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Hidden Value Stocks

small caps with little or no coverage

From ValueWalk

Interview one:

Joseph Boskovich Jr. and team: Old West Investment Management

Old West Investment Management manages two LP's and a long only strategy. Chairman, chief investment officer and portfolio manager Joseph Boskovich, Sr. co-founded the business along with his son, Joseph Boskovich, Jr. and they've been managing investors' money since the end of 2008. The firm runs a concentrated value strategy with around 40% of assets under management in the top ten holdings.

The Old West All Cap Opportunity strategy has produced an annualized return for investors of 11.3% net since inception (12/01/2008). Meanwhile, year-to-date (28 February) the Old West Income Fund has gained 15% net, eclipsing the S&P 500's total return of 1.8% over the same period.

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Interview two:

Christine Song Songbird Asset Management

Christine Song, CFA is the founder & portfolio manager of Songbird Asset Management. Christine and her team are focused on finding hidden gems, misunderstood businesses with attractive long-term outlooks that they can hold in a concentrated portfolio. This approach has paid off handsomely for the team as the firm has outrun its benchmark. Last year, Songbird produced a return for investors of 25.6% gross compared to the Russell 2500 benchmark performance of 16.8%.

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Introduction and Updates

A few weeks ago, at hiddenvaluestocks.com we published a roundup of unusual, undervalued small-cap positions as profiled in a select group of value-focused funds' year-end letters. This roundup is available to all premium subscribers.

As part of our mission to help readers uncover hidden value, rather than focus on updates from previous editions at the front of this newsletter, we have included two of our favorite picks from the year-end roundup, which means there are now six hidden value stocks profiled in this issue.

As always, we hope you enjoy Hidden Value Stocks and welcome any comments you may have. If you would like to find out more about any of the funds profiled, feel free to drop us an email.

Sincerely,
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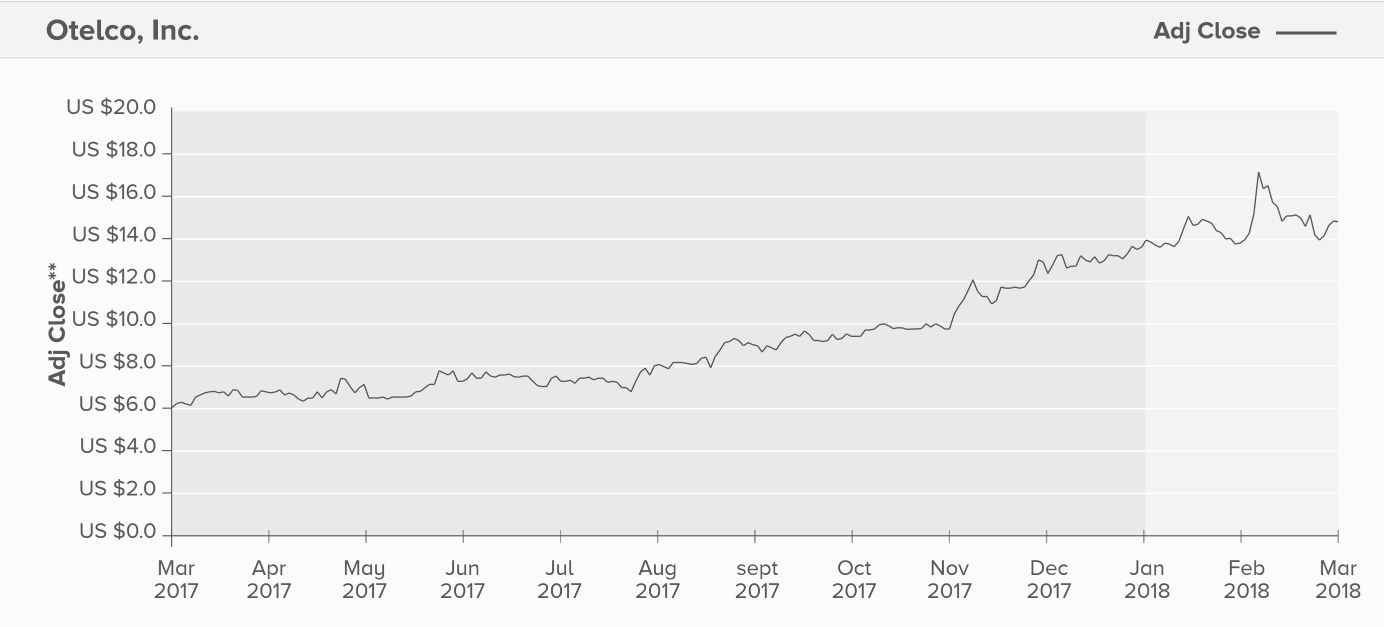
INTRODUCTION AND UPDATES

Alluvial Capital Management: Otelco, Inc.

Otelco achieved a new lease on life in November, when it announced a refinancing of all its debt at very attractive terms from a very attractive lender, CoBank. In the transaction, Otelco reduced its cost of debt by more than 400 basis points. The company also gained the ability to distribute increasing amounts of its cash flow to investors, a first since the company emerged from bankruptcy years ago. The refinancing was made possible through a combination ACM of continuing debt reduction and improved earnings visibility thanks to the new federal ACAM funding mechanism.



*Close price adjusted for splits. **Adjusted close price adjusted for both dividends and splits.

Share Information March 9 2018			
Market Cap. $49.5m	**P/E (TTM)** 4.3	**EV/EBITDA** 5.3	**Dividend Yield** N/A
Average Daily Volume 11.8k	**P/B** 33	**ROIC** 5.80%	**Debt to Assets** 72%

Between interest and tax savings, I expect the company to earn at least $3.25 per share in 2018. I also expect the company to pay down at least $10 million in debt and to initiate a dividend. The company's number of access line equivalents will likely continue to decline, but I expect the decline will be largely offset by increasing non-regulated revenue and ACAM income. Looking ahead, I expect one of two outcomes to occur. Either Otelco will begin to trade on its earnings and cash flows, or it will be acquired...Beginning in 2020, Otelco is permitted to distribute 50% of available cash flows as dividends, assuming leverage targets are met. Assuming my earnings targets are met, a 60% earnings payout ratio would mean a dividend of more than $2 per share.

