Performance	QTD	YTD
DJ Industrial Average	-4.1%	-4.1%
S&P 500	-4.6%	-4.6%
Russell 2000	-7.7%	-7.7%
allcapbros	-4.9%	-4.9%

Our performance on the quarter was -4.7% with our main detractor being AOUT and main contributor being SES Imagotag. We began the year with roughly a 10% cash position and this percentage has drifted meaningfully higher based on our macro-outlook. We are now close to the maximum cash allocation level of 25%. There are decades where nothing happens and weeks where decades happen. Q1 2022 was certainly no ordinary quarter and marked a critical about-face in the re-pricing of all assets and geopolitical complacency as the world's largest grain producer started a hot war with the world's fifth-largest grain producer. Strong economic and corporate US fundamentals did little to offset market fears stemming from these geopolitical uncertainties and a Fed that has uncharacteristically scrambled into hawkish action to slay the specter of embedded inflation. The Fed more than doubled the number of rate hikes anticipated this year to seven. Credit markets have tightened ahead of Federal Reserve actions, and those considering receiving an extension of credit will have to pay significantly more for the privilege. Rates on the 10-year UST rose close to a full point higher to 2.3% and 30-year mortgage rates climbed to a level just shy of 5%. Corporate borrowers that have debt linked to short rates will also see their current borrowing costs rise as the Fed works through the tightening cycle. Long-duration assets like bonds and growth stocks were hit especially hard (down 6.5% & 14.5% respectively) which was more a function of DCF math than psychology or panic selling.

The market is jarringly coming to terms with reduced Fed liquidity and higher costs of money which just means that we are entering a more normal market environment- one where the cost of money is not heavily distorted by central bank policies and capital is more efficiently allocated. In this environment, quality companies that can internally finance their growth will greatly outperform indebted companies that are highly dependent on capital markets to fund costly growth strategies. Valuations are finally starting to matter, and we welcome the volatility.

Position Updates

American Outdoor Brands (AOUT)

In the current environment, Mr. Market is penalizing companies not growing yoy deeming them "COVID plays" with AOUT being one of the casualties, falling 35% ytd. We think the market is over-correcting and that opportunities in the outdoor/gun accessory segment are a prime example of time arbitrage. Companies in this space will likely have mediocre results in the interim, however looking out past one year, these companies will likely resume their growth trajectory and in turn, respective valuations. We believe AOUT is one the better plays in this space. AOUT was spun off from Smith and Wesson in June 2020 and is comprised of high quality brands (almost 50% gross margins) that, prior to COVID, were growing at double digit CAGRs. Although some demand has been pulled forward, AOUT has strong structural tailwinds with the record number of new hunters and fishers that have entered the market due to COVID. Many of AOUTs brands are accessories for the more experienced, thus it should see a step change in future demand due to the influx of new entrants into fishing, hunting, and the outdoors. Not content resting on its brands laurels, AOUT places a strong emphasis on innovation with over 300 new products introduced per year. Innovation prevents the brands from being commoditized and it allows AOUT to harness the full potential of their brands and enter adjacent markets where they have "permission to play". These adjacent markets have significant overlap with AOUT's brand lanes which gives them the ability to cross sell their customer base. AOUT's new products introduced over the last two years make up about 25% of revenues. AOUT's R&D is in-house while it outsources manufacturing to partners in China.

AOUT has exhibited sound capital allocation repurchasing about 7% of shares outstanding in Q1 2022. Given the depressed valuation, we believe this to be one of the better uses for AOUT's spare cash. AOUT's other capital allocation is towards R&D in which it spends about $6mm per year and earns a high teens ROIC. Management is aligned with shareholders with sizeable share ownership (CEO has about 3x his salary in shares even at todays prices) and with equity awards based on market cap performance.

As for valuation, AOUT has an Enterprise Value of 40mm and generates about 20mm in FCF per year. Currently the majority of its assets is in inventory given heightened supply chain risks. We expect as markets normalize, the majority of this inventory will be converted into cash. This will free up significant working capital for R&D, acquisitions, and shareholder friendly actions. Although revenues will likely retrace about 15% from 2021 and FCF could drop to 10-15mm in the short term, AOUT will likely remain profitable given its asset-light operating model. Given AOUT's anemic valuation, strong brands, industry tailwinds, and a shareholder aligned management team, we believe AOUT has more than 100% upside from todays levels.

SES Imagotag

Ses Imagotag (SESL:PA) is up 25% YTD due to continued growth in their business and a recently announced nationwide partnership with Walmart. SES is the dominant market leader in electronic shelf labels (electronic price tags) with about 60% market share. Part of our research when we value companies is trying to identify the trends underlying the business. The trend SES is surfing on, the digitalization of retailers, is one of the strongest secular trends we see today as retailers merge their physical and digital selves to create a seamless customer experience. Electronic shelf labels is one of the better ways to play this space as it improves retailers top and bottom line and provides retailers 1-3 year payback period. Electronic shelf labels reduce non-value add activites such as changing out thousands of paper price tags. This is exacerbated in an inflationary environment as inflation means frequently changing prices. Electonic shelf labels has large adjacent markets that can be addressed. Along with dynamic pricing, ESLs can also display ads, monitor shelves for out of stock items etc. We believe advertisements provide an enormous runway as the closer ads are to the point of sale, the more effective they will be, and the more companies will pay.

We believe SES is at an inflection point in demand. When the largest low cost retailer in the world wants your product, you have something special . The expected demand from the Walmart partnership will exceed all of the electronic shelf labels SES has installed over the entire life of the company. SES is currently trading at about 12x 2023 EBIT with no debt. Given its dominance in this rapidly growing industry and the Walmart partnership, we believe SES is significantly undervalued and could be a long term compunder.

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