JUNIPER PEAK CAPITAL LLC

July 13, 2018

To Our Partners:

RE: Juniper Peak Capital Partners LP Update for the Second Quarter of 2018

Investment Results

For the three months ended June 30, 2018 the Partnership's gross performance was a loss of 2.4% (before fees) versus a gain of 3.4% and 7.8% for the S&P 500 and Russell 2000, respectively. The Partnership's year-to-date gross performance was a loss of 1.4% (before fees) versus a gain of 2.7% and 7.7% for the S&P 500 and Russell 2000, respectively.

While the year-to-date absolute performance of the Fund is negative, just as we do when the relative performance is reversed, we caution you not to place undue emphasis on any quarter's performance as it is precisely these short-term value disparities which our investment philosophy seeks to exploit. In the short-term, volatility is our friend, and our focus continues to be on the long-term record, measured in terms of years and decades rather than months and quarters. In other words, our goal is to have long-term, above average returns on capital with minimum risk of permanent loss. So while our year-to-date results are certainly underwhelming, we remain focused on strategies that will bring about the achievement of our long-term objectives.

We are very bullish on the Fund's portfolio positions over the next 12-24 months, precisely because of the volatility we have recently experienced. Since the Fund's inception we have never been more confident in its positions or prospects. The intrinsic values of the companies in which the Fund holds positions, relative to the average prices paid for those positions, represent significant margins of safety, which if held, we expect to result in highly satisfactory returns, on average.

The annual, quarterly, and cumulative partnership returns are reproduced and tracked each quarter, and subsequently, each year, in Appendix A. Please note the presentation of Limited Partner Results represents returns *assuming the management fee and incentive allocation were charged as laid out in the Limited Partnership Agreement*, which we believe is a better metric to be used by our limited partners for comparison with their individual statements as well as a better metric for prospective investors when reviewing our results. We invite you to review your individual quarterly statement, which you should have received on Friday, July 13, 2018 for results specific to your individual account.

Q2 2018 Partnership Letter

Investment Philosophy

Before discussing the portfolio, a brief refresher on our value investing strategy is in order.

> *Investment is most intelligent when it is most businesslike. – Benjamin Graham*

Often referred to as the *father of value investing*, and perhaps best known now as Warren Buffett's mentor and teacher; Benjamin Graham quite literally wrote the book(s) on investment analysis.[1] His three central contributions can be summarized as follows.

1. *Graham's 'Big Idea'*: stocks are not simply pieces of paper that fluctuate in value, but instead, represent fractional ownership interests in actual businesses; and one should analyze an investment in public securities in the same manner one would the purchase of a *liquid, minority stake* in a business.
2. *Margin of Safety*: as it is often impossible to accurately appraise the precise intrinsic value of a business, one should allow for a significant margin for error to allow for unforeseen and unanticipated circumstances, bad luck, errors in calculation etc.
    a. In other words, if we estimate a business is worth X and we insist on only buying it for ½X, if it turns out to only be worth ¾X, we are unlikely to lose money, and are still likely to earn a profit over a reasonable timeframe.
3. *Mr. Market*: Graham suggests you maintain a proper perspective by imagining the stock market as a manic, often irrational business partner he refers to as Mr. Market; who at times can be an overly excited fellow, often offering you a price for your fractional business interests well in excess of intrinsic value - in which case it may be wise to sell him your shares. At other times, Mr. Market may be excessively depressed, at which times he may be willing to offer you his share of a business at unreasonably cheap prices - at which times it may be wise to purchase his shares.
    a. However, and this cannot be overemphasized, at all other times, it is in your best interests to ignore Mr. Market, because his moods are quite contagious, and allowing his excessive enthusiasm or his undue despondency to infect your own appraisal of your business interests would be to turn your inherent *advantage* (of owning *liquid* shares of a business) into a *disadvantage,* by disposing of your liquid business interest at depressed prices which do not reflect the intrinsic value, or strength, of the business' fundamentals.

Portfolio Commentary

Exited Positions

We have stated we do not wish to discuss portfolio positions while we are in them.[2] We have no such hesitation discussing positions from which we have exited. We will therefore use recent examples to

[1] Specifically, *Security Analysis* and *The Intelligent Investor*.

illustrate several of our investment processes and those concepts covered in the *investment philosophy* section above. To avoid eating up space in the body of the letter, we will refer you to various appendices for an in-depth discussion of these investments.