“ *As time goes on, Otelco will become a more and more attractive acquisition target. If the company can hold its annual EBITDA decline to 3%, its valuation on an EV/EBITDA basis will fall below 4.0 at some point in 2019.*

INTRODUCTION AND UPDATES

DG Value: Contura Energy

We remain optimistic about our position in Contura Energy. The company recently paid a $9/share special dividend and completed a $50 million stock buyback through a Dutch auction tender process. In addition, Contura completed a sale of its non-core PRB thermal coal assets in December. Proceeds from the sale include a $50 million royalty stream, the realization of an estimated $425 million NOL, the extinguishment of approximately $115 million in legacy liabilities and $25 million in new unrestricted cash. The valuation of the sale represents a 9x valuation for the PRB business. Pro forma for the sale, Contura becomes more levered to its met coal operations (now nearly 70% of segment EBITDA).

> “*Even after the price of Contura shares recently increased, the valuation remains attractive at approximately 2.5x EV/’18E EBITDA with a free cash flow yield in excess of 30% to the equity.*

As we look forward, we see a number of catalysts that can close the valuation gap including a renewed IPO process or up-listing on an exchange as the stock currently trades OTC. We also see the opportunity for Contura to participate in further M&A, with public peers trading in the 4-6x range, combined with the opportunity for substantial synergies. Finally, we expect the company to generate significant free cash flow, which will be used to pay down debt or deliver additional distributions to shareholders in the near term.

Returns

Edition	Fund	Ticker	Open Price	Date Pitched	Date Closed	Dividends	Current Price (1) (2)	Total Return
1	Foundary Capital	NYSEMKT:VISI	$7.60	1/28/2016	1/28/2017		$8.45	11.18%
		NASDAQ:MRVC	$11.21	1/28/2016	1/28/2017		$8.15	-27.30%
2	Stanphyl Capital	NASDAQ:MGCD	$5.94	3/28/2016	3/28/2017	$0.70	$8.30	51.52%
		NASDAQ:LTRX	$0.90	3/28/2016	3/28/2017		$3.31	267.78%
		NASDAQ:ELON	$5.77	3/28/2016	3/28/2017		$6.20	7.45%
		NASDAQ:BWEN	$2.87	3/28/2016	3/28/2017		$7.25	152.61%
3	S&C Messina	NYSE:PRA	$51.47	06/21/16	06/21/17	$1.24	$60.15	19.27%
4	Hazelton Capital	NASDAQ:CUI	$5.99	09/23/16	09/22/17		$3.37	-43.74%
		NYSE:CPS	$106.03	09/23/16	09/25/17		$122.00	15.06%
5	Boyles Capital	LON:SYS1	500	10/07/16	10/07/17	45.60	537.00	16.52%
		ATH:PLAT	€1.69	10/07/16	10/07/17		€2.60	53.85%
6	Livermore	CVE:JSE	$0.50	12/21/2016	12/21/2017		0.41	-18.00%
	BlueTower	NASDAQ:NICK	$11.10	12/21/2016	12/21/2017		8.82	-20.54%
		NASDAQ:EZPW	$10.65	12/21/2016	12/21/2017		12.30	15.49%
7	Arquitos Capital	NASDAQ:MMAC	$21.45	03/15/17	03/09/18		28.00	30.54%
		NASDAQ:MLNK (3)	$1.87	03/15/17	03/09/18		2.40	28.34%
	Alluvial Capital	ASX:CZZ	$14.58	03/15/17	03/09/18	0.57	17.10	21.19%
		TSE:CRH	$11.33	03/15/17	03/09/18		3.90	-65.58%
8	Verdad	TYO:4028	¥1,050	06/15/17			¥1,450	38.10%
		TYO:9994	¥1,620	06/15/17		20	¥3,295	104.63%
	GrizzlyRock	NYSE:RSO	9.95	06/15/17		0.2	9.67	-0.80%
		NYSE:VPG	17.45	06/15/17			31.40	79.94%

Edition	Fund	Ticker	Open Price	Date Pitched	Date Closed	Dividends	Current Price (1) (2)	Total Return
9	Logos LP	NASDAQ: AAON	34.85	09/29/17		0.13	39.10	12.57%
		NYSE: LXFT	47.80	09/29/17			43.90	-8.16%
	Dane Capital	NYSE: DSKE	13.05	09/29/17			10.60	-18.77%
		NYSE: MX	11.31	09/29/17			10.40	-8.05%
10	Hayden Capital	ZO1:GR	€151.90	12/22/17			€183.50	20.80%
		NASDAQ: CACC	325.00	12/22/17			337.00	3.69%
	Avenir Capital	HKG:0100	8.20	12/22/17			6.41	-21.83%
		NYSE: BBX	7.90	12/22/17			9.21	16.58%
							Average return	24.48%

(1) For closed positions this price is the price at time of close.
(2) Prices as of March 16
(3) Name changed to Steel Connect, Inc.

Total Compound Returns

Total HVS Return*	MSCI World	Russell 2000 (Value)
52.02%	29.10%	42.00%

*Return is based on an equal investment in each position profiled and then rolled over at the end of the 12 month holding period.

INTERVIEW ONE:

Chad Cook, Joe Boskovich Sr., Brian Laks and Joe Boskovich Jr. **of Old West**

Chad Cook

Joe Boskovich Sr.

Brian Laks

Joe Boskovich Jr

To start, could you tell our readers a little about Old West?

We started Old West in 2008, so we recently celebrated our nine-year anniversary. We launched with about $15 million under management, and we've steadily grown our business, mainly through word of mouth and today we are managing about $200 million in client assets.

The genesis of our process originated in the late 1970's when our CIO, my dad, Joe Boskovich Sr., was invited to serve on the board of a small Southern California-based regional bank. For several consecutive quarters, he observed the board Chairman ferociously buying stock in the bank, and he decided to start buying alongside him. Fast forward a few years, and the company was sold to Bank of America for many multiples of his original investment.

He learned a very valuable lesson from that experience, which is that you can never underestimate how much information is known to management that is unknown to everyone else. Although the bank Chairman had never expressed his intention to sell the bank, in hindsight, it was clearly his intention. This lesson is not only deeply ingrained in him, but also greatly informs our investment process: identifying smart owner/managers of companies with track records of success and then closely following their investment activity in the transactions of their own stock.

So you've built your strategy around this lesson?

I think it would be more accurate to say that our strategy focuses on owner-manager run companies, and that following insider buying is a critical component of our process. Our process focuses on the people in control of our capital and their abilities to efficiently and effectively allocate that capital. As a first principle, we believe that the surest way to protect and grow our capital is by aligning ourselves with management teams who have high stock ownership and smart pay.

