Roumell Asset Management, LLC

2 Wisconsin Circle, Suite 640
Chevy Chase, Maryland 20815

P: 301-656-8500 F: 301-656-8501
www.roumellasset.com

July 23, 2020

RAM Mid-Year Update

As the markets were sinking in the early days of struggling to absorb the ultimate impact of the coronavirus, and the ensuing country-wide shut down, we wrote a client update on March 12th expressing our views at that time:

"When liquidity evaporates for small and micro-cap securities, no matter how well-capitalized, bids drop. During these times, we must reexamine our company-specific assumptions, in light of their current (lower) prices, and decide whether any action is needed. Our belief in the underlying value of our investments is overwhelmingly intact.

Time and again, our security selections have ultimately performed and moved us up the field, while episodically providing us roller-coaster rides along the way. We believe our securities will again work out to our investment satisfaction. To recap, our securities are well-financed. Such investments will not face liquidity challenges, which provides us time.

We have little to nothing to say about coronavirus that hasn't already been said, its impact on markets, and ultimately how it plays out for the economy. What we can say, as far as the securities we hold, is that we believe the current marks reflect panic selling. Thus, we've opportunistically added to several of our existing positions and also purchased a few starter positions in securities that were "on the shelf" waiting for what we deemed an attractive entry point. We believe we hold a portfolio of securities possessing excellent risk-reward dynamics. Our equity position has moved from roughly 50% to 60% in the past two weeks, underscoring our conviction."

Further, in a late March conference call with our family wealth office clients, we said the following:

"Our job with our companies, and potential new investments is trying to generate reasonable scenarios of a) how long will it take to cross the bridge and b) what will our businesses and balance sheets look like once we reach the other side? Those are the two primary questions. These are tough questions…particularly for companies that are debt financed (fortunately we don't really have that problem) but also for companies well -capitalized because there is likely some reduction in company resources.

So, how exactly are we navigating this environment? Same as always and remaining focused on one overriding, core question – Would we take this business private in heartbeat? Full stop. There are more things to consider now, but that is, was and always will be our central investment question.

Investment-wise, we are also staying very close to home. What do I mean by that phrase? This is a time to really call upon our network, and to stay close to it, because uncertainty is higher than normal…and we are doing just that. Further, we have a library we've build up over the past several years to call upon."

Our approach appears to have paid off. RAMSX is up over 65% from its March low, despite averaging about a 40%-50% cash position. As of today, the fund is down less than 5% for the year. Our thoughts remain essentially the same as they were in March.

Recently, we decided to increase our level of portfolio concentration in order to take better advantage of our skill set. We know we are at our best managing "out of favor, overlooked and misunderstood" small and micro-cap equity investments. As you know, our Fund has held a high level of cash (or BDC fixed-income securities) for several years. We've had difficulty finding a sufficient number of equity investments to get fully invested. We want to manage the Fund with a greater focus, and concentration, in our sweet spot – small/micro special situation equities. We will continue to pursue fixed income special situations to the extent we believe they are available at equity-like returns.

We will be increasing our typical concentration level from the 3% to 6% range to 5% to 10%, within the confines of the Investment Company Act limitations on mutual funds. We will, however, continue to have smaller sized positions based on our assessment of the risk/reward dynamics.

It's our strong belief that we will better serve our clients by taking advantage of our highest conviction ideas with greater portfolio weightings. Our skill set should be put to its highest and best use, and that's what we intend to do. As we expressed a few months ago, we expect volatility to remain at elevated levels. We see such a dynamic as an opportunity for our investors. As of June 30, 2020, our Top 10 holdings accounted for 45% of our fund's assets.

