February 5, 2021

Dear Investor:

I hope this letter finds you well. Choice Equities Fund generated gains of +2.3% on a net basis in the quarter, bringing year-to-date gains to +36.9%. This compares to the Russell 2000's +2.1% gain and its year-to-date increase of +14.8%. The S&P 500 again outgained their smaller peers, with an +11.0% increase for the quarter and gains of +28.7% for the year. With the culmination of the year, we marked our fifth birthday since inception in 2017 with the fund generating annualized gains of +27.9% versus +12.0% and +18.5% for the Russell 2000 and S&P 500, respectively.

EXECUTIVE SUMMARY

In this letter, we discuss the major drivers of performance for the quarter. I highlight our recent interview with Value Investor Insight, which has been provided as an attachment in the Appendix. The interview discusses our investment approach, learnings over the years and features updated thoughts on current holdings Identiv (INVE), Gypsum Management & Supply (GMS) and Farmer Brothers Co. (FARM). Below, I provide an update on a new position in a prior holding of Sportsman's Warehouse Holdings, Inc. (SPWM). Finally, I conclude with a few thoughts on the growth versus value debate and provide some thoughts on the current outlook.

QUARTERLY COMMENTARY

At a headline level, markets again appeared to produce a somewhat subdued drift higher in 4Q. However, beneath the surface, markets were less placid than they might have looked. Though the S&P 500 produced a banner year with a total return of ~29% and no declines greater than 5%, signs of turmoil began to emerge across the year. The Russell 2000 peaked in early November and again trailed the index of their larger peers meaningfully. Growth stocks of all kinds struggled, particularly late in the year with mostly just the largest of the big tech companies pushing the indices higher into yearend. For the year, value stocks fared well, though the emergence of the Omicrom strain again delayed hopes for reopening plays.

Against this backdrop, our 4Q performance was modestly positive. INVE and GMS were the biggest contributors, while several other positions were down moderately. As I mentioned above, I'm pleased to share we celebrated our fifth birthday at the turn of the year. It is a milestone worth highlighting, as I feel with the passage of such an amount of time, we can reasonably infer that our approach to tolerate and capitalize on volatility can be a successful strategy and one that we have been able to execute soundly. This is great news. Of course, it's also yesterday's news. While I'm delighted to point to our first five years and share that we have successfully scaled the business from humble beginnings, I'm far more excited about the next five years as we continue on the 20-year mission that I began at our outset.

POSITION COMMENTARY

As noted above, I'm pleased to share we were featured in the February issue of Value Investors Insight. We have been allowed to share our portion of the magazine with our readers, which has been included in the Appendix. The interview contains updated thoughts on current holdings Identiv (INVE), Gypsum Management & Supply (GMS) and Farmer Brothers Co. (FARM). Below, I highlight a new position in a prior holding SPWH.

SPWH – Sportsman's Warehouse (current ~$480M market cap) is a stock we have owned previously and a position we have been adding to of late. The last few years have been quite eventful for the retailer of outdoor sporting goods supplies, with recent events making this position a bit of a special situation. Just before Christmas in 2020, the company received an offer at $18 per share to be acquired by Bass Pro / Cabela's owner Great American Outdoors Group. The merger seemed to make sound strategic sense because Sportsman's store model, proven to be successful in much smaller box sizes, was going to be an excellent complement to the gargantuan boxes that BassPro and Cabela's deploy that can only be successful in large metropolitan areas. Then last December all parties withdrew from the merger proceedings as it became clear it would be unlikely to pass due to anti-trust concerns.

So now, with the stock trading around $10, where does that leave us? Though the offer price is but one input into a valuation exercise, it makes for a pretty decent starting point. However, quite a bit has changed for the company since that original merger offer was received. For starters, the company had another stellar year, generating nearly $100M in free cash flow. Though this trailed the year prior, both are up dramatically from the company's prior highwater mark of $44M generated in FY19. The company also grew store count about 10%. Then, after the merger was terminated, they received a $55M merger termination fee, or nearly $40M after tax. So now, the company has entirely de-levered their balance sheet to a net cash position and continued to grow the store base all while competitive dynamics within the industry have seen favorable developments of their own. Dick's, Wal-Mart and Gander Mountain have chosen to exit the guns and ammo business in recent years. While there is assuredly some concern that gun sales and outdoor sports may have already seen their best operating environment ever, it is also true that there are now 12M new gun owners in the US. Though this growth in the user base augers well for future follow-on purchases and ammo sales, it will not necessarily make or break the company anyway, as guns and ammo each comprise close to 15% each in normal years and also carry lower margins.