One of the first documents that we turn to is the proxy statement, and in the time that it takes us to print out the proxy, study stock ownership, pay levels and the business metrics that drive incentive pay, we are able to intelligently eliminate the vast majority of the potential companies that would otherwise absorb much of our time and resources. Simply, we seek to invest alongside great and proven owner/managers. The process by which business value will grow is a direct function of management's approach to capital allocation, so we also spend a lot of time studying management's historical actions, capital allocation decisions and track records, in an attempt to understand how they think about allocating capital.

As it relates specifically to insider buying and selling, I have found that many of our best ideas are first sourced from Form 4 filings. We monitor every purchase or sale of stock by insiders, every day. If a CEO and/or several directors purchase millions of dollars of their own stock in the public markets, we will print out the proxy statement and SEC financials to determine if we too think it might be an attractive investment. Likewise, if we see insiders selling stock, it is oftentimes indicative of a situation to avoid.

What sort of insider transactions are you looking for? Is there a size cut off below which you disregard?

We've spent more than 20 years analyzing insider trading and one of the things we have learned is that every situation is unique. Clearly the size of a transaction is meaningful, but to truly identify when insider buying and selling behavior is an important valuation signal you need understand a variety of factors, including an insider's transaction history, his or her compensation, SEC rules and regulations, and how instruments such as Rule 10b5-1 plans and trading windows work.

Are you looking for CEOs who already own a significant stake in the business?

Definitely, and in these instances, we wouldn't necessarily expect an insider to make a significant open market purchase. That's why following Form 4 buys and sells is an important screening mechanism rather than driving our process. As mentioned, our process often begins with the work that we do on the Proxy Statement and understanding how management's total ownership position relates to net worth and compensation. It's important for us to see that management is largely incentivized and compensated by equity in their respective business.

Could you give us an example of a recent investment?

Enphase Energy (ENPH) is a recent investment in the portfolio that was uncovered by my partner Brian Laks. Enphase has been a successful position thus far, and we believe that it still represents a great opportunity.

Enphase makes electrical equipment for the solar industry. When solar panels generate electricity, it has to be converted into alternating current before being fed into the grid. This was traditionally done with a central inverter, which is a piece of equipment that takes power from all of the panels as a group and then performs the conversion. A problem with this design is that there is a single point of failure, so if it needs to be repaired or replaced, the entire solar array goes down. Additionally, because the panels are strung together as a group, if any one of the panels has an issue, like too much shade or a malfunction, the entire system can be affected.

Enphase has a different approach to avoid this problem. Instead of a single piece of equipment, each panel receives its own microinverter that processes the conversion. Along with their energy management software, each individual panel can be monitored and operated remotely, which optimizes the output of the entire system. This improved design has seen very rapid adoption since it was introduced.

Quarterly revenue for the company had gone from $1 million in 2009 to over $100 million by 2014. Gross margins increased steadily from single digits to over 33%. The company was profitable, and it had a market cap of over $800 million. Then, in 2014, the solar industry went into a downturn, and falling energy prices made renewables less attractive. Increased competition among the panel makers, especially in China, caused massive supply increases that eroded prices throughout the value chain. Changes in regulatory policies added uncertainty into the market, which had initially been supported by subsidies and other incentives.

Enphase first came onto our radar in May 2016. The stock had fallen to $1.00 per share, the market cap was under $100 million, gross margins had fallen well into the teens, and there were big concerns about the company's survival. With sales levels significantly reduced, Enphase couldn't cover overhead and had to raise debt and equity just to stay afloat. As with any new idea, we always turn to the proxy to better understand insider ownership. Directors and officers as a group owned over 25% of the company, which we found intriguing. We also saw that a number of notable funds had significant stakes, which we thought unusual for a company that was apparently circling the drain. As we started to study the company more closely, we were impressed that the company had shipped more than 15 million of their microinverters (3 gigawatts of installed power) in over 600,000 residential and commercial systems in 100 countries. Given the popularity of their products and what we saw as long-term tailwinds for renewable energy, we thought that if they could manage to get their costs under control, then the upside potential was pretty large. At that point, we decided to monitor the company and keep an eye out for any large insider transactions which might suggest that the people closest to the operation were gaining confidence in a recovery.

In January 2017, we saw just that. There was a large strategic investment from T.J. Rodgers, who was the Founder and former CEO of Cypress Semiconductor, and as part of his investment, he was appointed to the board of directors. Rodgers has a long history and iconic reputation in the technology industry. He founded Cypress in 1982 and grew it into a multibillion-dollar company before he retired in 2016. He also had experience in the solar industry as Chairman of SunPower during its IPO. Upon joining the Board, Rodgers brought in consultants from McKinsey who he had worked with in the past, and they started to grapple with some of these cost issues and essentially initiated a companywide restructuring.

Then, in April, they brought in another Cypress veteran to the newly created role of Chief Operating Officer. He had a 20-year career with Cypress, including five years as head of Cypress India. His first impression was that the company had great products but lacked a focus on costs. They did not have strong sourcing agreements (which were crucial given their average product contained over 300 components), costs were high for reasons related to warranties, servicing, and freight, and they lacked pricing discipline. To combat all these issues, the company adopted several lean manufacturing practices and accelerated their product development roadmap. They also began partnering with panel manufacturers to incorporate their microinverters directly into the panels themselves. These so-called AC modules reduce costs, simplify installation and give the company a steady high-volume demand.

These initiatives have already started bearing fruit. Gross margins bottomed below 13% and have risen to above 18%, which is the highest level in the last five quarters. Cash burn has been reduced, and the company has posted positive operating and free cash flow. Last August, the CEO stepped down, and the company announced that the successor would be named within weeks. We figured it would be the COO, particularly because they gave a short window for the search, and that guess turned out to be correct. After the announcement of his promotion to CEO, we had a conference call with him, the CFO and Director Rodgers, which gave us a lot of confidence. The newest version of their product, the IQ7, gives the company the ability to offer the same version of the product to all geographies, which further reduces the manufacturing cost, weight and number of components. By the end of 2018, the IQ8 will launch, which is the real blue-sky upside for this company because it's the first product that can work in both weak-grid and off-grid environments. Surprisingly, most solar power systems only work in tandem with a functioning electricity grid. These so-called grid-tied systems don't work in places where electricity coverage is spotty or nonexistent, so having a product that can work in those environments really increases the potential market size. During the call, the CEO cited India as an example. The government there has announced plans for 100 gigawatts of grid-tied solar capacity by 2022, of which 40 gigawatts is expected to come from rooftop solar. That's a massive opportunity for Enphase given their annual run rate is slightly less than 1 gigawatt. The estimated off-grid demand is several additional hundreds of gigawatts.