Please refer to Appendix A for a summary investment thesis of the Fund's investment in IAC/InterActiveCorp (IAC) which we entered in April 2017 and exited in April 2018.

IAC is an example of the industry leading growth companies, which if one is patient enough, can be purchased at bargain prices, afford substantial margins of safety; and with which we seek to comprise the core of our fund. Importantly, these positions often become available during either significant market turbulence, or when there is great uncertainty surrounding the company in Mr. Market's mind. A variant perception, derived from independent analysis, separate from the consensus view, coupled with the courage to act against the crowd, is required to capitalize on these opportunities. It is almost impossible to *bottom tick* these, meaning to purchase at the lows. Sometimes you initiate a position on the way up from the trough, and sometimes on the way down to the nadir. In either event, patience is critical, as evidenced by the example below and the attached appendix.

> **Example: IAC hit a 2015 share price high on July 14th of $84.59. Had a fund manager analyzed the company, determined the then-intrinsic value to be $120/sh and then purchased the shares on December 18, 2015 at $60.17 ($24.42 off their 52-week high, for a 24% discount) and disclosed them to the fund's limited partners in a Q4 2015 partner letter; one would likely be satisfied. Human nature being what it is, an LP may be tempted to monitor the IAC share price regularly, and by February 11, 2016 when the shares hit a 52-week low of $39.96 ($20.21, or -34%, off the fund's initial purchase price), the same LP may be tempted to phone his or her fund manager and encourage he or she to exit the fund's position; precisely at the time when the fund manager, per the fund's processes and procedures, was seeking to increase the position size because, all else equal, the $0.50 dollar ($60/$120) had now turned into a $0.33 dollar ($40/$120), and was now the safest and highest return/risk opportunity available. By March 31, 2016, quarter end, one's fund manager would have marked the fund's IAC position to $47.08, down *only* 22% from the initial purchase price of $60.17. The fund manager, reviewing the original investment thesis against the company's subsequent fundamental business developments, and finding the thesis sound, would be wise to exercise patience and vigilance in holding, and even adding to, the position. Just one year later on March 31, 2017 the shares would prove to be up 23% from the initial purchase price and 57% year-over-year; and two years later on March 31, 2018 the shares would be up 160% from the initial purchase price and 232% from the March 31, 2017 mark of $47.08!**

Please refer to Appendix B for a discussion of the Fund's investment in Nakano Refrigerators (6411 JP). This was an example of what is known as a *Net-Net,* in this case, a plain-vanilla value-investment which we used, among other investments, for what we believed to be a relatively safe, alternative to cash,

---

[2] Advantages of AUM less than $100M; establishing a formal track record while not managing institutional capital; behavioral psychology ala the IAC example on this page; proven historical best practices ala Buffett Partnership Limited, Walter Schloss' Partnership; Arlington Value (Ranger) etc.

with both significant up-side, and a catalyst - so also a special situation - while we searched for more *IAC-like* investments, which we have subsequently discovered, and initiated.

A Note on Net-Nets

A net-net is an investment situation where the *sum* of a company's net working capital (defined here[3] as current assets, *including cash*) net of all liabilities and debt on the balance sheet (in this case, not *just* current liabilities) exceeds the total market capitalization (i.e. stock price * shares outstanding) of a stock. In other words, if one were to buy a company out-right, and then liquidate it, one would realize an immediate profit equal to the difference between the price he or she paid for the company, and the net liquidation value of the company; while ascribing zero value to a company's property, plant, and equipment. Net-nets were Ben Graham's bread-and-butter for the bulk of his career, and they formed the core of Warren Buffett's early personal and professional investment success until they all but disappeared in the early-to-mid 1960's. They crop up now and again, particularly after market crashes, and in various industries, and in particular geographic markets. Caution is the watchword here, as one must be confident the assets on the balance sheet are real, and catalysts and/or profitability are often equally important where one cannot take a control position and force the liquidation of assets or the payment of special dividends.

Please refer to Appendix C for a discussion of a short-term, special situation investment in Aptevo Therapeutics (APVO) which we entered in September 2017 and exited in Q4 of the same year. Incidentally, Aptevo also fell well into the net-net category at the time of purchase, though we would also categorize it as a *cigar-butt*, given our inability to distinguish it from a sustainable business of the Nakano variety.