Top 10 Holdings Update as of June 30, 2020

Dundee, DC'A-T/DDEJF. (Note: Values are expressed in Canadian dollars unless otherwise indicated). On May 13th, Dundee announced a transformative event – the sale of two-thirds of its investment in Dundee Precious Metals, DPM-T/DPMLF – resulting in a cash infusion of roughly $152 million. The buying group also received warrants giving them the ability to purchase the remaining one-third of Dundee's DPM shares at $8/share, or roughly $95 million. DPM shares currently trade above $9/share, thus it is likely the warrants to purchase DDEJF's remaining shares will be exercised. Dundee's current market cap is about $130 million. The company has $125 million in perpetual preferred securities that currently trade at roughly 60% of their par value, i.e. $75 million.

On July 22nd, DDEJF announced a $44 million buy-back of its Series 2 Preferred shares at a roughly 35% discount to par value, providing immediate NAV accretion to common shareholders. We expect the company to make further announcements that will positively impact common shareholders. The company's next moves likely involve: 1) a common stock tender, which we expect to be at an attractive premium to the current market price and 2) a tender offer for its Series 3 Preferred shares at a deep discount to par value. Recall, in RAM's analysis, we did not value the perpetual shares liability at par because we never believed that they were a par liability.

Inclusive of the DPM shares that sold at $8/share strike price, less a preferred payoff at $15/share, DDEJF has roughly $1.85 per share in cash. Further, the company has multiple remaining assets with embedded value of another $1 plus /share, in our opinion. We currently have a cost basis of roughly $1.15 USD/share.

From the beginning, our thesis on Dundee has been predicated on CEO Jonathan Goodman executing on a plan of simplification, monetization and return of capital to shareholders. Since our original purchase, the company has gone from 70 employees to under 30 and the number of investments has similarly dropped by two-thirds. To be clear, a number of sales have not occurred as we expected, and one in particular, the Vancouver Parq Hotel and Casino, turned out to be a debt-for-equity swap.

Nonetheless, we believe our original "multiple shots on goal" narrative will provide us with a favorable investment outcome, albeit not as great as we once imagined. While other investors capitulated and threw in the towel, we steadily, and persistently, accumulated shares as they fell further out of favor during our holding period. Our lowest share purchase was at roughly $0.60 USD/share.

GSI Technology, GSIT. GSIT continues to advance its new game-changing Associated Processing Unit (APU) chip that executes memory and processing functions as one. GSIT spoke at RAM's 2016 Investor Day. On April 6th, the company finally signaled to the world the capability of its new artificial intelligence (AI) Gemini chip:

SUNNYVALE, Calif., April 06, 2020 (GLOBE NEWSWIRE) -- GSI Technology, Inc. (Nasdaq: GSIT), a leading provider of memory solutions for the networking, telecommunications and military markets, and developer of Gemini®, the Associative Processing Unit (APU), announced the publication of billion-scale similarity search benchmark results for Gemini-I, the first member of GSI Technology's Associative Processing Unit Gemini product line. *https://ir.gsitechnology.com/news-releases/news-release-details/gsi-technologys-gemini-ir-demonstrates-high-performance-billion*

We believe GSIT's $70 million cash balance (no debt), its outright ownership of its Sunnyvale, CA headquarters, and the value of its legacy SRAM chip business, account for the company's current market capitalization of roughly $170 million. Consequently, we believe we are paying next to nothing for its Gemini chips. For comparison, Intel purchased pre-revenue competitor Nirvana two years ago for $400 million and earlier this year purchased Israeli start-up Habana Labs for $2 billion. Intel is estimating that the AI chip market will reach $25 billion by 2024. https://www.reuters.com/article/us-habana-labs-m-a-intel/intel-buys-israeli-ai-startup-habana-labs-for-2-billion-idUSKBN1YK1BU

GSIT's entry into AI began in November 2015 with its purchase of MikaMonu, an Israeli company. Gemini should begin to be marketed by the end of this year with sales ramping in 2021. Gemini was selected for beta-testing by the Weismann Institute in Israel last year and that relationship is expanding. We're very excited to watch Gemini's entry into the market. It is up to the company to now execute. Founder, CEO and Chairman Lee-Lean Shu owns over 10% of the company and insiders in total own an estimated 30% of the company's shares. https://www.globenewswire.com/news-release/2015/11/23/1215947/0/en/GSI-Technology-Acquires-MikaMonu.html