We think the plan they have outlined to reach a 10% operating margin by the end of 2018 is achievable given the product roadmap and cost reduction initiatives they have put in place. At that rate, we found ourselves buying a company trading at less than five times forward earnings before giving any credit to the revenue growth just mentioned. Enphase has had quite a run in the last few months as other investors are starting to realize this too, but we think there's still a good deal of upside ahead.

Aside from insider transactions, what are the other factors you're looking for when analyzing a business?

A second and equally important consideration is valuation. At our core, we are value investors, so not only do we seek to invest in companies where management is among the largest shareholders and incentivized more from their stock ownership than they are from their compensation, but we also want to buy into those businesses at substantial discounts to our assessment of intrinsic value. With that said, it's often not enough to buy something just because it's cheap, so we also spend a lot of time trying to understand what will make a company's stock price appreciate. In general, cheap stocks are cheap for a reason, and there is little insight to gain from basic valuation screens using backward-looking data. As such, we try to identify situations where we believe we have unique insights or can identify catalysts that the market will eventually recognize.

Are you prepared to overlook your insider dealing criteria if the stock is cheap enough?

No.

> “ *We don't try and rationalize owning a company if management interests aren't aligned with shareholders. We always want to invest in companies where management teams are among the largest shareholders and are incentivized more from their stock ownership than from their compensation.*

On that note, have you ever had any situations where the insider buying has not been a good indicator of value or any situation that has not worked out in your favor?

Of course, and that is why our Form 4 insider buying screen is just a starting point. Although insiders may know their business better than any outsider could, that doesn't mean that they are always right. We still need to build our own investment thesis based on our financial analysis and valuation and an in-depth study of the business at hand.

Could you give an example?

Overseas Shipholding Group was a company that we bought several years ago because of large insider ownership and continued buying by the founding Recanati family and members of the board of directors. The company got caught off guard during the energy collapse several years ago and eventually filed for bankruptcy. When oil prices plummeted, shipping rates nosedived, and OSG couldn't survive the industry downturn. We sold our stake when it became apparent to us that a bankruptcy restructuring was in the company's future. OSG was run by an iconic shipping family, but the energy downturn was just too sharp and lasted too long. Had it not been for its excessive debt load, the company would have weathered the storm. When investing in commodity or commodity-related companies it's critical to focus on the balance sheet to make sure that a company isn't overleveraged if tough times hit, and that was definitely reinforced to us on this investment. Learning from your mistakes is an important part of becoming a successful investor, and I would say that we put more emphasis on balance sheet analysis today, in large part due to our OSG investment.

And what's been your best success story following insiders?

Over the years, some of our most successful investments have been in businesses run by owner-managers and capital allocators with demonstrated track records. We've had success in several of the John Malone entities, and more recently have had success and are currently invested in several of the Howard Jonas/IDT spin-off businesses.

Over the past 25 years, Howard Jonas has mastered the art of capital allocation, transforming IDT Corporation into a diversified media and telecom conglomerate. He has opportunistically grown IDT organically and through acquisition, and when appropriate, he has monetized various unrelated business assets through sales and spinoffs.

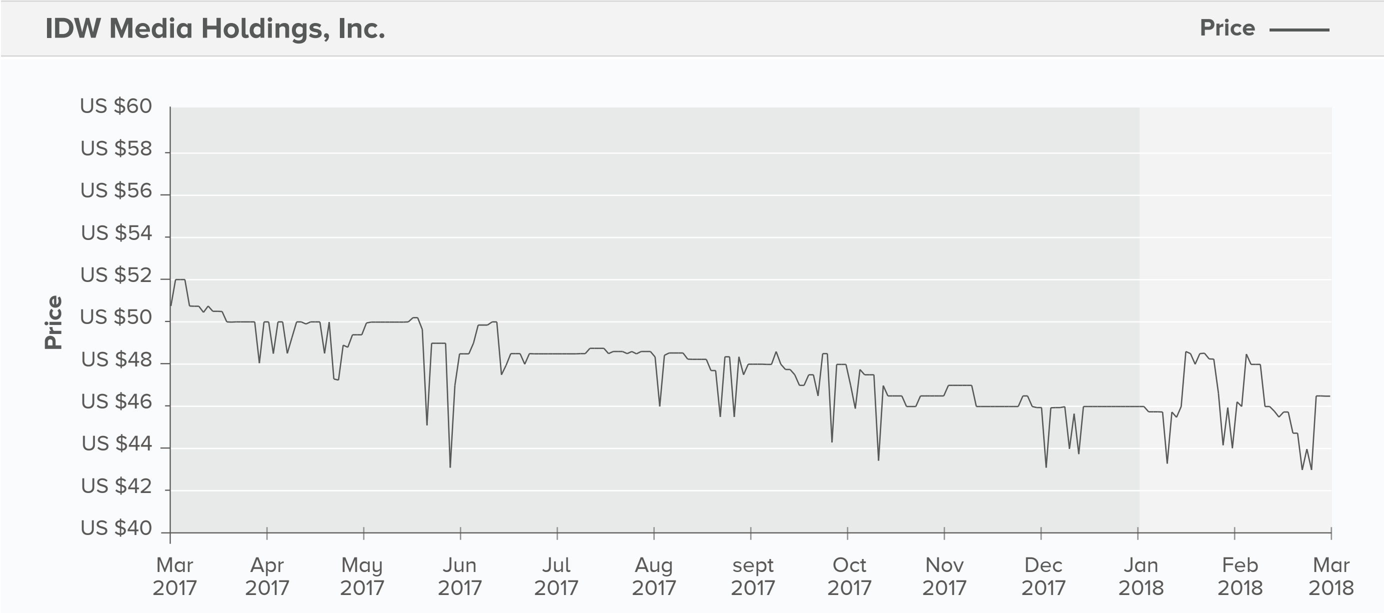
Below are a few of Jonas' more notable capital allocation decisions that have resulted in value creation for him and his shareholders:

In 2001, realizing that the telecommunications industry was highly commoditized, Jonas made his first foray into the media business. IDT made several small acquisitions such as POW! Entertainment with the goal of controlling content and formed a new company called IDT Entertainment. In May 2006, IDT Entertainment was sold to John Malone's Liberty Media for roughly $500 million, merging its animation and live-action production business with Liberty Media's controlled Starz Entertainment Group.