A Note on Cigar-Butts

Cigar-butt investments derive their names from the discarded 'cigar butts' one might find lying on the street, pick up, light, and steal a few puffs from if one were desperate enough, and so inclined. Likewise, certain investments are so named because, although they may be accompanied by an "ick" factor, one may acquire them virtually for free, looked at from a certain perspective, and then (hopefully) take "the last puff" before the company essentially goes out and dies. Such companies are rarely the popular, attractive growth companies one would brag to friends about owning, but for the indiscriminating value-seeker, purchasing out-of-favor stocks in companies that are probably experiencing a crisis or scandal of one sort or another can be profitable. Of course, one risks ending up with a soggy, gross cigar-butt that won't take a light if one holds it too long.

[3] The *Value Investing* definition of net working capital varies from the definition used for *Generally Accepted Accounting Principles (GAAP)* due both to Benjamin Graham's definition pre-dating GAAP, and as a matter of conservativism.

Many investors will often refer to net-nets and cigar-butts interchangeably, but we often make a distinction in that, at times, one may find a net-net that represents an attractive, sustainable business.

Current Positions

Without disclosing positions, we would note the bulk of our existing investments fall into the IAC category. As we have repeated before, these are difficult to find and even more difficult to bottom tick, but the recent market disturbances have uncovered more than a few excellent value opportunities. That said, deep value net-nets are also plentiful in a variety of industries.

Macro-Economic Update

The U.S. economy is strong, with unemployment at historic lows, corporate earnings at all-time highs, and GDP growth positive. Tax reform has led to unprecedented corporate stock buy-backs, which, along with several large tech stocks, has been largely responsible for supporting current index levels. There is no apparent indication that a recession is on the horizon in the near-term, but the stock market has historically declined six to twelve months in advance of any recession becoming apparent in economic fundamentals, and economic recessions can only commence after growth peaks. It is for this reason that it is when growth is strongest, employment is at its lowest, and stocks are near their peak, that it is prudent to be most vigilant in adhering to defensive processes.

We are widely viewed to be in year 10 of a U.S. bull market, which has led many on a flight for safety, meaning to cash and short duration Treasuries. Although the technical definition of a bear market is a 20 percent decline in the market, with the S&P 500 Index often viewed as a proxy for the U.S. stock market; one may argue this is an unnecessarily narrow definition and that we are in fact in year two of the current bull market. Michael Batnick, Director of Research for Ritholtz Wealth Management, argued that mid-2015 to early 2016 was a global bear market; providing the following peak-to-trough numbers from that period as evidence:

- Median S&P 500 stock down 25 percent (the index itself fell 15 percent)
- Russell 2000 down 27 percent
- Japan stocks down 29 percent
- Dow Jones Transportation Average down 32 percent
- Emerging market stocks down 40 percent
- Chinese stocks down 49 percent
- Small-cap biotech stocks down 51 percent
- Crude oil down 76 percent
- NYSE new 52-week lows were at their highest point since November 2008
- 80 percent of S&P 500 stocks fell below their 200-day moving average

As we write this, the Chinese markets have recently declined over 20% into bear territory due to the recent trade spat with the U.S. The various trade disputes have contributed to rapid price increases in soft timber used in building construction, soybeans, steel, and has resulted in a marked disruption to the semi-conductor and chips/analog sectors, with China specifically.

Venezuela is in severe economic crisis with its oil exports at historic lows. The U.S. is renewing trade and economic sanctions on Iran and requiring its trading partners to do likewise; which in combination with the supply constraints coming out of Venezuela, and demand from China, is putting upward pressure on the price of oil. This has resulted in a significant increase in oil prices.

We reiterate what we wrote in our 2017 annual partner letter, that when it comes to the markets, we take the view that *no view is the best view*.

What we *do* know is that confusion and fear often breed opportunity in individual stocks. As investor, blogger, and writer Cullen Roche noted: "The stock market is the only market where things go on sale and all the customers run out of the store." In order to avoid being trampled by panicked shoppers, we do attempt to wait until the store has largely cleared out prior to entering. If we find ourselves already in the store when the panic starts, we seek to be prepared with a wallet full of cash and cash-equivalents, no debt, an insurance policy, and then we will calmly hunker down until the crowds clear out, and then we begin shopping the 'buy-one-get-two-free' specials.

