

September 23, 2020

Dear Partners,

Lowell Capital Value Partners, L.P. (the “Partnership”) was +7.5% in August 2020 vs. +7.2% for the S&P 500 with dividends reinvested (all returns shown are net to investors). For 2020 year-to-date, the Partnership was (5.6%) vs. +9.7% for the S&P 500 with dividends reinvested. As of August 31, 2020, the Partnership had 30 long positions (representing about 83% of total capital) and 2 short positions (representing 2% of total capital). The Partnership had no leverage and a 19% cash position giving our portfolio a net long position of about 81%.

Our focus is on increasing the capital accounts in the Partnership in a conservative and prudent manner by taking what we think are intelligent risks. We seek to carefully allocate our capital into investment opportunities where we believe we have an advantage and where we think the risk-reward ratio is asymmetrically in favor of the Partnership.

Our investment results have been achieved with an average net cash position of over 30%. The Partnership has avoided the use of leverage and, on the contrary, maintained a relatively significant net cash position, and we believe this has reduced the risk to its capital.

Our area of focus, small cap value, has been heavily out of favor in recent years. We have an approach of investing in under-followed or misunderstood companies which generate strong cash flows and we think are under-valued. We believe our holdings are significantly under-valued and will eventually be recognized. We plan to continue our approach to investing which has worked well over many years and with which we are comfortable. We believe the value of our investments will eventually be recognized and we are comfortable with this approach to investing.

Stock Market, Economy, and Skating to Where the Puck Is Going to Be

The U.S. economy was growing at a modest pace, but the coronavirus pandemic in mid-March hit both the economy and the stock market quite hard. We took a much more conservative position with the Partnership initially and have gradually redeployed capital into businesses which are under-valued and which we believe will have strong resiliency to the coronavirus impact and the damage it will likely cause to the global economy. While stock markets recovered quickly, we are still not completely sure they are not ahead of the actual economy, both globally and in the United States. Other risks include continued trade battles between the U.S. and China, the large U.S. federal deficit funded at low interest rates., and the build-up of corporate, mortgage, and other debts dependent on low interest rates which could lead to an adverse credit event. Yet another major risk factor is the Presidential election and the protests and violence around the United States.

All this said, interest rates continue to remain low, which is good for equity prices, and it seems they may remain low for an extended time. The large deficits governments are running to try to offset the damage created by the coronavirus pandemic are likely to put continued downward pressure on interest rates well into the future. Further, every day is one more day closer to a vaccine for the coronavirus.

The recovery from the coronavirus pandemic seems bifurcated, with many technology-driven and service businesses able to resume operations successfully while other businesses, like hotels, travel, entertainment, restaurants, and gyms, significantly impaired. The U.S. and global economies are gradually reopening further as the year 2020 continues. This seems to have created a “K”-shaped recovery, with some successful businesses and some not-so-successful businesses. Indeed, certain business models have even benefited from the coronavirus pandemic.

Our primary objective is to find and invest in securities which are mis-priced, most frequently based on free cash flow generation. Especially given the coronavirus pandemic and the turmoil it has created in both the economy and the stock market, we are highly focused on Wayne Gretzky’s famous quote: “skate to where the puck is going, not where it has been”. We are in good company:

- “There is an old Wayne Gretzky quote that I love. I skate to where the puck is going to be, not to where it has been.” – Steve Jobs

In many cases, the coronavirus has sharply changed consumer behavior, and we are focused on companies that are benefiting from these changes. We believe these changes may be with us for several years. We have incorporated a strong overlay of the coronavirus impact on our projections of future cash flows in all the businesses we own and are evaluating. While many industries have been hurt by the coronavirus, others have been helped, as trends have been accelerated that were in place and would have taken much longer.