Marchex, MCHX. MCHX is a leading conversational/call analytics company. RAM exited MCHX at the beginning of 2019 at roughly $4/share. As Covid-19 took hold, and country-wide shutdowns were implemented, call volume to MCHX's software platform dramatically dropped. MCHX gets paid per minute of calls, i.e., fewer minutes, less revenue. MCHX's stock dropped 70%. RAM took advantage of the sell-off and quickly became a large shareholder (again). We now own nearly 9% of the company's shares with an average purchase price of roughly $1.80/share. MCHX spoke at RAM's 2017 Investor Day.

MCHX's current market cap is roughly $80 million. It has $44 million of cash on its balance sheet (and no debt), leaving an enterprise value of $35 million, an absurd valuation, in our opinion, given the company's IP, customer list, long-term secular trends and industry M&A. MCHX spent $35 million in product development over the past two years alone to enhance the capabilities of its conversational analytics platform. Net equity is 75% of total assets, further underscoring a capital structure unencumbered by liabilities. What are the odds that the company isn't worth the past two years' product development expenditures? We believe it's quite low, thus providing free upside optionality.

In its April 2020 industry report, Opus Research (founded in 1986) evaluated eleven solution providers who are "…starting to define an emerging opportunity called Conversational Intelligence. They offer tools, services and platforms to help transform raw transcripts or call recordings into a source of insights and business intelligence to inform marketing, customer support, product development and operational decisions."

The report states, "Businesses have stepped up investment in technologies that improve the conversations they carry on with both prospects and customers. They are successfully leveraging their investment in speech and text analytics, natural language processing and machine learning in order to extract meaning and recognize the intent of each individual."

MCHX is the highest rated company in the report. The company was judged to have the widest breadth of conversational analytic capabilities. http://investors.marchex.com/news-releases/news-release-details/marchex-named-leader-conversational-intelligence-independent The next highest rated company, privately-held Invoca, with an estimated $50 million in revenue and also possessing an enviable client list, did a capital raise in December 2019. Invoca's estimated pre-money valuation of $225 million compares to MCHX's current enterprise value of $35 million (with total TTM revenue of $105 million; of which $52 million was in 2019 analytics revenue, with the balance in its declining legacy marketplace business). You read that correctly. https://www.prnewswire.com/news-releases/invoca-raises-56m-to-help-marketers-turn-conversational-insights-into-revenue-300940456.html

Last year, MCHX landed an exclusive (OEM level) with GM. GM is encouraging its dealerships to sign-up for the MCHX conversational analytics software platform by offering to pay the first year's cost.

MCHX has multiple options going forward. MCHX charges the customer about 5 cents/minute, its cost of goods is about 1.5 cents/minute (roughly 30%). If Marchex was able to separate its software from its underlying costs it could achieve SaaS-like margins. One way to do this may be to partner with larger call-center technology players (Cisco, Avaya, Genesys, etc.). It's like putting some cargo onto a Fed Ex truck that has extra capacity as opposed to running your own truck, i.e., there's no extra fuel cost.

Russ Horowitz, founder and co-CEO, owns roughly 13% of the company's shares and will be the ultimate decider as he owns 100% of the company's super-voting A shares. Russ is a first-class competitor (played soccer – Center Forward - at

Columbia), and a serial entrepreneur (Go2Net, Inc., Xanthus Capital, LP, Active Apparel Group). Russ is the 2003 Henry Crown Fellow of the Aspen Institute. We believe he will "get it done".

