

Performance	MTD	QTD	YTD
DJ Industrial Average	1.7%	17.8%	-9.6%
S&P 500	1.8%	20.0%	-4.0%
Russell 2000	3.4%	25.0%	-13.6%
Microcapbros	9.2%	46.7%	33.5%

Allow us to introduce ourselves

We are brothers who have been investing together going on ten years now. Investing is the mother of all industries and the intellectual pursuit of being able to “beat” the market is as good as it gets. We have chosen to dedicate our lives to the great art and science of investing. Our backgrounds are in classical economics, chemical engineering, and statistics. Reach out to us on twitter or at microcapbros.com!

Strategy and Process

Our investment strategy is focused around estimating a company’s intrinsic value by reconciling its risks and cash flows with the nature of its business and competitive position within its industry. Every industry and company is different and an important evaluation of all nuances is essential. We invest in companies that have an intrinsic value well above current market prices. The portfolio is biased towards companies that can scale (heavy reinvestment is not necessary for growth), have a sustainable competitive advantage, and are recession proof. Companies with these characteristics trading at a bargain are hard to find. The likelihood of finding these bargains is substantially increased searching where large hedge-funds cannot. These areas include micro to small-sized firms, spin-offs, certain mergers – anything that falls well outside of analyst coverage. We believe that a portfolio structured with five to ten high conviction investments will compound at a rate substantially greater than the market. Risk management is first and foremost. We have hard limits on max sizing and we also generate a set of quantifiable KPIs per company. Each KPI is tailored around our thesis and any deviation will trigger another evaluation of the company. We have a systematic method to avoid thesis creep and try to stay brutally objective.

Positioning

2020 has been a rollercoaster of a year so far. We have little faith in our prognostication of a post pandemic world. We simply aim to find companies that have the balance sheet to weather the storm and future cash flows that are insulated from COVID effects. We have provided summaries on some of our positions below. More in-depth valuations are posted on our website microcapbros.com/investments.

Donnelley Financial (DFIN)

Donnelley Financial (DFIN) provides services and regtech to public companies and investment companies to be compliant with the SEC. It has seen declining revenues since its spinoff and investors have written it off as a dying print business. Since it spun off, it has decline from about \$30/share to about \$8/share. Although the optics look bad, DFIN has incredible brand strength in its primary business segments and is successfully transitioning a growing share of its revenue to SAAS. This is our highest conviction idea at the moment as we have been able to verify key assumptions such as estimating their market share at 50% by sampling over 20,000 transactional filings. We believe their fundamentals are poised to improve and there is 100% upside for investors from current levels.

Liberated Syndication (LSYN)

LSYN is the market leader in the podcast hosting industry. Podcast hosts are a one stop shop for podcasters to get their content up and running and distributed to outlets such as iTunes, Spotify, and Pandora etc. LSYN has hosted numerous podcasters which you are probably aware of or listened to such as Dan Carlin's Hardcore History. As far as undervalued growth stories go, LSYN hits a lot of check boxes. It has a dominant competitive position, a long growth runway (has been growing podcasting revenues at about 20% CAGR and has actually seen a benefit from COVID), and is extremely solvent. As for near term catalysts, there is an activist on the board that has cleaned up the company and is most likely looking for an acquirer.

Hostelworld (HSW-LON)

HSW.L is an OTA connecting hostels with hostellers (backpackers). Unless you are a hosteler, you would not know it is the most recognized brand in this space. It has sold off due to COVID and has not seen the rebound that most other OTAs have had. This is most likely due to its size (<100 mm) and being listed on the LSE. Given the below reasons we see about a 60% upside from today's prices.

Solvency- Hostelworld has enough cash to last until Q4 2021 with zero revenue. Even if a vaccine is not available by then, rapid diagnostic testing should be available allowing travel to resume.

Hosteler demographics- About half of the Hostelworld's customers are European along with being below 30. This age group is less susceptible to COVID and Europe has done a better job containing COVID than other countries (USA). As Europe has recently opened up for travel, this could provide some insulation to COVID until a vaccine or rapid diagnostic testing at scale is available.

Research Solutions (RSSS)

RSSS is comprised of two segments that are both geared towards the R&D space. The larger segment (Reprints) is a stable low margin business that grows at roughly 2% per year. The smaller segment (Article Galaxy) is a high margin (>80%), high growth (>30% CAGR) business with a long runway. The larger segment has thus far obscured the smaller one. At the current valuation, one is getting a free option on potentially a 1B dollar SAAS play in the R&D space. The stock is closely held by insiders with about a 20% float. With its recent partnerships with major publishers such as Springer Nature, RSSS is well positioned to grow significantly in the years to come.

Concluding remarks

We had a bit of help from Lady Luck as none of our positions coming into 2020 were directly affected by COVID. We also had a sizeable cash position allowing us to opportunistically buy several new positions mentioned above at very discounted prices. The apprehension we felt at the beginning of the year from our growing cash position was dwarfed by the relief we felt when the market dropped 40%. The pandemic was a good reminder that in dire moments cash reigns supreme and it can pay to have the discipline to sit on cash when no opportunities present themselves. The rest of the year should be an interesting one.

Good health to you and your families,

microcapbros