The investments we summarize herein we believe can do well in the coronavirus pandemic and may even be helped by it as we seek to “skate to where the puck is going to be.” Issuer Direct (ISDR) is a software company that, among other services, enables online investor presentations and conferences and newswire dissemination and these services may be accelerating due to stay-at-home policies. Calloway’s Nurseries (CLWY) operates gardening centers near Dallas and Houston, Texas and gardening is sharply increasing as people stay-at-home and focus on activities in or near homes. Toll Brothers (TOL) is benefiting from multi-year trends in: (a) low interest rates; (b) millennials that have not bought homes; (c) new housing supply well below the market-clearing levels; and (d) mass exodus from urban locations to suburban locations due to a need for larger residences due to work-from-home trends, reduced exposure to crowds, increased safety, and less commute time. These trends have combined to drive sharply increased demand for larger, suburban homes which are the specialty of TOL.

Our strategy has not changed - we continue to focus on highly cash generative business models with strong balance sheets and large free cash flow yields that are sustainable. We

believe the long-term outlook for American businesses is still strong and interest rates remain low. U.S. and global economies can rebound strongly from the coronavirus pandemic. We continue to use our investment strategy that has worked over many years to purchase companies that we believe are undervalued based on their earnings, cash flow, and balance sheet characteristics. It is possible that this market volatility could ultimately drive investors back towards our value-oriented approach to investing but we cannot be sure of this. We will continue to take a “bond-like” approach to investing in equities with our strong focus on unleveraged free cash flow yields.

We believe most of the Partnership’s investments have near 10% or greater unleveraged free cash flow yields. While we have little confidence in our ability to forecast the stock market, we are more confident of the free cash flow yields that support our investments. We do a lot of work to try to maximize our confidence that these free cash flows are sustainable and reliable. This is what keeps us invested in carefully selected equities despite several consecutive years of positive stock market returns. We believe our large free cash flow yields provide a significant margin of safety for our investments, especially when compared to sub-2% risk-free yields on ten-year treasuries. Our focus with the Partnership is to find companies that can sustainably generate free cash flow over several years. We have found this to be the most reliable and conservative method to drive investment returns for the Partnership.

Good Businesses with Low Expectations

We are focused on investing in good businesses with low expectations (i.e., low valuations). For us, a “good” business is one that earns high returns on invested capital or where you don’t spend a lot of money to make a lot of money. We look at businesses where the total investment in tangible assets to run the business (i.e., net working capital plus the book value of property, plant, and equipment) are modest relative to the sustainable operating earnings or free cash flows. These businesses are not capital intensive. Businesses with high returns on invested capital tend to be strong generators of free cash flow. These are businesses that we like very much.

In terms of low expectations, our investments generally have valuations which are low and this helps reduce risk. The market does not expect much from the business in the future or is worried about current earnings or free cash flow sharply declining. These may also be situations where a business is simply misunderstood or undiscovered. Our general experience is that if the business can exceed these low expectations or generate results that are less bad than expected, the stock price is likely to increase. Also, if expectations are low, when results are disappointing, the stock is likely to decline less than otherwise. We spend a lot of time studying these types of companies to try to get comfortable that their prospects are better than the market believes. Often specific businesses or industries get painted with a broad brush and their valuations are driven down to what we find to be attractive levels. We think our focus on these out-of-favor companies and industries create an opportunity to earn better risk-adjusted returns than the general market.

Focus on Smaller Companies

We focus on smaller companies, searching for “low-risk, high-return” opportunities. We believe a few good ideas can drive the Partnership’s results. We believe the Partnership can generally achieve better risk-adjusted returns by uncovering a few small “gems” than by focusing on larger companies or macro issues which are much more widely covered. Our focus on smaller, less-followed companies represents a potential sustainable competitive advantage for the Partnership relative to larger investment funds that must focus on much larger companies. Our empirical investment experience validates this belief, as our most successful investment positions have consistently been smaller companies.

We are specifically looking for small companies that may appear risky on the surface but are less risky due to characteristics such as: (a) cash-rich, “Ft. Knox” type balance sheets, (b) consistent free cash flows; (c) unique niches or business models; (d) very low valuations with minimal expectations imbedded in the stock price; and (e) honest and intelligent management teams that are highly focused on driving shareholder value. Most small companies do not possess **any** of these characteristics. We focus most of our attention on a handful of companies that we believe possess almost **all** these characteristics.