Leaf Group, LEAF. LEAF is a collection of online media properties (advertising model) and marketplace properties (selling stuff). Combined, LEAF's properties attract over 60 million unique visitors per month, placing it in the top 50 online unique viewership sites, as measured by comScore, SCOR. LEAF's current market cap is roughly $100 million with a net cash position of about $27 million.
Talk about turning lemons into lemonade. We initiated our LEAF position at about $6/share. We earnestly "backed up the truck" at around $1.50/share earlier this year to reduce our average price to about $2.30/share.

Recently, a group representing over 40% of its shares filed a 13D calling for the company be monetized through the separate sale of its media and marketplace properties. On June 30th, RAM issued a public statement supporting efforts to unlock shareholder value. We believe that the company's management ran a faux strategic review process last year and that the company's properties are undervalued.

comScore, SCOR. SCOR owns a portfolio of unique advertisement measurement tools covering online, TV, movies and mobile environments. Its TV measurement assets are particularly valuable in our opinion as the company remains one of the few companies able to challenge Nielsen's historical dominance in TV measurement. Our current position was purchased at an average price of $3/share earlier this year. This is our second outing (first time was successful) with SCOR common.

SCOR is in the final innings of a strategic review and we expect an announcement concluding the process – one way or another – by the end of the third quarter. We believe Bill Livek, CEO, who was put in that position several months ago (and immediately made a $1 million open market purchase at $3.25/share), is well-suited to optimize the company's unique assets. In our opinion, Bill believes deeply in the company's long-term opportunities in the measurement space and will be very reluctant to sell the company for a price he deems not fully valuing the company's assets and long-term (sticky) client relationships. Bill was the CEO of Rentrak, the TV measurement side of the company that SCOR acquired in 2016.

TETRA Technologies, TTI. This is the second time we've been invested in TTI. We met then-CEO Stu Brightman back in 2013. Stu spoke at RAM's Investor Day in 2013 and 2016. TTI is an oil and gas services company and also provides products to the industrial sector. Its three business segments are as follows:

<u>Completion Fluids & Products</u> - Manufactures and markets brine fluids for use in well drilling operations. Liquid calcium chloride, calcium bromide, zinc bromide and sodium bromide are referred to as clear brine fluids (CBFs). CBFs are solutions that are used to control bottom-hole pressures during oil and gas completion and workover operations. TTI also markets calcium chloride products to markets outside the energy industry (additive in plastics, products for wastewater treatment, flame retardants, products used as a deicer, road handling and dust control, food additives, etc.).

<u>Water & Flowback Services</u> – TTI provides onshore oil and gas operators with comprehensive water management services. These services include water analysis, treatment, and recycling, distribution, storage, transfer, engineering, and environmental risk mitigation.

<u>Compression</u> – TTI's investment in publicly traded CSI Compressco LP (CCLP) provides compression services for natural gas and oil production, gathering, artificial lift, transmission, processing, and storage.

We believe TTI is misunderstood and overlooked by the investment community because of a perceived complicated capital structure. Summarized below are several attractive investment considerations that we believe will significantly enhance TTI's valuation over time.

- Consolidation of CCLP's highly levered balance sheet is not fully understood in the marketplace. The consolidated balance sheet includes CCLP's debt for which TTI bears no responsibility. On a standalone basis, TTI has a much better balance sheet and two valuable business segments with no near-term debt maturities.

- TTI's standalone debt does not mature until September 2025. This provides a long liquidity runway and a valuable option with considerable time for recovering energy prices.

- TTI’s Completion Fluids segment has a sizable business that is not correlated to the oil and gas industry. About 40% of this segment’s revenue is to non-energy market industrial customers. TTI is the largest supplier of Calcium Chloride in Northern Europe and the second largest in the United States

- TTI’s Water and Flowback segment has an essential recurring business that is not dependent on new oil wells being drilled (i.e., transfer and treatment of water for existing producing wells).

- We value CCLP at zero in the current oil price environment. However, CCLP generated $26 million of EBITDA in the first quarter of 2020. Additionally, CCLP recently restructured its capital structure by pushing out significant debt maturities several years, reducing its liquidity risk. As such, there is potentially significant value in CCLP if oil prices recover to a sustained $52+ WTI.