The point of the above is that alternative investment vehicles, like Juniper Peak Capital Partners LP, which can seek for value outside of large cap U.S. equities (i.e. the S&P 500 Index), which can hedge against downside risk, and which can invest both for the long run and take advantage of short-term special situations, is arguably an excellent diversification strategy for tumultuous times.

Conclusion

We wish to welcome the new Limited Partners who have chosen to participate with us and express our sincere appreciation to both new and existing Limited Partners. We recognize the significance and importance of our responsibility to manage a portion of your overall investment portfolios. We strive to remain worthy of your trust and we will continue to work diligently so that all may be successful.

If anything in this letter is unclear, or if you have any questions or concerns not specifically addressed in either this letter or in your annual partnership statement or the annual report and financial statements, please do not hesitate to contact either Robert Stewart (435-720-7943 and rstewart@juniperpeak.com) or Mike Seeley (801-674-8696 and mseeley@juniperpeak.com) at your convenience.

Best Regards,

Juniper Peak Capital LLC

Juniper Peak Capital LLC
General Partner

JUNIPER PEAK CAPITAL LLC

APPENDIX A

Juniper Peak Capital LLC has chosen to use as relative benchmarks the S&P 500 and Russell 2000 Indices; not because either index reflects the investment strategy nor approximates the types of securities held in Juniper Peak Capital Partners LP, but because these two indices have demonstrated the ability to outperform the majority of asset managers, net of fees, and as such, they serve as stable, long-term alternatives for the capital which our Limited Partners have chosen to deploy in the Partnership. Actual returns are reproduced below both on a periodic and on a cumulative basis.

PERIODIC RETURNS (YEAR-TO-DATE)

INVESTMENT RETURNS FOR JUNIPER PEAK CAPITAL PARTNERS LP
FROM 01/02/2018 THROUGH 06/30/2018

Period	S&P 500	Russell 2000	Partnership Results (1)	Limited Partner Results (2)
2018 (6mo)	2.7%	7.7%	-1.4%	-3.1%

(1) Consists of gross fund level results for the period noted before allocations to the General Partner.

(2) Computed on basis of preceding column of partnership results after expenses and allowing for any allocations to the General Partner based upon terms of the Limited Partnership Agreement.

PERIODIC RETURNS (QUARTERLY)

INVESTMENT RETURNS FOR JUNIPER PEAK CAPITAL PARTNERS LP
FROM 04/01/2017 THROUGH 06/30/2018

Period	S&P 500	Russell 2000	Partnership Results (1)	Limited Partner Results (2)
Q2 2017	3.1%	2.5%	9.2%	6.7%
Q3 2017	4.5%	5.7%	11.7%	8.7%
Q4 2017	6.6%	3.3%	3.4%	2.1%
Q1 2018	-0.8%	-0.1%	1.0%	0.1%
Q2 2018	3.4%	7.8%	-2.4%	-3.3%

(1) Consists of gross fund level results for the periods noted before allocations to the General Partner.

(2) Computed on basis of preceding column of partnership results after expenses and allowing for any allocations to the General Partner based upon terms of the Limited Partnership Agreement.

DISCLAIMER: Periodic and Cumulative Returns is an historical measure of past performance and is not intended to indicate future performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more, or less, than their original cost.

APPENDIX B

Prior to launching Juniper Peak Capital, and while still employed as full-time CPAs, we had written up a summary of our initial investment thesis on IAC/InterActiveCorp (IAC), submitted it to the 2016 Ira Sohn Stock Picking Contest, and it was subsequently published on Seeking Alpha Pro, where it continues to be available.[4]

During the first week of April 2016, IAC was a conglomerate holding primarily the following internet assets: the Match Group's online dating portfolio, consisting of Match.com, Tinder, PlentyOfFish, and OkCupid; Publishing/Search and Applications, which included Dictionary.com, The Daily Beast, Investopedia; *Vimeo*, a global video creation and sharing platform; and *HomeAdvisor*, a global home services digital marketplace connecting consumers with home service professionals.