Top Long and Short Positions

Our top long positions as of August 31, 2020 were as follows:

Transcontinental Cl. A (TCL-A.TO)
Calloway’s Nursery (CLWY)
Issuer Direct (ISDR)
Toll Brothers (TOL)
Berkshire Hathaway (BRKB)
HCA Healthcare (HCA)
UFP Technologies (UFPT)
Cambria Automotive (CAMB.L)
KBR Inc. (KBR)
Lanxess AG (LXS.G)

We believe our long positions have strong competitive niches, large and sustainable free cash flow yields, low-risk balance sheets, recession earnings capability, shareholder- oriented management teams, and attractive risk-reward characteristics as investments. You will find that most of these companies are not household names and that is exactly as we have intended it. We are seeking to maximize our competitive advantage by investing in under-followed companies where we may have a greater opportunity to understand the company and the investment better than other investors.

Position Sizes

The Partnership’s investments are diversified across a wide range of businesses. Our goal is generally to have core position sizes in the 3% to 6% of total capital range and limit our exposure to any one specific investment to approximately 10% of capital or less. We think this helps limit our downside exposure to any one investment position while retaining

substantial upside for those investment positions that work out as expected. Our investment positions are also diversified across several different industries.

Northern Exposure

We continue to seek out what we believe are attractive values for good businesses in Canada, our neighbor to the north. Canada has a population of about 35m or about 10% of the U.S. and we believe its economy remains in reasonable shape. Canada's debt to GDP is currently well below U.S. levels. Canadian banks avoided much of the real estate problems in the U.S. by maintaining more disciplined underwriting standards in making real estate loans. Canada is a natural resource-oriented economy with substantial oil and gas reserves. We will continue to carefully monitor the impact of oil price changes upon the Canadian economy.

Recent Investments

Our optimism regarding the future of the Partnership relates directly to our specific investment positions, which we believe are significantly mispriced relative to their intrinsic values. Certain of these are detailed below:

Issuer Direct Corp (ISDR) is a software company that is the industry leader for corporate compliance, disclosure management services, and communications delivering a platform that manages a broad spectrum of information, including regulatory filings, news distribution, earnings calls/webcasts, investor relations services, and more. The Company was founded in 2006 and was mostly focused on EDGAR and compliance services for public and private companies and has since transitioned into a leading compliance and communications platform-based business. The Company has done multiple acquisitions, one of which was Access Wire, one of the leading newswire services in North America and the primary driver for ISDR's Platform & Technology revenue growth. Platform id provides both public and private companies with comprehensive and relevant modules, technologies, tools, and services for investor relations, communications, and compliance needs. The Company mostly focuses on micro- to small-cap companies and currently provides its services to over 2,500 customers. ISDR is continuing to capture market share as they grow and add modules to its platform. ISDR was founded in 1988 and is headquartered in Raleigh, North Carolina.

ISDR is an almost 70% gross margin, mostly recurring-revenue software business with a diverse list of customers. At investment, ISDR's shares traded at about \$9 per share with about 3.8m shares outstanding for a market cap of about \$36m. ISDR had a "Ft. Knox" balance sheet with \$15m of net cash or about 40% of the total market cap and an enterprise value (EV) of \$25m. The Company has a strong ability to meaningfully grow its ARPU in a large and expanding global addressable market. ISDR has a highly cash-generative business model with minimal capital expenditures or working capital needs. ISDR traded at an attractive valuation, with a high single digit or higher unleveraged free cash flow yield. ISDR has generated close to \$3m per year in cash from operations over the past several years, as compared to its current \$25m

enterprise value at investment. CEO Brian Balbirnie owns 16% of outstanding shares and we believe is an excellent operator who is highly focused on creating shareholder value.

We believe that ISDR's software business model has benefited from the coronavirus pandemic as ISDR has effectively pivoted and moved several of its additional services online. ISDR reported a strong Q2 ended June 30 amid the coronavirus impact and we expect this strong performance to continue.

We believe that ISDR can grow its software business model over the next few years and recurring revenues should become over 80% of total revenues as legacy services are transitioned to its software platform. We believe ISDR could achieve adjusted EBITDA of \$5m or more by 2022 and trade for 10x adjusted EBITDA with a net cash balance sheet of \$25m for a market cap of about \$75m. Based on 3.8m shares outstanding, ISDR could achieve a share price of close to \$20 per share, versus its price at investment of about \$9, or about 120% upside.