In November 2004, IDT launched its retail energy business, IDT Energy. IDT energy grew into one of the largest independent suppliers of electricity and natural gas to those who live in the Eastern United States. On October 31, 2011, IDT spun off its energy-related businesses to its shareholders as Genie Energy (GNE), which today trades on the NYSE with a $115 million market cap.

> “*In 2001, Jonas bought a hodgepodge of U.S. airwave licenses for $56 million from bankrupt Winstar Communications, and that business was spun off into a public company called Straight Path Communications (STRP) in 2013. After a bidding war with AT&T, Verizon acquired Straight Path for its 5G spectrum assets for $3.1 billion, a 700%-plus premium to its previous day's trading price.*

In 2007, IDT acquired comic book publisher, IDW Publishing, and the company was subsequently spun off in 2009 with a $6 million valuation. In 2013, the company allocated capital from the publishing business to launch a television production studio called IDW Entertainment with the goal of leveraging the company's library of Intellectual Property. IDW has successfully aired two T.V. series, Wynnona Earp and Dirk Gently, they recently completed production on a pilot episode for a third T.V. series, Locke, and Key, and they have six additional series in active development based on titles from their publishing library. Today, the company trades as IDW Media Holdings, Inc (IDWM) with a $270 million market cap, and we believe that the company is still positioned for significant growth.



Share Information March 9, 2018

Market Cap.	P/E (2019)	EV/EBITDA	Dividend Yield
$284m	N/A	N/A	N/A
Average Daily Volume	**P/B**	**ROIC**	**Debt to Assets**
834	6.2	-1.4	9%

As you can see, Howard Jonas has an amazing track record of success and has time and time again made value creative decisions for IDT shareholders. His actions clearly warrant closer attention. In addition to a few of the companies discussed above, we are also currently invested in a newer IDT spinoff called Zedge, Inc. Zedge was distributed to IDT shareholders in mid-2016 and is discussed as our first stock idea.

Old West: Stock Idea One

So, as mentioned above, the first stock you are going to profile is Zedge. What does this company do and why do you think it has potential?

Zedge (ZDGE) is an early stage tech company focused on mobile device personalization and the distribution and monetization of digital content. Up until recently, the company's sole business was in providing ringtones, wallpapers, home screen icons, and notification sounds to its users. Although wallpapers and ringtones may sound a little gimmicky (which was our initial reaction), the app has been overwhelmingly popular and has a massive and engaged user base with 306.2 million installs and 35.5 million monthly active users ("MAU"). This represents meaningful traction that is extremely difficult to replicate. Zedge has also been one of the Top 25 Free Apps on the Google Play store for 6 years running, is one of the top apps in the iTunes entertainment category, and according to Apptopia (an app store intelligence provider), Zedge was amongst the 2017 worldwide download leaders. Zedge currently generates $12 million in annual revenue, has 80%+ gross margins, is profitable, has plenty of cash on its balance sheet, has no debt, and MAU and revenue per MAU has been growing rapidly.

How do you see growth unfolding going forward?

Zedge's success has been impressive to date, but it's impressive when we consider that the company has made no material investments in marketing, user acquisition or advertising and hasn't yet implemented a monetization strategy for growth beyond selling ad inventory to the advertising networks and exchanges. Our suspicion has been that Howard Jonas and Michael Jonas (Vice Chairman and Chairman) and Zedge's management team, led by Jonathan Reich and Tom Arnoy, recognized the vast potential of Zedge's substantial and loyal user base and knew that a greater monetization strategy could be developed down the road and fed into Zedge's 35 million monthly active users and growing. That's precisely what is happening. Zedge is in the process of building two new approaches to more efficiently monetize its user base; "Zedge Collections" and "Zedge Premium," both of which have exciting potential

Can you give our readers some insight into these new offerings?

As Zedge's popularity grows, it has become an increasingly attractive platform for brands wanting to integrate with Zedge's core offering to promote their content to consumers. The app packages a portfolio of cover art and other digital content and makes it available to users to set as their phone's wallpaper, share via social media, or use in some other fashion. In doing so, Zedge provides brands with perhaps the most valuable advertising space: the home screen of the consumer's mobile device. Zedge is also able to provide valuable personal data on its users, enabling brands to directly target consumers that have engaged with their content regarding relevant product and service offerings via push notifications. To date, Zedge has formed partnerships with movie studios to promote a variety of upcoming movie releases, and sports brands such as the World Series of Fighting, the Washington Wizards, and X Games. For example, Zedge recently provided branding for Warner Brothers, "The Justice League", ahead of its release. Zedge's app incorporated the movie trailer for users to click through and view, wallpapers, home screen icons, notification sounds and links to purchase tickets and Justice League merchandise. Zedge has only scratched the surface on this initiative, and we believe that Zedge will be viewed increasingly as a valuable platform for brands to distribute their content digitally and engage with their customers.

And there's also Zedge Premium...