IAC had recently spun off its online dating assets (Match.com, Tinder, Plenty-of-Fish, etc.) into Match Group (MTCH), a separately-traded public company, in which IAC retained an 85% interest. On a consolidated basis, IAC had an enterprise value of $4.1B and was trading at $45/sh. Match was trading at roughly $11/sh with an enterprise value of $4B. After backing out the 15% of MTCH that IAC didn't own, the market was ascribing an enterprise value of $750M to the assets of IAC on an ex-MTCH basis. To put this into historical perspective, free-cash flow from operations in 2014 and 2015 was $424M and $329M, respectively. Although we forecasted 2016 cash-flow and EBITDA to continue declining in 2016 due to the renegotiation of a key Search contract with Google, we were estimating this trend to begin reversing in 2018 as Publishing and Applications stabilized and as HomeAdvisor and the Match Group's rapid growth continued and became a larger piece of the pie. From a margin of safety perspective, we felt the IAC share price was most conservative given the bulk of the cash, approximately $1B net, was at the IAC parent company level, and the bulk of the debt was at the MTCH subsidiary level.

One of your fund managers had extensively 'beta tested' the various online dating applications during our prior single life, and had even met his wife through online dating, and so our personal view was that MTCH was not in danger of being overvalued. Given the high short interest (25% of float), low share price, and all available factors, a direct investment in MTCH wasn't unjustified. However, HomeAdvisor was the diamond in the dust bin, and the clear margin of safety resided at the IAC level.

With 2015 revenue of $361M and EBITDA of $18.5M, HomeAdvisor was growing 35%-40% per year in the U.S. In a home improvement market estimated to be perhaps $400B per year, HomeAdvisor was far and away the market leader. In fact, for every dollar spent on marketing, HomeAdvisor's EBITDA was *increasing*, which meant not only was it growing, but it was growing *with* margin. Publicly we were being ultra-conservative. Privately, we estimated that within a decade, HomeAdvisor may have a

[4] Point in fact, given the approximately two weeks between when we found out about the contest and the submission deadline, combined with the demands of our full-time positions and the necessity to identify a compelling investment thesis involving a company with a market capitalization in excess of $1B, we made a number of errors in the initial write-up (primarily minority interest) which we subsequently corrected for, but which were ultimately immaterial to the attractiveness of the investment itself. We highlight this as it argues strongly for the concept of margin of safety, in that even when one is working overtime in another career and investing on the side, if one adheres to a sound investment philosophy, and swings only at fat pitches, the results can still be highly satisfactory.

market value equal to, or even exceeding, Expedia (EXPE) at approximately $20B, another former IAC spinoff. With the Publishing/Search and Applications segments supplying more than sufficient cash-flow to underwrite IAC ex-MTCH several times over, we felt that we were essentially getting HomeAdvisor for less than nothing by purchasing IAC at $46/sh, which is where we purchased the shares in our personal account, as the Fund was not yet established.

Our investment thesis was further underwritten by more than a decade of familiarity with the company[5], management's capital allocation policies, many of its assets, ownership of more than several of IAC's former spinoffs, and a close appraisal of the company's controlling shareholders and management. We thought it was funny that Management issued a Shareholder Letter on May 4, 2016 articulating exactly what we were seeing.

By the time the Fund was established and capitalized a year later, the shares had appreciated to $75, but still represented a bargain relative to our updated assessment of intrinsic value, which had significantly increased over the course of the year as we had further analyzed the various companies (IAC + MTCH +HomeAdvisor+Other). IAC, in fact, became the Fund's first major position. Soon after initiating the position, Management announced the acquisition of Angi's List Inc. (ANGI) which was to be merged with IAC's HomeAdvisor and would then commence trading as a separate publicly-traded company under the name ANGI Homeservices Inc. (ANGI). Note ANGI had rejected a similar offer from IAC 18 months previously. Just prior to the announcement, Angi's List shares traded at $5.89. The consideration offered to Angi's List shareholders was either one Class A common share in the new company or $8.50 in cash for each share of ANGI then owned. The acquisition and merger were completed in the Fall of 2017 and the ANGI shares have since appreciated into the $16 range.