What is most interesting and promising for Sportsman's Warehouse are its growing customer base, the changes in the competitive landscape and the company's potential growth trajectory. The company's general business strategy has always been appropriately driven by a focus on returns on capital. This is reflected in the stores' "no-frills" inventory approach and everyday low pricing model which has enabled the company to be price competitive with both online and brick and mortar peers. Over the years, the company has proven it can generate attractive returns with a smaller store footprint where its larger peers have not. These attributes enable the company to be successful in smaller metro areas which provides it a greater runway for new store growth.

And now the company has ample resources. It looks like the upcoming FY 2022 will likely be modestly down from last year on a same-store sales basis due primarily to fewer gun purchases, but it also seems likely that it can serve as a new base year upon which growth can resume. Driven by 7% to 9% new store growth and additional growth from ecommerce, management's plans to leverage double digit topline growth into a low double-digit earnings growth trajectory appear quite achievable. And this is all before any return of capital decisions are implemented. Trading at just ~8x our view of likely FY22 earnings and now with less competition, a larger customer base and a better balance sheet, shares look to offer quite a bargain.

2022 OUTLOOK

The market mood has changed in 2022. Inflation, long dormant, is suddenly clocking in at the highest levels in 40 years by some measures. Monetary policy tightening looks to be imminent. Investors are parsing out these effects and how lasting they might be, while evaluating what impacts the passing of the Omicrom variant may bring. Will it enable workers to return to the workforce and provide the help the supply chains so sorely need? Or has inflation been permanently unleashed?

These dynamics have brought about a correction in equity markets and a rotation in market leaders is at hand. Along with it, the debate about value stocks versus growth stocks seems to have reached a fever pitch. Value stocks have been ascendent of late, making strides in recouping over a decade of underperformance versus the growth stock darlings that have been so in favor over the last few years. Down the cap scale, small cap stocks recently entered a bear market. The Russell 2000 index was down more than 20% from its November highs at one point in January with the average stock within it off some 37% from its 52-week high.

On the topic of growth and value as it relates to our portfolio, though I've always been cognizant of the two categorizations, I've never paid too much attention to the distinction when approaching potential investments. I simply have never understood how one could value a stock without contemplating the likely growth of its cash flows. And isn't more and faster growth in cash flows always preferable to less? So, ultimately, the question becomes how much one is willing to pay for faster profitable growth, a question I always assumed all investors ask of their investments.

Over the years, we have done a bit of both, largely as a consequence of my goal to simply focus on opportunities where we can acquire these cash flow streams as cheaply as possible. Sometimes, we have held growth stocks, sometimes we have held value stocks, and sometimes both. Consider Identiv for example, the one stock in our portfolio most representative of the growth category. Though subscale at just over $100M in LTM revenues, it is profitable, has a strong management team and a balance sheet in a net cash position. If things go well, this base of profitable revenues could double or better in coming years. But it trades at a high multiple of this coming year's estimated EBITDA of 34x. However, looked at on sales basis, it trades just below the S&P 500's 2022 multiple of ~3.2x, a multiple that would assuredly turn out to have been considered a real value if things go well. (Fortunately, if things don't go so well as described above, our holding will continue to be a profitable company with a leadership position in an important niche market with revenues still growing at multiples of the rate of GDP growth.)

On the other hand, more of our portfolio is comprised of value-oriented names. We hold positions like GMS and SPWH, both category leaders in their space that look positioned to produce double digit earnings streams for years to come, while trading at just single digit multiples of current year earnings.

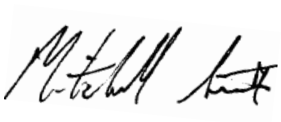
Despite these potentially shifting tides, our charge remains the same. We selectively focus on a few names where we can make reasonable judgements about their investment prospects while we attempt to tolerate and capitalize on volatility. January was certainly a month of tolerating volatility. So, we took a bit of a lump in our pursuit of the lumpy and higher return. This has happened before, and it will happen again. It is part of the journey. More importantly, I couldn't be more excited about what the next five years have to offer, and I look forward to continuing on our journey with you together.