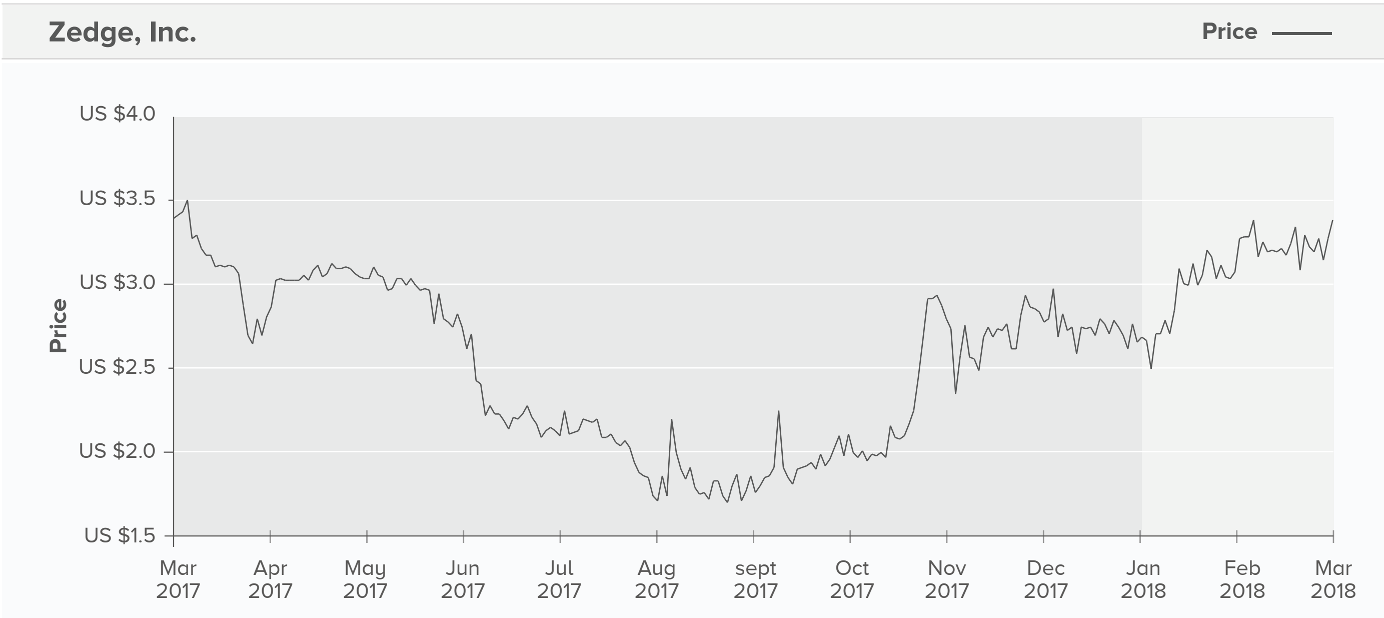
Zedge Premium, which we believe has incredible potential, is a new marketplace for professional and amateur artists to monetize their content. To accelerate this rollout, Zedge acquired IP assets from Freeform Development in November 2017 and retained its co-founders Tim Quirk and Bryan Calhoun. We believe that this marketplace may become one of the more powerful solutions for illustrators, photographers, musicians, athletes, etc. to monetize and take advantage of digital distribution. More broadly speaking, we believe that Zedge will be a powerful platform for enabling the monetization abilities of anyone or anything with a following.

For a little background, let me first explain what Freeform Development had been building leading up to the Zedge acquisition. Freeform's co-founder, Tim Quirk, had previously served as the Global Head of Content Programming at Google where he was one of the first people hired within the Android team to build and launch the Google Play Store. In this role, Quirk was responsible for merchandising all digital content, which included not only music (which was Tim's background), but also movies and TV shows, books and magazines, and apps and games. In this role, Quirk quickly discovered that mobile game developers were light years beyond all other content providers when it came to taking advantage of digital distribution. Quirk learned that by shifting away from a model where success is measured in terms of total units sold towards a model where success is measured in terms of Average Revenue Per User (ARPU), the mobile gaming industry had figured out how to sell more digital content than any other segment and make lots of money doing it. Mobile gaming had essentially figured out the freemium model of giving its content away for free at first and monetizing later down the road. One of the more eye-popping examples of this success is the mobile game Candy Crush Saga. Candy Crush Saga is a mobile game that has a massive install base of 392 million users, and the game is free to install and play. Of its 392 million users, 97% never generate a single penny for the company. However, of the 3% of its user base that does pay, mainly through in-app purchases, its developer, King, makes over $1 billion per year. App developers like King quickly learned that it was tough to get users to pay to install its game, but easy to get an install for free, and that people are more likely to spend money on in-app purchases (buying an extra life, buying a tool to help navigate a level, etc.) in free apps than to purchase an app that costs money to download. Although only a small percentage of users will ever pay (3% in the case of Candy Crush Saga), the serious fans will spend significant money once engaged.

These lessons led Tim Quirk and Bryan Calhoun to co-found Freeform Development to essentially figure out which of these lessons from mobile gaming can be applied to other segments of digital content, starting with the music business. Freeform's intuition was that they could help music artists generate revenue beyond streaming royalties by connecting directly to their biggest fans, and if they were successful, the platform would provide labels, artists and managers a set of tools to let them control their own conversion funnel and enjoy game-like conversion rates. Furthermore, they believed that artists should be able to have much higher conversion rates than mobile games, and their hypothesis was spot on.

The two central ideas behind Freeform's business model were 1) your album as an app, and 2) you should give your app away for free. The first concept of making your album an app was not recommended instead of selling it in iTunes or putting it in Spotify, it's in addition to, but by making your album an app, it can be a much richer, deeper and more engaging experience. The album can have lyrics, photos and credits (just like albums had years ago), and it can have all kinds of things that weren't possible years ago, like videos, gameplay, virtual reality experiences and direct interaction with the artist. The second concept, of giving your app away for free (and monetizing after), should enable much higher conversion rates for artists. Artists have the ability to determine what "free" means – they can set the parameters (allowing users to listen to one play per day on their album for free, the first five tracks on their album for free, etc.), but the general idea is to give the customer something for free so that they have a reason to install the app on their device. After the free offer is exhausted, the tracks lock, and to continue listening the customer must take some action to unlock them. That action can be clicking a buy button (which many people aren't going to do), or the customer can take an action that doesn't cost them any money but still generates revenue for the artist (watching a 15 second commercial or redeeming a partner offer like signing up for a free trial to Netflix or some other service). If a user signs up for that free Netflix trial, it's not going to cost them any money, but just by trying it, they get unlimited access to the artist's album. So, the artist ends up getting more fans because it's a free offer, they get more revenue from every fan than if they sold them the record through iTunes in the first place, and the best part of all is that the artist now owns the customer relationship. It's not Apple's customer, it's not Google's customer, but it's the artist's customer, and the artist can get recurring revenue from those fans over time by selling them more music, tickets, merchandise, or some other experience.

Zedge's Premium service will now extend Freeform's monetization tools to all creators (scaling beyond music), enabling them to make more money from their content and connect with their biggest fans. Zedge premium was rolled out earlier this year on iOS and is just now being made available to Zedge Android users as well. The current platform includes dozens of professional photographers, illustrators, and graphic designers, several popular brands, about a half dozen musicians, and moving forward, I'd expect to see various other types of content rolled out. Current content in "Zedge Premium" can be unlocked with Zedge's virtual currency (yet another interesting potential lever for unlocking future value) or by watching a 15-second advertisement, and additional unlocking actions will be introduced in time. The full vision for "Zedge Premium" will take time to realize, but we are very excited about its potential.



Share Information March 9, 2018

Market Cap. $33.5m	**P/E (2019)** N/A	**EV/EBITDA** N/A	**Dividend Yield** N/A
Average Daily Volume 22k	**P/B** 3.5	**ROIC** -8.10%	**Debt to Assets** N/A

This is a crowded space (apps and gaming). What gives Zedge an edge?

First and foremost, its large and engaged user base of over 300 million installs and 35.5 million monthly active users (MAU) is a huge edge. This represents meaningful traction that is extremely difficult to replicate. Few companies have demonstrated this ability and the ones that are now owned by Google, Facebook, Microsoft or Apple.

I also think that the Jonas family brings an incredible amount of credibility to the company. As mentioned earlier, Howard Jonas has a phenomenal track record of success and has made a lot of money for himself and his shareholders. Most early-stage tech companies run out of money just short of their vision being reached. It gives us great comfort knowing that the likelihood of this happening to Zedge is rather small.

Is the balance sheet strong enough to support the growth?

Yes. Zedge currently has $4.1 million of cash on its balance sheet and no debt. With significant cash on hand, future monetization efforts (such as the Freeform acquisition) can be made without acquiring debt.

How does this fit into your strategy of buying alongside management?

As highlighted earlier in this interview, Howard Jonas has a tremendous track record of success and fits our owner/manager criteria perfectly. Howard Jonas and his son, Michael, are the largest Zedge shareholders, owning roughly 23% of the outstanding shares. CEO, Tom Arnoy, and CFO/COO, Jonathan Reich, own an additional 8% of the outstanding shares.

And they've been increasing their holdings recently?

Yes, from October 2016 through March 2017 Howard Jonas purchased roughly 400,000 shares of stock on the open market, and most of those purchases were at prices above today's stock price. While the amount of those purchases is small for Howard, it did represent almost 5% of the total Zedge shares outstanding and roughly 20x's the daily trading volume.

How are you approaching valuation today?

For starters, I think it's important to reiterate that Zedge is profitable and has no debt and that alone puts the company in a different class than most other app companies of its size.

Zedge currently trades at just a small fraction of revenue, EBITDA, and valuation per MAU when compared to similar acquired mobile apps, which suggests that Zedge should trade many multiples higher.

> “ *For example, Microsoft bought LinkedIn in June 2016 at $60.51 per MAU, Facebook bought Instagram in 2012 at $33.33 per MAU, Google bought YouTube in 2006 for $33 per MAU, and Bytedance bought Musical.ly in November 2017 for an estimated $17 per MAU. Zedge has a sizable and engaged user base that should continue to grow significantly, and the company currently trades at $0.98 per MAU.*

What's your timeline for growth and bull target?

The full vision for Zedge will take time to realize, but I do believe that we are at the beginning stages of seeing increased revenue growth and a more rapid increase in Monthly Active Users. Zedge has spent the past years building its core user base and is just now unleashing greater monetization capabilities.

The new Premium marketplace is just starting to generate revenue for Zedge and its artists, and as artists successfully expand their reach and monetize their content within Zedge, new artists will, in turn, be attracted to the platform. Additionally, a portion of Zedge's marketing will be outsourced to its marketplace artists as their fans and followers are attracted to the platform. As an example, let's assume that Zedge grows to feature 10,000 different photographers, illustrators, painters, musicians, brands, athletes, and a variety of other content creators; if each of those 10,000 creators attracted 100 of their biggest followers and fans to the Zedge platform, that would result in a 1 million increase in Monthly Active Users. As Zedge features bigger content creators and brands, those creators may very easily attract thousands of fans and followers. If executed well, an increase of tens of millions of new MAU's is easily within sight.

Given an increased MAU growth path and greater monetization capabilities, it would not surprise me to see Zedge trade at many, many multiples of its current stock price.

And your base/bear growth target?

Zedge has proven to be very successful at attracting, retaining and growing a significant number of monthly active users ("MAUs"). Just based on current MAU, Zedge should command a higher MAU multiple of around $2 per MAU or a $7 stock price.

"*As Zedge begins to monetize its existing user base with any success and revenue per MAU continues to increase, a higher MAU multiple of $3 - $4 per MAU is probably more accurate, which would translate to a $10 - $15 stock price.*

This valuation accounts for no MAU growth, which is highly unlikely given its user engagement and monetization potential.

Any final comments?

In summary, Zedge is an undervalued opportunity on a very popular platform with numerous potential levers to increase value. We believe that Zedge will continue to be thoughtful about these current monetization efforts as well as future efforts, which in return will drive continued user growth and more revenue per user. Once new initiatives are completely rolled out, the upside should be even more promising. We are very excited about this opportunity and believe that Zedge will be yet another successful IDT spinoff.

Old West: Stock Idea Two

Your second stock pick is Carbo Ceramics. Can you start by giving our readers a bit of background on this business?

Carbo Ceramics is a technology company that provides products and services to the global oil and gas and industrial markets. Their primary product was historically ceramic proppant for the fracture stimulation of oil and gas wells where downhole conditions were too extreme for traditional sand proppant.

The company's business model has changed then?

Ceramic proppant volumes fell precipitously with the decline in oil prices as industry activity was curtailed and customers could no longer afford to use premium proppant in their wells. The company responded initially by expanding their traditional sand volumes to leverage their logistics capacity and more recently has begun servicing customers outside of the oil and gas industry with products such as ceramic grinding and casting material and material for mineral processing.

Ok, so Carbo's ceramic proppant still has a market. What is the company's USP?

Regular sand proppant cannot withstand the high pressures of certain wells, such as many of those drilled in deep water or onshore at great depths. Other performance characteristics such as uniformity of grain and sphericity can also prove superior if commodity prices support the increased cost to operators. For industrial markets, the ceramic products reduce the amount of material needed, lower component wear and maintenance costs, reduce defects, and eliminate respirable silica dust to comply with strict OSHA exposure limits.

Where do you see the growth coming from over the next few years?

The new end markets they have pursued have certainly started to bear fruit. Whereas base ceramic accounted for over 80% of their revenue in 2014, the growth in other product lines has reduced their reliance on the segment to 30%, with 70% of their revenue now coming from other areas. That said, the continued strength in commodity prices has boosted activity levels across the industry, and their proppant volumes have increased for seven consecutive quarters after bottoming in Q2 16.

> *We think there is potential for the company to "fire on all cylinders" going forward, with continued gains in both oil and gas and industrial segments. Their most recent quarter emphasizes this, with revenue growing 20% sequentially and over 100% year-over-year.*

Is the balance sheet strong enough to support it through the transition?

While they do have some debt ($88 million as of Q4 17), it's almost entirely offset by their cash balance. With cash from operations recently turning positive, the company has a long runway ahead of them to let this transformation play out.

How did you first uncover the opportunity and what immediately attracted you to it?

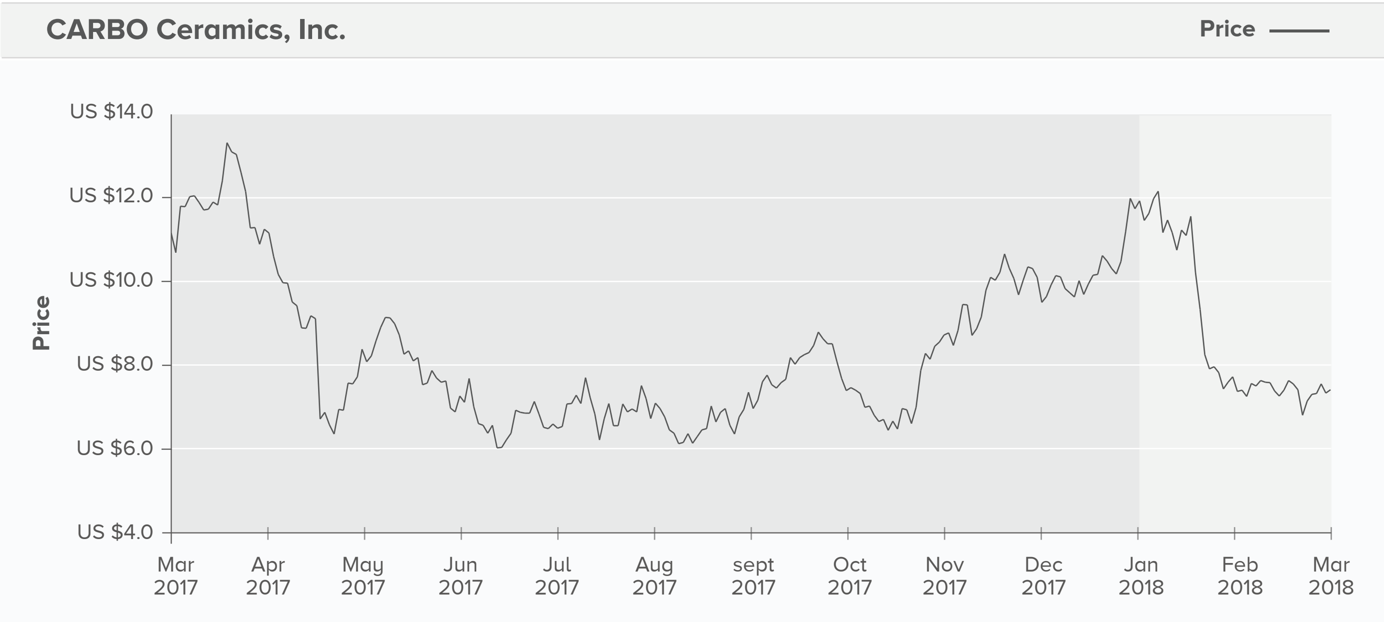
The stock was down 25% on massive volume when they reported their Q3 2016 earnings. Looking past the headlines, we noticed their total volumes had actually increased after six consecutive quarters of decline. In the week following the earnings release, the CEO purchased over $100,000 worth of stock on the open market. While the absolute amount was fairly small, what was significant was that it was his first purchase of stock in over two years.

On that note, what do you like about the management here?

It's very refreshing to see a management team lay out a plan, especially when it appears the world is crashing down around them, and then execute on it quarter after quarter after quarter. This has been most evident in operating cash flow, which improved from a $19 million burn in Q1 2017 to $15 million in Q2, to $5 million in Q3, and finally turning positive in the most recent quarter.

Does management own a significant stake in the firm?

> *The chairman is one of the largest shareholders, with over 12% of the shares. The CEO is a top 20 shareholder and has been buying shares. The CFO and several Vice Presidents have all bought shares in the last year.*



Share Information March 9, 2018

Market Cap. $204m	**P/E (2019)** N/A	**EV/EBITDA** N/A	**Dividend Yield** N/A
Average Daily Volume 774k	**P/B** 0.5	**ROIC** -43.00%	**Debt to Assets** 16%

Moving on to valuation: What valuation are the shares trading at today, and why is this appealing?

The company trades for less than half of book value, near its all-time lows, despite the fact that operations have been steadily improving. Because much of the improvement has come from restarting or repurposing idled capacity, capex requirements are minimal and the increase in cash generation is converting almost entirely to free cash flow. Given the distressed valuation, you don't have to look too far out to see a double-digit free cash flow yield on a company with rapidly improving fundamentals. We don't think that should be the case and expect the stock to rerate much higher when the market realizes that.

Where do you see profitability moving over the next three to five years and how do you expect this to impact valuation?

With cash flow turning positive in the most recent quarter, we think net income will follow in the next few quarters and at that point, analysts and market participants will start to revisit the name. Whereas much of the discussion a year or two ago was on whether the company would survive, once they show that their revenue growth is leading to sustained profitability the analysis should change to one of trying to value that accordingly.

What's your bull case for the stock over the next five years?

It's easy to forget when looking at the hard times that have fallen on the company that less than four years ago it was trading for $150 per share and was worth over $3 billion. With the stock currently around $7 per share and under $200 million in market cap, it's a far cry from those loftier times. Of course, back then oil was $100 per barrel instead of $60, and thus much of the fall has been warranted. We think in the near term, however, given the operational improvements and capacity for free cash generation, it's not much of stretch to see it trading in the mid- to high-teens, which is our base-case valuation. In a bull case, oil prices continue to climb, activity levels and volumes increase, and they have continued success in their non-energy businesses. In that scenario, we believe the stock will come back into favor, and if the past is any guide, we think the valuation will be much higher. We're currently one of the company's largest shareholders, and we plan on owning it for a long time.

And if things don't go to plan, what's the downside?

We believe downside risk is muted here, given the company still trades as though it is going out of business. The bear case is well-known (and very much alive with short interest over 50%!), which is that oil prices revisit their lows, activity levels, and proppant volumes plummet, and the company's diversification efforts are unsuccessful.

Is there anything else that could change your view of the company?

Because they are reliant on the oil and gas and industrial sectors, any prolonged economic downturn would have a substantial effect on their end markets. We think the current valuation provides a margin of safety that would partially insulate them from this, but it would undoubtedly temper our enthusiasm for their growth potential.