- TTI has a long-term supply agreement, under which it purchases bromine. The supply agreement provides a secure supply of bromine at materially favorable terms compared to spot prices. TTI entered into this agreement several years ago in a more favorable pricing environment. We understand there are approximately 10 years remaining on this supply agreement.

- TTI has an estimated 30% market share in the important Completion Fluids industry. TTI developed “TETRA CS Neptune” completion fluids which are high-density fluids that are free of undissolved solids, zinc (which is very corrosive), priority pollutants, and formate ions. This is an environmentally friendly alternative to traditional zinc bromide and to cesium formate. TTI received the prestigious E&P Special Meritorious for Engineering Award for this technology.
- About 60% and 35% of the CEO’s and CFO’s 2019 compensation, respectively, was in equity. Further, several Directors/Officers purchased a total of about 1.5 million shares during June and July 2020.

We believe TTI could exchange its GP interest for an additional 14% of CCLP common equity, which would bring its ownership of CCLP to 49%. This would allow TTI to no longer consolidate CCLP and also increase the value of its economic interest in CCLP’s recovery.

We estimate TTI (excluding CCLP) will generate approximately $17.6 million Free Cash Flow (FCF) for 2020. We consider a 12% *after-tax* Free Cash Flow yield adequate for the risk. In comparison, the current CCC corporate debt yield is about 14% *pre-tax*. Using a 12% *after-tax* FCF yield requirement and $35 million of estimated FCF (based on $52/BBL oil price) would result in a stock price of roughly $2.30/share compared to our average purchase price of roughly $.60/share. This illustrates TTI's significant option value with modestly rising WTI prices.

Based on the above, we believe the upside is attractive and feel we have downside protection with the attractive Completion Fluids and Water/Flowback businesses weathering the storm of low oil prices, combined with the significant time afforded TTI before its debt matures.

Criteo, CRTO. The investment thesis for CRTO is straightforward in our opinion and one of RAM's favorite plays – a super well-capitalized technology company with a legacy business in decline, but generating free cash flow, combined with an emerging new business that is growing, with nice long-term tailwinds, underappreciated by the marketplace. At our average price, CRTO's net cash balance of roughly $440 million represented nearly 70% of the company's market capitalization.

CRTO's legacy business is one it invented – online retargeting advertisements. At the time of our purchase, Google announced that it planned to materially change, if not altogether eliminate, the ability for cookies to track web browsing within the next two years. The consensus view of CRTO was that it was a cash-rich, melting ice cube. Our view: The company's cash, plus a conservative estimate of the next two years' FCF, left little ascribed value for its growing Retail Media (RM) business, the result of its 2016 acquisition of Hooklogic for $250 million. RM helps retailers monetize their website traffic. CRTO counts as customers WalMart, Costco and large grocery chains. RM is the third-party leader in the space and we estimate its revenue is now nearly $100 million.

RM has been positively impacted by the coronavirus given the surge in online purchasing as brands look to position themselves on the front "shelves" of their retail distributors' websites. At our average purchase price of roughly $10/share, CRTO's enterprise value was about $200 million. We believe its RM/Hooklogic business exceeds $200 million providing several (free) shots on goal. Further, optionality rests with: 1) A retargeting business involving Google workarounds 2) RM/Hooklogic growth and 3) Other non-retargeting technologies. We benefited greatly in our analysis of CRTO by our deep ad-tech industry relationships.

Liquidity Services, LQDT. RAM filed a 13D in March 2020. We expressed our deep dissatisfaction with the company's 2019 compensation awards given its persistent cash burn and the absence of shareholder earnings. In what appears to have been a direct response to our original letter to the board, the company's CEO, Bill Angrick, has purchased over $3 million of stock on the open-market. Earlier this month, we filed a 13D exit filing. We have dramatically reduced our position as we believe the company is not being run for shareholder profits, has allowed its balance sheet to materially deteriorate and faces serious headwinds. The current share price does not offer a compelling risk/reward profile in our opinion. This was our second time invested in LQDT; the first time was successful; the second time we believe will be nearly breakeven.