The MTCH shares similarly skyrocketed, hitting a recent high of $48 before retreating to under $40/sh. We took the opportunity to lock in long-term capital gains in Q2 of 2018 and exited our position in IAC between $155 and $165 per share, despite IAC ex-MTCH and ex-ANGI now having a negative enterprise value. Why did we exit? The answer is simply, opportunity cost and diminishing margin of safety. Although we continue to like all of the IAC assets, the recent market disruptions have provided opportunities circa the *2016 IAC Vintage*, which are to be preferred over the *2018 Vintage*. These provide a larger margin of safety at the present time.

[5] This is known as the *Peter Lynch principle*, or investing within one's *circle of competence*.

APPENDIX C

[We need to pause here and state there is a long and respected tradition of "piggy-backing" off of other people's ideas in the financial services industry, or as Warren Buffett prefers to call it, "coat-tail riding". Joel Greenblatt is so bold as to refer to this practice as "stealing ideas", and he highly recommends it. In any case, it is one of several methods we and most small funds without an army of analysts use for sourcing ideas (in addition to stock screens, reading everything we can get our hands on, and a number of other niche, proprietary strategies), as the stock universe is far too broad to monitor personally, particularly when it comes to overseas companies. In fact, Nakano and similar companies "screen" quite poorly, given its financial statements are available in Japanese, and if one pulls up the company in any number of online financial publications, many of the financial metrics quoted are simply inaccurate. In this case, we owe credit of discovery for this idea to a remarkable analyst known only as "chewy" on Value Investors Club.]

Nakano Refrigerators (6411 JP) represented a net-net situation to our liking in that not only was the entire market capitalization underwritten (i.e. protected) by a net cash balance (some describe this as getting all plant, equipment, intangibles, and other current assets "for free"), but the Company had a 100-year long history, occupies a niche position as a refrigerator display case manufacturer and installer in Japan, had a periodic history of profitability, the shares had been in a long-term up-trend having more than tripled over the prior eight years, the Company had recently repurchased nearly 35% of its shares, the controlling shareholder family had been divesting some of its shareholdings ahead of the prospective retirement of the Chairman (in Japan this can be seen as a net positive rather than a net negative due to the outsized influence and overly conservative corporate governance predominant in the Japanese culture post-1990s stock market collapse), and there was an upcoming growth catalyst on the horizon.

Net-nets are not altogether uncommon in Japan. The trick is identifying which companies' will utilize their fortress-like balance sheets for wise capital allocation (i.e. for growth), thus driving the share price higher. With Nakano, we have already listed a number of these catalysts (e.g. stock buy-backs, new Management etc.), but a major catalyst was that 7-Eleven in Japan had recently announced a nation-wide remodel of its stores, including an upgrade of its refrigerators. As 7-Eleven was Nakano's largest customer, and as this overhaul was to take several years, the short-and-mid-term revenue and profit outlook for Nakano appeared bright.

This was a relatively simple investment thesis. Chewy laid out the particulars and recommended the shares on June 26, 2017 at ¥3,270. We have over a decade of experience doing business with Japanese companies in our prior lives, doing tax/accounting/business planning and development for, organizing, capitalizing, and accounting for companies in Japan. We have friends, former finance managers, and family members who are either native Japanese, fluent in Japanese, or lived and did business in Japan to assist with any translation difficulties that may arise in these types of situations. We therefore double-checked all of Chewy-san's work, reviewed the financial statements and all other publicly available information, and afterwards initiated a position. The shares recently traded above ¥5,800.

APPENDIX D

The following was a very simple idea, and as a small fund, we were well positioned to take advantage of it. In hindsight, one may reasonably argue that we should have sized it more aggressively, held it longer, or any number or arguments which are easy to make, but are largely due to what we call *resulting* (meaning, because it worked out well we should have been more aggressive). As it is, we sourced the idea via one of our go-to channels (i.e. spinoffs), we monitored it vigilantly, we identified the catalyst which caused it to become a buy, we developed an investment thesis, we followed that thesis, we reviewed the thesis, and we made several small modifications post-exit to improve our processes as a result.

Aptevo Therapeutics (APVO) is a microcap, biotech which was a spinoff from Emergent Biosolutions (EBS) on August 1, 2016. At the time of the spinoff the Company had 20M shares outstanding, a share price of roughly $2.50, for a market capitalization of approximately $50M. APVO had $65M in net cash, a product portfolio which Piper Jaffray estimated to be worth $75M (this turned out to be understated), a modular protein technology platform called ADAPTIR into which Emergent and its predecessors had invested $160M-$200M, and a pipeline of potentially valuable, but certainly cash-burning drugs in development.