CONCLUSION

In closing, while I know our approach will not yield outperformance each and every quarter, I continue to believe it will be well worth our while over the long haul. Perhaps more importantly, given the overwhelming majority of our investable assets are invested alongside yours, we would never ask investors to assume risks we ourselves will not.

Thank you for your continued support as we work to grow our capital together. As always, we are happy to discuss our investment outlook with you at your convenience. Please reach out any time.

Best regards,



Mitchell Scott, CFA
Portfolio Manager

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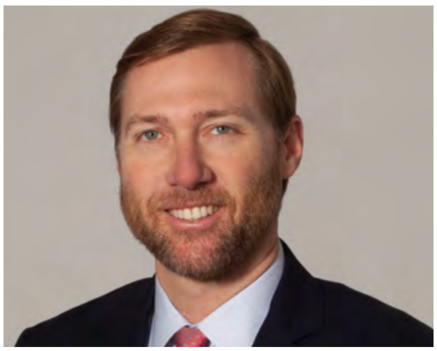
1. All market and company data is sourced from Factset and company filings and is current as of 12/31/21.
2. CEF uses the S&P 500, Russell 2000 and the Barclays Hedged Long/Short indices as its primary benchmarks. The S&P 500 and Russell 2000 are common large and small cap US equities-based indices. The Barclays Hedged Long/Short index (an index of equities-based hedge funds) serves as an appropriate benchmark over the long-term given the index has a similar long-term goal of capital appreciation through equities investing.
3. CEF Net Returns are consistent with the 1% management fee and 18% performance fee offered to clients.

ValueInvestor INSIGHT
The Leading Authority on Value Investing
January 31, 2022

Businesslike Investing

Mitchell Scott of Choice Equities Capital describes why he's focused with individual investments on "winning over the medium term," the area in which he's spending more time looking for new ideas, why he thinks he's been a better buyer than seller, and what he thinks the market is missing in Gypsum Management & Supply, Farmer Brothers and Identiv.

INVESTOR INSIGHT



Mitchell Scott
Choice Equities Capital

Soon after earning his M.B.A. from the University of North Carolina in 2008 Mitchell Scott joined a small equity hedge fund focused on micro-cap stocks, but his goal went beyond investing: "I wanted to understand the inner workings of businesses and what made them successful, positioning myself to run one before too long."

As it turns out, the investing part of it stuck and his entrepreneurial drive led him in 2017 to start Choice Equities Capital, where his long/short fund in the five years since inception has earned a net annualized 27.9%, vs. 12.0% for the Russell 2000. Focusing on micro- to mid-cap stocks, he's now seeing unrecognized upside in such areas as building supply, coffee and inventory management.

You talk about investing with the mindset of "an opportunistic businessperson." What do you mean by that?

Mitchell Scott: When I was starting the firm I obviously needed to think through the guiding principles of what I wanted to do, and I thought investing like an opportunistic business owner was a pretty good summary. It's grounded in Ben Graham's notion that investing is its most successful when it's most businesslike, focused on understanding businesses first, knowing your circle of competence and investing with a margin of safety. But it also captures the entrepreneurial approach I want to have, staying open-minded and enjoying every day because I'm always learning and trying to get better. I came up with it as sort of a tagline, but it captures pretty well the mindset I want to have.

Describe generally where you look for ideas and what tends to be going on that makes them interesting.

MS: I stick primarily to U.S. smaller-cap companies, across industries I feel I truly understand. There are no hard and fast rules, but my best ideas have tended to be in the $300 million to $3 billion market-cap range, where I've found the odds are higher you can find a well-run company and develop a differentiated view through research. There's a lot of data to support it, but something like 25% of the Russell 2000 companies are covered by two analysts or fewer. These types of companies are simply more likely to be overlooked, unloved or underappreciated.

I tend to gravitate toward industries when they're out-of-favor or I think otherwise misunderstood. I closely track corporate transactions like mergers, spinoffs and rights offerings. I like to look into it when new management teams are taking over, when activists arrive with credible plans, and when companies are enduring short-term pain for what appears to be long-term gain. In general, because most of the companies I target are strong in a particular area but not entirely mature, there can also be growth opportunity that isn't yet recognized by the Street.

My long portfolio is only 10 to 15 names, so I can be very selective about what I pursue. One guardrail I have is for companies with market caps below $500 million to be no more than 50% of the portfolio. We can debate the extent to which the smallest stocks are riskier or not, but because of their size and often their concentration of ownership, I've found they trade differently and more things can happen out of the blue. I accept that risk, but I don't want too much of it.

Can you give a "classic" example of an idea that describes the type of situation you find attractive?

MS: It ended up being taken out by private equity last year, but a good example that we did well in would be At Home Group. It's a discount home-furnishings retailer that had hit on a unique big-box concept that led to rapid growth in the store base, in profitability, and in the stock price. At the time we took a position in 2019, however, concern was high that Amazon was going to kill all store-based retailers, tariffs were hurting gross margins in furniture, and weak home sales were translating into softness in consumer spending on furnishings. For a fast-growing brick-and-mortar retailer like At Home, market sentiment turned quickly. The shares fell from $40 to $5 from mid-2018 to mid-2019.

Our view was that while business had slowed, it was primarily due to temporary softness in the furniture category in general and we thought At Home's growth runway was still very much intact. It was outperforming the category and taking share and we didn't think deserved to be treated by the market as if the business model was broken. We did not get in at the bottom, but made very good money as the shares came back strongly as that thesis played out. [Note: Private equity firm Hellman & Friedman took At Home private at $36 per share in July of 2021.]

To give another example, we recently established a position in outdoor gear and clothing retailer Sportsman's Warehouse [SPWH]. In December it announced that its planned acquisition by Great American Outdoors, which owns competitors Bass Pro Shops and Cabela's, was being called off after unfavorable feedback from the Federal Trade Commission. The deal was originally announced the year before at $18 a share. After the announcement the shares fell below $12, and they're lower than that today [at around $10.50].

Unlike Bass Pro Shops and Cabela's, Sportsman's Warehouse operates smaller-footprint stores located in second- and third-tier geographic areas, which we think is a viable model with good growth potential. Covid times have been positive for all outdoors retailers, but Sportsman's has won a lot of new customers and we'd argue that its competitive position has solidified with a store footprint that is 30% larger than it was in 2019. We don't believe the tailwind behind outdoor sports goes entirely away.

With all that, after the selloff the stock today trades at only 6.5x EV/EBITDA, using even pre-Covid 2019 numbers. The trailing P/E is 6x. That's just too cheap for a profitable company growing its store footprint and that after getting a $55 million breakup fee has a net-cash balance sheet. This is one the market just seems to be overlooking in a big way.

You've described your approach to individual investments as "focused on winning over the medium term." Explain that.

MS: I look at most everything through a three-year lens. That's plenty of time to benefit when stocks are marked down because myopic investors overreact to short-term issues or don't appreciate longer-term growth prospects. But it's also a recognition that it's difficult to be right forever. If I am right, the stock will usually re-rate within a three-year horizon and approach my estimate of value. If I'm wrong, I'll probably know it much sooner. The investments I've tended to hold the longest have generally been my most mediocre.

ON A "THREE-YEAR LENS":

That's enough time to benefit when myopic investors overreact. It also recognizes that it's difficult to be right forever.

I've also noticed about myself that I tend to be a better buyer than seller. There are behavioral reasons for that and I don't think I'm alone. I buy things because I believe I have a differentiated view, and if the world starts to agree it's kind of bittersweet because just as you're proven right you should probably be getting out of the stock. Some people talk about selling too soon – I'd say in general that I've probably more often hung around longer in such cases than I should have.

The best check on that for me has been capping my long portfolio at no more than 15 names. I typically have to kick something out if I want to take a new position. I don't always kick the correct thing out, but it helps me avoid hanging on to ideas when I don't have that unique a view.

You acquitted yourself well during 2020's market break. With volatility rearing its head again, can you generalize about areas you're spending more time on?

MS: Investors don't talk about this as much these days, but one reason I'd like to believe we did okay through the volatility in 2020 was our emphasis on risk. That can mean business-model risk, balance-sheet risk and valuation risk. I think the road to good long-term returns goes through losing less in down markets. I obviously don't know if our judgment will always be right, but our chances of doing that should go up the more attuned to risk we are in our underwriting process.

We also put a lot of effort into maintaining a watch list of actionable ideas. I keep it to no more than 100 names, of companies I would want to own at the right price relative to my updated view of what they're worth. A number of names on that list that made it into the portfolio after the pandemic hit – including things like Celsius Holdings [CELH], which sells energy drinks, Pinterest [PINS], the photo-sharing website, and Digital Turbine [APPS], which specializes in mobile apps – did very well through the pandemic.

The ideas on that list are generally idiosyncratic, but one general area that I'm finding rather exciting would be the large numbers of companies that have come public over the past couple of years either through traditional IPOs or SPAC conversions. A lot of them aren't interesting at all, but there are also a number of good companies that came public but, as often happens, haven't quite lived up to expectations and the shares either have been marked down significantly or haven't gone anywhere as the business has improved. Some of these are likely to offer up very good buying opportunities.

Have any already?

MS: One I'd mention would be Azek [AZEK], which makes composite decking and is the primary competitor to Trex [Trex]. I got to know Trex years ago, but couldn't buy it because it wasn't on the coverage list at my prior firm. That was an unfortunate miss, but Azek has a lot of the same things going for it. It makes a great product that is higher-priced, but is also more durable, better for the environment and we think will continue to take market share from legacy wood decking. That share shift accelerates when lumber prices are high, but we believe it has a long way to run independent of the ups and downs for lumber. This isn't a busted IPO – the stock went public in mid-2020 at $23 per share and now trades at around $31 – but we don't think the current price reflects the company's prospects from here.

You've described the opportunity in Gypsum Management & Supply [GMS] as right in your "wheelhouse." Explain why.

MS: For starters, the stock is very cheap, but it's also a well-run market leader with strong returns and plenty of reinvestment opportunities. That makes it particularly interesting.

GMS is the largest distributor of wallboard, steel framing and related products in the U.S., a business where the top three distributors have about half of the market. The space is consolidated enough that the leading players have real competitive advantages, but it's also fragmented enough that there's room for the big players to grow through bolt-on acquisitions that build stronger positions in local markets.

The company's results are influenced by four main drivers: wallboard pricing, residential volume growth, commercial volume growth and accretive acquisitions. Since going public in 2016 I'd argue it has never had the benefit of having all four engines firing at the same time. I think that's in the process of changing.

With respect to wallboard pricing, it's been a long road, but wallboard demand is now in much better balance with supply. That's due to higher residential and commercial volume growth – two of the drivers I mentioned – and due to industry consolidation keeping a lid on supply. Wallboard pricing started increasing last year and we hear of offer letters going out with 30% increases for the coming year. That isn't sustainable, but we do think pricing will remain positive and less prone to wild swings going forward.

On the acquisition front, investors kind of turned on GMS in 2018 when it bought WSB Titan, which is the largest wallboard distributor in Canada. It paid more than its trading multiple at the time right as the Canadian housing cycle was turning down. Even with that, it's turned out to be a good deal and the company has been able to de-lever because of the overall cash-generating nature of the business. With the cash-flow profile in our view remaining highly positive, we think there's a lot of potential for accretive acquisitions to come.

What upside do you see in the shares from today's $49.50 price?

MS: Based on consensus estimates for the year ending in April, the shares trade at less than 7x earnings. We don't think that's reasonable for a company that can generate 5-8% annual organic revenue growth plus something close to that from M&A. Companies with similar profiles like Installed Building Products [IBP] and TopBuild [BLD], trade on a comparable basis at more than 15x earnings.

The acquisition piece is difficult to forecast, but in a base case that assumes solid organic growth and some M&A, we estimate that two years out GMS can earn close to $9 per share. If the market starts to recognize that and ascribes even a 13-14x earnings multiple to the stock, the price would at least double from today.

INVESTMENT SNAPSHOT

Gypsum Management & Supply
(NYSE: GMS)

Business: Distributor to building contractors of wallboard, ceilings, steel framing and other related construction products through 280 sites across the U.S. and Canada.

Share Information (@1/28/22):

Price	**49.53**
52-Week Range	28.82 – 61.79
Dividend Yield	0.0%
Market Cap	$2.13 billion

Financials (TTM):

Revenue	$3.88 billion
Operating Profit Margin	7.8%
Net Profit Margin	4.8%

Valuation Metrics
(@1/28/22):

	GMS	S&P 500
P/E (TTM)	11.7	26.0
Forward P/E (Est.)	7.4	19.7

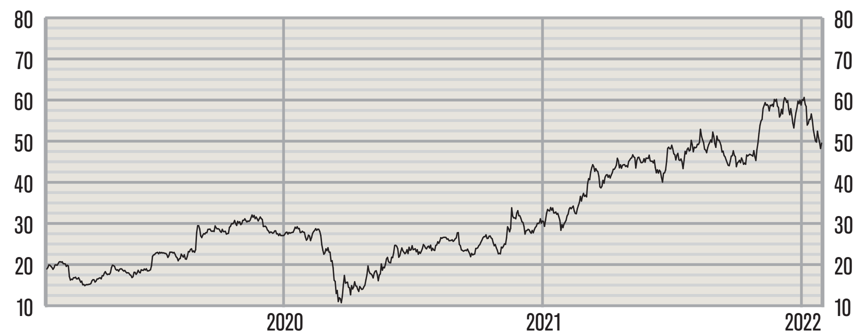
Largest Institutional Owners
(@9/30/21 or latest filing):

Company	% Owned
BlackRock	14.7%
Coliseum Capital	12.3%
Vanguard Group	11.6%
Fidelity Mgmt & Research	7.4%
Dimensional Fund Adv	5.4%

Short Interest (as of 1/15/22):

Shares Short/Float	1.0%

GMS PRICE HISTORY



THE BOTTOM LINE

Mitchell Scott believes the primary engines behind the company's business are for the first time in years firing at the same time. Driven by roughly equal parts organic and M&A growth, he estimates that two years' out it can earn close to $9 per share. If he's right and the stock trades for even a 13-14x P/E, its price would more than double from today.

Sources: Company reports, other publicly available information

Describe the potential you see as well in coffee roaster Farmer Bros. [FARM].

MS: The company roasts and distributes coffee in the U.S. on both a wholesale and direct-delivery basis. For much of its 100-plus years it earned steady and reliable profits, but things in 2018 started to go off the rails. The main problem was a bungled transition to a $100 million, far-more-efficient roasting facility, which as it went on resulted in stockouts, cost overruns and an inability to dependably deliver coffee beans to end customers. On top of that, there was board and management infighting about the strategic direction of the company, which allowed the operational issues to fester and worsen. Then Covid hit and a lot of customers had to shut their doors for extended periods of time.

Prior to the arrival of Covid, a largely reconstituted board in the fall of 2019 installed an outside CEO, Deverl Maserang, who has an impressive resume both as a turnaround CEO and as the executive vice president for global supply chain at Starbucks. He's successfully worked through the transition to the new roasting plant, and he's also during the pandemic crisis looked for additional cost savings while incrementally investing in things like new-product development and in technology to improve customer service.

We believe the company is through the "fix" stage of its revitalization and moving on to the "optimize and grow" stage. Some of the improved operational efficiency is already in the numbers. Even though volumes are still down around 25%, gross margins are back to pre-Covid levels. As volumes normalize, with the new plant operational and as other operating improvements take hold, we expect profitability to come back better than before.

The stock price is still about where it was at its March 2020 low. How are you looking at valuation from today's $6.10 price?

MS: The stock in mid-2018 was trading at $30, at a time when the company earned gross margins in the low-30% range and EBITDA margins around 10%. I'd argue the normalized levels for both of those going forward are higher, but assume they just get back there and that annual sales come back to $550 million, against a pre-pandemic high of $600 million. If I put a 9x EV/EBITDA multiple on the result – below private-market valuations in representative deals – the stock would be in the high-teens. That's quite an attractive recovery play, with added upside if we're right about the increase in earnings power.

Identiv [INVE] is a small company with seemingly very large addressable markets. Why do you see it coming out ahead?

MS: Identiv makes products, software and systems using Radio Frequency Identification (RFID) and Near Field Communications (NFC) technologies that, as they put it, are designed to connect physical places and objects to the digital world. The potential applications are very broad and developing rapidly every day, but Identiv technology is currently most used in areas like asset tracking, product authentication, access control, tamper detection, ID-card readers and surveillance systems.

RFID and NFC have been promising technologies for years but, as evidenced

INVESTMENT SNAPSHOT

Farmer Bros.
(Nasdaq: FARM)

Business: Production and distribution of mostly coffee and tea to coffee houses, restaurants, grocery and other retailers, foodservice providers and institutional buyers.

Share Information (@1/28/22):

Price	**6.12**
52-Week Range	5.15 – 13.08
Dividend Yield	0.0%
Market Cap	$110.7 million

Financials (TTM):

Revenue	$408.9 million
Operating Profit Margin	(-5.6%)
Net Profit Margin	(-9.2%)

Valuation Metrics
(@1/28/22):

	FARM	S&P 500
P/E (TTM)	n/a	26.0
Forward P/E (Est.)	n/a	19.7

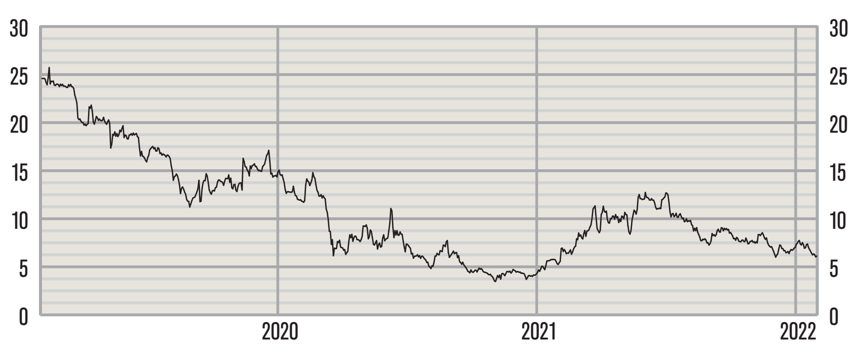
Largest Institutional Owners
(@9/30/21 or latest filing):

Company	% Owned
22NW LP	7.8%
Cannell Capital	4.4%
Adage Capital	4.0%
Kennedy Capital	4.0%
First Sabrepoint Capital	3.8%

Short Interest (as of 1/15/22):

Shares Short/Float	2.2%

FARM PRICE HISTORY



THE BOTTOM LINE

Past the "fix" stage of its revitalization and moving on to the "optimize and grow" stage, the company is a particularly attractive Covid-recovery play, says Mitchell Scott. If margins recover and revenues get 90% of the way back to pre-pandemic levels, at what he considers a fair 9x EV/EBITDA on the results, the share price would be in the high-teens.

Sources: Company reports, other publicly available information

by Identiv having only $100 million in annual revenue, the uptake hasn't been particularly fast. We're not trying to call the inflection point, but we believe the potential use cases are so big, so numerous and so real that we can be patient. Identiv has been involved in the space for 20 years and in the highest-end applications is the clear market leader. It's deeply involved from the outset in product development with its customers, who rely heavily on its knowhow. If all this does take off, we believe it is going to be there in a big way.

The technology in general received a strong vote of support a few years ago when Apple opened up NFC access on its iPhones, making it a standard for smartphones. That's essentially putting an NFC reader in the pockets of hundreds of millions of people around the world, and we don't see how that can't help but increase the number of potential use cases.

Let me just talk about one. The company is working with CVS, the drugstore chain, to use Identiv products to allow the visually impaired to access and retrieve auditory prescription information by placing their phones near a pill bottle. If something like that took off, it could mean Identiv has to deliver hundreds of millions of tags per year, at average prices likely above 20 cents per piece. That's one potential contract with one company.

The company is investing heavily in its sales effort and the pipeline of potential new business is expanding rapidly. In healthcare alone, there are multiple elephant-sized opportunities in discussion like the one with CVS. If only a small number of those go forward, it could have a dramatic impact.

Valuing a company with such an open-ended profile would seem to be very difficult. How are you doing that with the shares today trading at close to $18?

MS: The shares trade at less than 4x current-year estimated revenues. The business is profitable and there's net cash on the balance sheet. At a first pass then, we'd say 4x sales doesn't seem like a lot to pay in order to stick around and see what might materialize.

Trying to be more concrete, we're underwriting mid-20% annual revenue growth – assuming no big "elephants" – with gross margins a couple years out of 40% and EBITDA margins of around 20%. If that happens and the shares earn what would strike us as a legitimate mid-to high-teens EBITDA multiple, the stock would be in the high-$30s. The range of outcomes is wide, but we think skewed much more to the upside than downside.

Given your record so far you probably haven't made a lot of mistakes, but tell us about one and what happened.

MS: One that was kind of a classic misjudgment of the business was Carrols Restaurant Group [TAST], which is the largest Burger King franchisee in the U.S. The company had hit kind of a rough patch in 2019 due to an acquisition that needed more attention than originally envisioned and to some operational missteps that hurt profitability. We thought all that would get ironed out and that same-store sales were set to increase.

What I didn't fully appreciate was the quality of the business and of the man-

INVESTMENT SNAPSHOT

Identiv
(Nasdaq: INVE)

Business: Manufacturer of chips and tags that connect physical items and places with digital ecosystems; used in a variety of tracking, security and other related applications.

Share Information (@1/28/22):

Price	**17.88**
52-Week Range	7.94 – 29.00
Dividend Yield	0.0%
Market Cap	$397.1 million

Financials (TTM):

Revenue	$100.1 million
Operating Profit Margin	1.0%
Net Profit Margin	2.8%

Valuation Metrics
(@1/28/22):

	INVE	S&P 500
P/E (TTM)	735.8	26.0
Forward P/E (Est.)	89.4	19.7

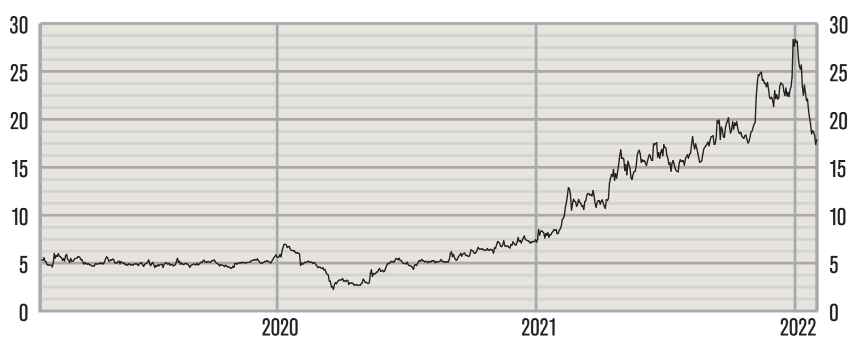
Largest Institutional Owners
(@9/30/21 or latest filing):

Company	% Owned
Bleichroeder LP	9.9%
Portolan Capital	6.7%
BlackRock	5.6%
Vanguard Group	4.8%
Ophir Asset Mgmt	4.5%

Short Interest (as of 1/15/22):

Shares Short/Float	3.0%

INVE PRICE HISTORY



THE BOTTOM LINE

While he won't call an inflection point in the adoption of its Near Field Communications (NFC) and Radio Frequency Identification (RFID) technologies in extremely large addressable markets, Mitchell Scott believes the shares today of the profitable company with net cash on its balance sheet offer a highly skewed opportunity for reward over risk.

Sources: Company reports, other publicly available information

agement. The execution mishaps didn't go away, and it also became increasingly clear that they as franchisees were in a disadvantaged position relative to the franchisor and couldn't really do much about it. We bought it pretty well so it wasn't a financial mistake, but the opportunity cost was fairly high.

One easy question to end with: Your first five years have gone very well – how do you keep that going?

MS: I'd like to think I've at least proved out the thesis of what I set out to do, but I'm quite sure things won't always go as well as they have. People have told me it's lame in interviews to quote other people, but I try not to forget Howard Marks' advice that the road to long-term investment success runs through risk control rather than through aggressiveness. "Over a full career," he says, "most investors' results will be determined more by how many losers they have and how bad they are, than by the greatness of their winners."

The success we've had comes from the work we put in on the front end to understand businesses and pay the right price for them relative to the risk they entail. It's also helped me in the companies we own to focus a lot on marginal improvement. I'm always asking if things are getting better or worse, because if they're getting worse things can really snowball against you. Being wrong is okay and just part of the game, and accepting that is important. It's helped me to admit that I'm wrong more quickly and to then move on. I need to stay mindful of that. VII