ZAGG, ZAGG. RAM filed a 13D in March of 2020 in the aftermath of the company's failed strategic review process that did not result in a sale of the company. RAM successfully got Ed Terino onto ZAGG's board, while fellow 13D filer Arex Capital placed Ron Garriques onto the board. We believe these board additions will greatly increase ZAGG's chances to either successfully turnaround its business and/or re-engage a strategic process.

A10 Networks, ATEN. ATEN provided a business update and estimated second quarter 2020 results on June 9, 2020. We were pleased with the positive outlook and the company's ability to execute in spite of the Covid-19 uncertainties. ATEN expects that second quarter 2020 revenue will be up about 5% compared to the second quarter of 2019 and cash flow from operations of about $9 million, up from negative $4.5 million from the second quarter of 2019. ATEN has consistently maintained gross profit margins in the high seventy percent range.

ATEN has a strong balance sheet with $142.9 million of cash and investments and no debt as of March 31, 2020. The market capitalization at the current $7.38 share price is $567 million, which gives us an enterprise value of $424 million. Full year 2020 revenue should approximate $210 million, resulting in an EV/Revenue multiple of 2.0x. We believe this is an attractive valuation. In comparison, Gigamon, another well regarded cyber security company was acquired in an all-cash deal at an EV/Revenue multiple of 3.9x. We also note that other public company comparisons include FireEye which currently trades at a multiple of 3.1x and Palo Alto with a multiple of 7.0x. Our research (as confirmed by our IT Consultant) indicates that ATEN's products and services are highly regarded. This is further validated by the recurring sales to major technology and communication firms worldwide.

Bottom line, ATEN has a fortress balance sheet, is operating cash flow positive, has proven technology with an impressive customer base and trades cheaply relative to peers. We believe ATEN's stock valuation will trade more in line with peers as it continues to execute. We also believe ATEN is an attractive acquisition candidate.

"Never Say Never" side note:
In 2019, we exited Enzo Biochem (ENZ) and never thought we would come back into the security Well, George H.W. Bush said he'd never raise taxes, too. Recently, we went back into ENZ for the following reasons:

1. Kenan Lucas and Harbert Capital ran a successful campaign and put two people on the board. We know Kenan well. He's a straight shooter and the two people he placed onto the board are excellent in our opinion; the governance issue is well on its way to being corrected. The next election will likely complete the "cleansing" process.

2. ENZ's Covid-19 tests are gaining traction (active virus test and antibody test) and the demand for such tests dwarfs the supply. The company recently hosted a call with some institutional investors and indicated it now has the capacity for roughly 20K tests/week with the expectation of ramping up to 50K tests/week before long. Reimbursement rates are strong (average of about $75/test, which is a 60% plus gross margin).

3. Pressure on lab businesses has abated as the country sees them as critical pieces of the health care system. Further, it looks increasingly like ENZ will (finally) monetize its therapeutics business as new board re-focuses the company.

4. In our view, ENZ is a super cheap, overlooked stock (no sell-side coverage) with multiple shots on goal. We were able to buy shares in the low $2s (around $100 million cap with $50 million in cash, and no debt). To be clear, the expectation is that the Covid-19 testing opportunity lasts about 6 to 12 months past the vaccine availability date.

https://www.fda.gov/media/139829/download
https://www.globenewswire.com/news-release/2020/06/30/2055719/0/en/Enzo-Biochem-to-Provide-COVID-19-Testing-to-Farmingdale-State-College-Staff-and-Students-as-They-Return-to-Campus.html

Stay safe.

Kind Regards,

Jim

Disclosure: The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable.