, the customer typically goes to an agent location, often a bodega or convenience store, cashes a paycheck and then pays in cash to send money. The money is then directed to a specific location, often a bank, where the cash can be retrieved. If remitting digitally, customers use the company's website or app, although this requires that the sender has a bank account.

While all the talk in the industry is about digital, we don't believe Intermex's target customer is there yet. It deals with the underbanked who are often undocumented and are less likely to want a bank relationship. They want to send money through a trusted source in their neighborhood, often from the same place where they cash their paycheck, and without having to produce ID. We think by sticking more to its traditional knitting that Intermex can grow for years at 15%-plus annually. The stock's valuation would indicate the market expects quite a bit less.

What specific factors would be driving such attractive growth?

JH: Latin American remittances have risen at a solid pace for years, fueled by immigrants whose financial responsibility extends back home. The relative breadth and depth of the U.S. economy and job market leads us to believe that dynamic won't moderate any time soon.

We also think Intermex has an opportunity to take share from competitors who are distracted by all-in efforts to go digital. In fact, Intermex has been consistently growing faster than Western Union and MoneyGram by a wide margin, quarter after quarter. The company claims to have 20% market share for its core receiving countries of Mexico, Guatemala, Honduras and El Salvador, but on the sending side it isn't geographically balanced across U.S. markets with large Hispanic populations. They have 35-50% market shares in Florida and the Southeast, for example, but only 8-12% in Texas and California. Management has been disciplined and methodical about opening new locations and we believe they can translate that into significant organic growth.

We don't really build this into our expectations, but the company also has the potential to make tuck-in acquisitions. This would likely be most effective in building out receiving-market positions in what are now secondary markets like Peru, Nicaragua, Ecuador, the Dominican Republic and Costa Rica.

How cheap do you consider the shares at a recent price of $16.25?

JH: The stock today trades at 9x forward free cash flow and less than 7x forward EV/EBITDA. We think that's very cheap for a company we believe can grow its top line, for multiple years, by at least 15% with strong operating leverage.

We estimate revenue through 2023 can grow at a 16% compound rate and that EBITDA margins will expand modestly to 21%. That would result in sales of nearly $575 million and EBITDA of just over $122 million. Assuming a conservative 9x EV/EBITDA multiple, the shares would trade at close to $30.

The biggest risks?

JH: Regulation is a primary one. There are legitimate concerns about money laundering and companies can get into trouble if they're lax about following the rules. MoneyGram, for example, is under restrictions others don't have because of past regulatory infractions. Positive on this front is that Intermex has a squeaky-clean record historically and appears to take its regulatory responsibilities quite seriously.

This is somewhat of an unusual idea for us because we often find opportunity in companies leading the digital transformation charge, when it's early and hard for the market to handicap how it will play out. We actually started looking in this sector at MoneyGram with that initial thesis. We're not saying the digital transformation here won't happen, we just think it's further down the road than expected and that a company like Intermex that recognizes that is going to be at a relative competitive advantage.

Why are you high on the prospects for small-cap financial holding company ECN Capital [Toronto: ECN]?

TC: We started looking into ECN in January when a friend suggested we look at it as a misunderstood company that had undergone a transition from capital-intensive railcar/aviation leasing to an asset-light model focused on the origination, bundling and sale of specialty consumer loans.

At the time, there were three primary businesses. The biggest, Service Finance, makes home-improvement loans sourced through a network of 14,000 contractors and retail partners in the U.S. and Canada. The second, called Triad, offers loans to purchase manufactured homes, sourced similarly through dealers and manufacturers. The third business, Kessler Group,

INVESTMENT SNAPSHOT

International Money Express
(Nasdaq: IMXI)

Business: Provider of international money remittance services primarily originating in the U.S. and going to Mexico, Guatemala and other Latin American countries.

Share Information (@9/29/21):

Price	**16.27**
52-Week Range	13.14 – 18.96
Dividend Yield	0.0%
Market Cap	$635.2 million

Financials (TTM):

Revenue	$351.0 million
Operating Profit Margin	2.0%
Net Profit Margin	11.8%

Valuation Metrics
(@9//29/21):

	IMXI	S&P 500
P/E (TTM)	15.3	31.1
Forward P/E (Est.)	10.8	22.0

Largest Institutional Owners
(@6/30/21 or latest filing):

Company	% Owned
Wellington Mgmt	9.0%
Federated Global Inv Mgmt	7.1%
Conifer Mgmt	6.1%
BlackRock	5.4%
Vanguard Group	4.8%

Short Interest (as of 9/15/21):

Shares Short/Float	2.5%

IMXI PRICE HISTORY

THE BOTTOM LINE

The company recognizes the digital transition underway in its industry, but is also likely to incrementally benefit from that transition taking longer than expected, says Jon Hook. Assuming mid-teens annual revenue growth, modest margin expansion and an EV/EBITDA multiple of 9x on his resulting 2023 estimates, the shares would trade at close to $30.

Sources: Company reports, other publicly available information

works with mostly small banks and credit unions to help them manage, market, and buy and sell credit-card portfolios.

We liked each business, but were most attracted to Service Finance given our positive outlook for home remodeling. We were getting exposure to higher spending on home improvement without having to pick which door manufacturer would be the winner. Then last month ECN announced it was selling Service Finance to Truist Bank for $2 billion. That took us off guard at first, but we've come to see it as very much a positive. We want management to be willing to part with any business if doing so can improve share value. Here they caught a $2 billion bid for a business they bought in 2017 for $305 million. Nothing really to argue with there.

So the question now is to assess the value of what's left. Triad is the second-largest originator of manufactured-home loans in the U.S. It has portfolio sale agreements with third-party investors such as pension plans and insurance companies, so it earns origination and servicing fees without recourse to the underlying credit performance. A decent portion of the revenue is recurring and EBITDA margins are 50%-plus.

We believe the outlook for this type of lending is quite good. Manufactured-home shipments have been running at 40-50% below the trailing 30-year average in the U.S., but we think such homes have a key role to play in alleviating affordable-housing problems that are prevalent in the U.S. Triad is well-positioned to expand share in a still-fragmented market, where it's currently a market leader with only a 10% share. It also has a variety of new loan programs in the works that can drive incremental growth.

The Kessler business has recurring and transactional elements, but overall is levered to clients' desire to more profitably acquire and manage their credit-card portfolios. Kessler is quite profitable, earning 65% EBITDA margins, and here as well there are multiple growth initiatives just rolling out. One is a fee-based service to take over a small client's entire credit-card portfolio, from customer acquisition and credit decisioning to servicing. The company is also expanding into other verticals, helping telecom operators or student lenders, for example, improve their customer-acquisition effectiveness and profitability.

How are you looking at valuation with the shares now trading at around C$10.50?

TC: ECN announced it's going to pay a C$7.50 special dividend from the proceeds of the Service Finance sale after it closes. So you're essentially paying C$3 per share in the market for a pro-forma business that management expects to earn around 30 Canadian cents per share this year. I think they'll exceed that, but even at that level the shares trade at a 10x P/E.

First of all, we believe that P/E is way too low given the 30%-plus top-line growth and high-50% EBITDA margins for Kessler and Triad combined. Service Finance sold for the equivalent of around 23x earnings. Goldman Sachs earlier this month agreed to pay 23x estimated next-12-months EPS for Greensky, which is inferior in almost every way to Triad. So if you assume even 20x is reasonable for ECN – again, pro-forma for the special dividend – the stock would trade at C$6.

INVESTMENT SNAPSHOT

ECN Capital
(Toronto: ECN)

Business: Partners with clients on originating, securitizing and managing consumer credit, with focus on manufactured-housing-related loans and credit-card portfolios.

Share Information
(@9/29/21, Exchange Rate: $1 = C$1.27):

Price	**C$10.45**
52-Week Range	C$4.97 – C$11.97
Dividend Yield	1.1%
Market Cap	C$2.54 billion

Financials (TTM):

Revenue	C$284.6 million
Operating Profit Margin	21.9%
Net Profit Margin	2.3%

Valuation Metrics
(@9/29/21):

	ECN	S&P 500
P/E (TTM)	104.5	31.1
Forward P/E (Est.)	38.7	22.0

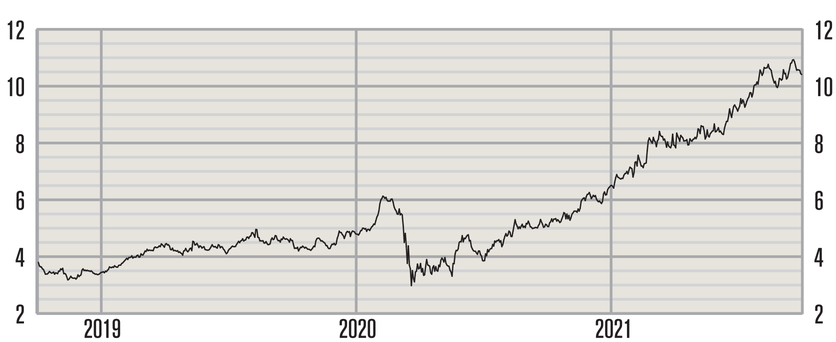
Largest Institutional Owners
(@6/30/21 or latest filing):

Company	% Owned
North Peak Capital Mgmt	12.8%
Private Capital Mgmt	2.7%
Invesco Adv	2.7%
Fidelity Mgmt & Research	1.4%
RBC Global Asset Mgmt	1.3%

Short Interest (as of 9/15/21):

Shares Short/Float	n/a

ECN PRICE HISTORY



THE BOTTOM LINE

While the market seems nonplussed, Travis Cocke believes the company's recent agreement to sell a prized asset makes sense and illustrates its focus on maximizing value. Assigning a 20x P/E to the pro-forma company's expected 2021 EPS and adjusting for a coming C$7.50-per-share special dividend, the stock would double from today's price.

Sources: Company reports, other publicly available information

For that you'd still own a rapidly growing, high-margin business. Eventually there's a good chance that if they're successful in scaling the remaining businesses like they did Service Finance, they'll end up selling to the highest bidder and distributing the proceeds.

Describe the upside you see in telecom company Sierra Wireless [SWIR].

JH: Sierra has gone through a number of strategic pivots over the past 20 years, but we think today it's very well positioned as a provider of cellular-enabled Internet access. It offers each component of a vertically integrated solution – including chips, routers, connectivity and software – for in-the-field networked applications where Wi-Fi isn't a feasible or cost-effective option. One common example would be outfitting a fleet of vehicles, say, for a police force. Another might be providing access to the Internet through cellular connection for a widespread branch-office or retail network. There are also a number of Internet-of-Things-type applications, say connecting a network of power meters or electric charging stations.

We expect the big tailwind behind the business to be the ongoing rollout of 5G wireless in the United States and other developed markets. 5G enables high-speed and widespread data collection and transmission using low power sources, facilitating exactly the kind of mobile and/or distributed connectivity Sierra provides. We also think the company will benefit as the only scale provider in the U.S. of the modified silicon chips, called modules, that are critical in facilitating machine-to-machine communication in cellular networks. The biggest competitor in this market is a Chinese company called Quectel, which would be hurt if U.S. regulators continue to clamp down on Chinese technology in domestic telecom networks. If that comes to pass, it would almost certainly have a positive impact on Sierra's revenues and margins.

Sierra named a new CEO who took over in July. Is that a welcome change?

JH: We think so. If you benchmarked the performance of each piece of the company's business to direct competitors, Sierra regularly came up wanting, That's a key reason an activist, Lion Point Capital, took a stake in the company in April of 2020 and started calling for change. That change began with a reconstitution of the board and we think the naming of the new CEO, Phil Brace, is another positive step in that process. His charge is to more effectively balance operating efficiency with focused growth. We think there is a lot of cost that can be taken out of the business without sacrificing growth.

Now at just over $15, what upside do you see in the stock?

JH: Looking out a year we estimate in our base case that the company can generate roughly $650 million in revenue, 70% non-recurring and 30% recurring. We expect gross margins to increase from 35% to 40% and that $25 million can be taken out of annual operating costs. With those assumptions we estimate EBITDA at $105 million. If they deliver those numbers, we'd consider a 10x EV/EBITDA multiple to be reasonable, which would translate into a $28 target share price. There's

INVESTMENT SNAPSHOT

Sierra Wireless
(Nasdaq: SWIR)

Business: Provider of hardware, software and systems that enable cellular-network Internet access where Wi-Fi and/or hard-wired applications are not practically viable.

Share Information (@9/29/21):

Price	**15.05**
52-Week Range	10.45 – 22.22
Dividend Yield	0.0%
Market Cap	$575.7 million

Financials (TTM):

Revenue	$474.7 million
Operating Profit Margin	(-14.3%)
Net Profit Margin	(-10.7%)

Valuation Metrics
(@9/29/21):

	SWIR	S&P 500
P/E (TTM)	n/a	31.1
Forward P/E (Est.)	68.4	22.0

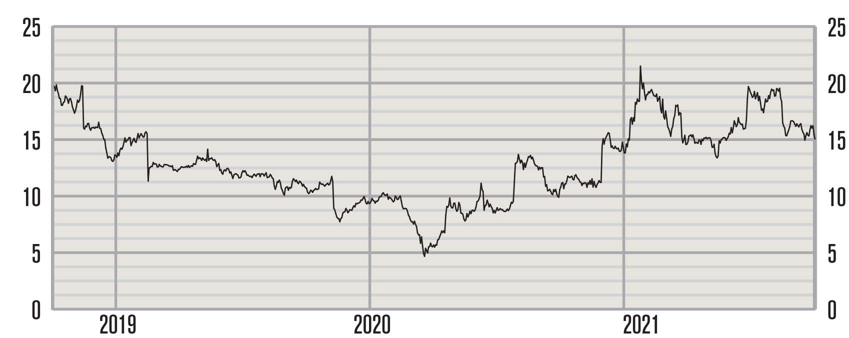
Largest Institutional Owners
(@6/30/21 or latest filing):

Company	% Owned
Trigran Inv	13.0%
Lion Point Capital	5.8%
Brandes Inv Partners	4.3%
Goldman Sachs	3.4%
Renaissance Tech	3.0%

Short Interest (as of 9/15/21):

Shares Short/Float	1.8%

SWIR PRICE HISTORY



THE BOTTOM LINE

Jon Hook believes a new board and CEO are bringing the operational and strategic focus the company needs to capitalize on the secular growth in its market. Applying a 10x EV/EBITDA multiple on his estimates a year out – which call for organic revenue growth, higher gross margins and lower operating costs – would result in a share price of $28.

Sources: Company reports, other publicly available information

plenty of potential upside beyond that, as we think the company can grow at least 10-15% annually over several years as 5G rolls out.

I should mention two important near-term risks here. Sierra in July had to shut down production at its primary manufacturing plant in Vietnam due to a Covid outbreak. It's also been facing the types of supply delays and shortages that are plaguing a number of manufacturers. While we don't consider even the combination of those a liquidity risk, if they drag on much beyond next quarter the company will be burning a material amount of cash. We don't believe that would change the fundamental story, but it would obviously set back the timetable for it to play out. VII