We monitored Aptevo, as we do many spinoffs, watching it all the way down to $1.15 per share in the Summer of 2017. It is because we were monitoring it closely that we caught the press release within minutes of the Form 8-K being filed with the SEC after the market closed on August 31, 2017, upon which the shares jumped over 100% after-hours. Aptevo announced it had sold three of its profitable, revenue producing products for $65M in cash plus a potential for $9.5M additional in contingent payments, while retaining its recently approved and released drug *Ixinity*, and is potentially worth more than the other three drugs combined. Prior to the transaction, APVO had a market capitalization of less than $27M, and approximately $30M in net cash. A quick, back-of-the-envelope calculation indicated that upon completion of the transaction, the Company would have a net cash balance of $95M, Ixinity, which could arguably be worth another $30M-60M, and a pipeline into which the Company and its predecessors had previously sunk $200M, and into which it was sinking $50M+ per year. Thus, what was the Company worth? The simple answer was, we didn't know *for sure*, and we didn't think anyone else did either.

Despite the $95M in cash, and the potential of Ixinity to be worth tens of millions of dollars, we didn't know whether the pipeline was worth the hundreds of millions invested in it or if it had a <u>negative</u> net present value of hundreds of millions that the Company was yet to spend on it. You see, in conjunction with the sale, the Company also announced the withdrawal of its German partner from the $250M collaboration agreement to develop an immunotherapeutic for the treatment of prostate cancer (just one of its drugs). Without a partner to share development costs for this drug alone, Aptevo was going to start burning even more cash! Thus, what we were confident of was the Company was A) going to burn roughly $56M of cash over the next 12 months (and hence our margin of safety between the net cash balance and the share price was going to evaporate very quickly), and B) it was likely that the Company was either going to significantly dilute current shareholders in roughly one year by issuing additional shares, or that the Company was going to sell Ixinity. Now, if the Company sold Ixinity, particularly for somewhere in the neighborhood of $45M, then that would serve to nearly fund operations for the next 12 months, which would in turn provide ample time for the share price to run up to net cash value or even above. On the other hand, it is not uncommon for biotech companies to issue shares below net cash value to incentivize institutional shareholders to inject capital, which may or may not be negative, depending upon at what price that occurred.

It was clear that this situation *did not* meet our requirements for a long-term hold as a core position; however, it did present potential as a short-term, special situation investment while providing us with a *short-term* margin of safety. We therefore decided to size the position at 5% of AUM, and to hold it for no more than one quarter, or *up to* three months, as we estimated the cash-burn in that time-frame to be no more than $14M. We identified as catalysts the Company A) closing the transaction, and B) filing the Form 10-Q, which we believed would C) cause Wall Street analysts to reiterate/increase their price targets at multiples of the then-current share price, and D) that all of the above would cause the stock to screen better for those running quantitative analyses for cash balances, analyst estimates, and other metrics. In combination, these catalysts would serve to close the value gap between the share price and the intrinsic value of the Company.

So what happened? The shares more than doubled immediately following the announcement, but then pulled back well below $2.00 briefly to around $1.70. We purchased our shares at an average cost of roughly $2.00 and sold shortly thereafter at roughly $3.00 for a 50% gain. In instances where the margin of safety can deteriorate rapidly, it generally isn't wise to try to squeeze every last dime of value out of the situation as that last puff of the value cigar may not last as long as you may have anticipated it would. On the other hand, there may have been two or three puffs left in that cigar, but what is it to you if you got something for free? As it turns out, almost immediately after we took profits, the shares skyrocketed, nearly reaching $6.35 briefly, coming back down to earth somewhat since then to around $5.00. So why did we sell? Because we had an investment thesis, we had a price target, we had a time-frame, and we weren't interested in being greedy. The Company did report its Form 10-Q, the Wall Street sell-side analysts did increase and reiterate their buy targets, the stock did start to screen well, but the Company also issued a press release stating that it was registering a shelf offering to raise additional equity. By taking a 50% profit over a two month holding period, which provides an annualized return of approximately 300%, it is difficult to lose money in the long-term, and all other alternatives tend to be highly satisfactory, on average.