Disclosure

This information is furnished on a confidential basis to the recipient and does not constitute an offer for any securities or investment advisory services. It is intended exclusively for the use of the person to whom it is delivered by Voss Capital, LLC ("Voss") and it is not to be reproduced or redistributed to any other person without prior consent of Voss. This information is furnished on a confidential basis to the recipient and is neither an offer to sell nor an offer to buy any securities, investment product or investment advisory services, including interests in Voss Value Master Fund (the "Master Fund"). Performance figures from the inception date of October 3, 2011 through December 31, 2019 are calculated based on Voss Value Fund, L.P., (the "Predecessor Fund") a predecessor to the Master Fund. The Predecessor Fund was part of a restructure to a master-feeder structure on January 1, 2020. Beginning January 1, 2020, all investment activity is conducted by the Fund, which has 2 feeder funds, and therefore performance figures from January 1, 2020 onward are calculated based on the Master Fund. All limited partners invest in the Fund through one or more of the following feeder funds: Voss Value Offshore Fund, Ltd. (the "Offshore Fund") and the Predecessor Fund (each a "Feeder Fund"). Actual returns are specific to each investor investing through a Feeder Fund. Each Feeder Fund was established at different times and has varying subsets of investors who may have had different fee structures than those currently being offered. As a result of differing fee structures, differing tax impact on onshore and offshore investors, the timing of subscriptions and redemptions, and other factors, the actual performance experienced by an investor may differ materially from the performance reported above. Performance figures for the Predecessor Fund are contributable to Travis Cocke as sole portfolio manager. Mr. Cocke maintains the same position with the Fund and the Fund will employ a similar strategy as the Predecessor Fund.

All information related to Voss is subject to a more complete description and does not contain all of the information necessary to make an investment decision, including, but not limited to, the risks, fees and investment strategies of the Master Fund. Any offering is made only pursuant to the relevant information memorandum, together with current financial statements of the Feeder Funds, if available, and a relevant subscription application, all of which must be read in their entirety. No offer to purchase interests will be made or accepted prior to receipt by the offeree of these documents and completion of all appropriate documentation. All investors must be "accredited investors", "qualified clients" and "qualified purchasers", as defined in securities laws before they can invest in the Feeder Funds.

This information is not an advertisement and is not intended for public use or distribution and is intended exclusively for the use of the person to whom it is delivered by Voss, and it is not to be reproduced or redistributed to any other person without prior consent of Voss. Additionally, while performance results might be shown as compared to various benchmarks or indices, there is no guarantee that the strategy behind the performance results is similar or fully comparable to that of the benchmarks or indices listed.

References made to the S&P 500 Index ("S&P") and Russell 2000 Index ("R2K") are for comparative purposes only. The securities and exposures contained within the highlighted benchmark indices are unmanaged and do not necessarily correspond to the investments and exposures that will be held and are therefore of limited use in predicting future performance or evaluating risk. The S&P is a broad-based measurement of changes in the stock market based on the performance of 500 widely held large-cap common stocks. The R2K is a measurement of changes in the US small-cap equity universe, represented by approximately 2000, mostly small-cap, common stocks. These indices may reflect positions that are not within Voss's investment strategy, and Voss is less diversified than the broad-based indices. The benchmark indexes do not charge management fees or brokerage expenses and no fees were deducted from the benchmark performance shown.

Results for the current year are subject to revision upon the year-end audit. Net results are presented after deduction of all operational expenses (including brokerage commissions), 1% per annum management fee, and 20% performance allocation. Performance data assumes reinvestment of all income and gains. Actual returns may vary from the net performance stated herein due to different fee arrangements and timings of investment, in accordance with the terms of the governing documents.

The specific investments identified are not representative of all the investments purchased, sold, or recommended and it should not be assumed that the investments identified were or will be profitable. Actual holdings will vary for each and there is no guarantee that a particular account or fund will hold any or all the investments. A list of all investments is available upon request.

All information presented herein has been compiled by Voss, and while it has been obtained from sources deemed to be reliable, no guarantee is made with respect to its accuracy. Past performance does not guarantee future results.

Disclosures and Notices:

The information contained herein reflects the opinions and projections of Voss Capital, LLC ("Voss") as of the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Voss does not represent that any opinion or projection will be realized. All information provided is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. None of the information contained is either an offer to sell nor an offer to buy any securities, investment product or investment advisory services, including interests in Voss Value Master Fund (the "Master Fund" or "Long/Short Fund") or the Voss Value-Oriented Special Situations Fund. Performance figures for the "Long/Short Fund" from the inception date of October 3, 2011 through December 31, 2019 are calculated based on Voss Value Fund, L.P., (the "Predecessor Fund") a predecessor to the Master Fund. The Predecessor Fund was part of a restructure to a master feeder structure on January 1, 2020. Beginning January 1, 2020, all investment activity is conducted by the Fund, which has 2 feeder funds, and therefore performance figures from January 1, 2020 onward are calculated based on the Master Fund. All limited partners to the Long/Short Fund invest in the Fund through one or more of the following feeder funds: Voss Value Offshore Fund, Ltd. (the "Offshore Fund") and the Predecessor Fund (each a "Feeder Fund"). Actual returns are specific to each investor investing through a Feeder Fund. Each Feeder Fund was established at different times and has varying subsets of investors who may have had different fee structures than those currently being offered. As a result of differing fee structures, differing tax impact on onshore and offshore investors, the timing of subscriptions and redemptions, and other factors, the actual performance experienced by an investor may differ materially from the performance reported above. Performance figures for the Predecessor Fund are contributable to Travis Cocke as sole portfolio manager. Mr. Cocke maintains the same the position with the Fund and the Fund will employ a similar strategy as the Predecessor Fund. The Voss Value-Oriented Special Situations Fund, LP, (the "Long-Only Fund") launched on July 1, 2021 and trades roughly pari-passu with the long book of the Long/Short Fund. Investors have differing fee structures than those currently being offered. As a result of differing fee structures, differing tax impact on investors, the timing of subscriptions and redemptions, and other factors, the actual performance experienced by an investor may differ materially from the performance reported. Travis Cocke is the sole portfolio manager of the Voss Value-Oriented Special Situations Fund.The information contained herein is subject to a more complete description and does not contain all of the information necessary to make an investment decision, including, but not limited to, the risks, fees and investment strategies of the Long/Short Fund and the Long-Only Fund. Any offering is made only pursuant to the relevant information memorandum, together with current financial statements of the Feeder Funds, if available, and a relevant subscription application, all of which must be read in their entirety. No offer to purchase interests will be made or accepted prior to receipt by the offeree of these documents and completion of all appropriate documentation. All investors must be "accredited investors", "qualified clients" and "qualified purchasers", as defined in securities laws before they can invest in the Feeder Funds or the Long-Only Fund. While performance results might be shown as compared to various benchmarks or indices, there is no guarantee that the strategy behind the performance results is similar or fully comparable to that of the benchmarks or indices listed. References made to the S&P 500 Index ("S&P") and the Russell 2000 Index ("R2K") are for comparative purposes only. The securities and exposures contained within the highlighted benchmark indices are unmanaged and do not necessarily correspond to the investments and exposures that will be held and are therefore of limited use in predicting future performance or evaluating risk. The S&P is a broad-based measurement of changes in the stock market based on the performance of 500 widely held large-cap common stocks. The R2K is a measurement of changes in the US small-cap equity universe, represented by approximately 2000, mostly small-cap, common stocks. These indices may reflect positions that are not within Voss's investment strategy, and Voss is less diversified than the broad-based indices. The benchmark indexes do not charge management fees or brokerage expenses and no fees were deducted from the benchmark performance shown.

All information presented herein has been compiled by Voss, and while it has been obtained from sources deemed to be reliable, no guarantee is made with respect to its accuracy. Past performance does not guarantee future results. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented. Certain information contained in this letter constitutes "forward-looking statements" which can be identified by the use of forward-looking terminology such as "may," will," "should," "expect," "attempt," "anticipate," "project," "estimate, or "seek" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results in the actual performance of the Voss Funds may differ materially from those reflected or contemplated in such forward-looking statements. There can be no guarantee that any Voss Funds will achieve its investment objectives and Voss does not represent that any opinion or projection will be realized.