Calloway's Nurseries Inc. (CLWY) operates garden centers in the U.S. with a chain of 22 stores under the Calloway's Nursery name in Dallas and Ft. Worth, Texas, and under the Cornelius name in Houston, Texas.

CLWY has a strong and defensible niche in the gardening industry located near some of the strongest residential markets in the country. We believe CLWY has limited Amazon risk and has a good competitive position versus Home Depot and Lowe's with greater specialization and service. The lawn and gardening industry is an almost \$40b industry in the U.S., driven by local markets share, where CLWY has a strong position. CLWY has gross margins of about 50% which are higher than most competitors in the gardening industry.

Importantly, we believe CLWY could be a significant beneficiary of coronavirus pandemic as the stay-at-home and work-at-home trends have driven a sharp increase in gardening as people spend more time at home.

CLWY has a "Ft. Knox" balance sheet with a net cash position of about \$5m when we invested originally. Furthermore, CLWY owns the real estate at 11 of its stores with about 900,000 square feet of land that we believe could be worth \$50 per square foot or more or \$45m plus in excess real estate value. This is close to the market cap of CLWY when we invested. CLWY could possibly realize this value through sale-leasebacks or assets sales over time.

CLWY has a majority shareholder, Peter Kamin, who is a former partner of Value Act Capital. Kamin takes major positions in small public companies and seeks to drive improved shareholder value. Kamin has been involved with CLWY since 2012 and went through a couple of proxy fights and a major share repurchase in 2016 to get to his current position. We have invested successfully in other companies with Kamin, including MAM Software (MAMS) and Rand Worldwide (RWWI). His firm controls close to 60% of fully diluted shares outstanding. We believe our interests are fairly aligned with Kamin and he

will act in the best interest of all shareholders. It is important to note that CLWY is “dark”, which means it does not file financials with the SEC. It does, however, provide financials on its website.

During the coronavirus pandemic, in Q2 of 2020, CLWY’s earning and profitability spiked much higher than a normal seasonal Q2 result and CLWY generated a huge amount of cash and ended Q2 with a net cash position of about \$17m versus about \$5m in prior year.

We invested in CLWY at about \$6.50 per share with about 7m shares for a market cap of about \$45m. CLWY had a net cash position of about \$5m for an enterprise value (EV) of about \$40m.

We believe CLWY could achieve \$12m of adjusted EBITDA in 2021 and have a net cash position of about \$30m by year end. Based on a valuation of about 10x adjusted EBITDA CLWY could have a market value of about \$150m and, with 7.5m shares outstanding, CLWY could trade for about \$20 per share versus the current price of about \$8 per share. We also believe CLWY could be an attractive acquisition for a strategic or financial purchaser.

Toll Brothers (TOL) is a homebuilder that focuses on luxury homes, mostly in the suburbs of cities. We believe the coronavirus pandemic has significantly accelerated the demand for TOL’s “affordable-luxury” homes which are large and located in suburban areas and still reasonably priced, especially with interest rates low.

We believe there is currently a strong movement of families from condominiums and apartments in urban areas to single-family houses located in suburbs and we believe this shift could continue for several years. There are several major reasons for this trend: (1) larger residences with more rooms for work-from-home and school-from-home; (2) privacy and relative safety of houses in the suburbs; (3) reduced commuting time and risks on crowded public transportation; and (4) low interest rates which make larger houses affordable relative to condos or apartments in cities.

As a result of these trends, TOL has seen a substantial increase in demand for its luxury houses, which are its specialty. Orders, pricing, and profit margins on ordered homes have strengthened markedly since the coronavirus pandemic. We believe by fiscal year ended October 2022, TOL could earn up to \$7 per share versus about \$4 per share in recent years and have a book value close to \$45 per share. The catalyst for TOL shares has been and will continue to be strong orders and strong pricing power in recent and future quarters. We believe TOL could eventually trade for \$70 to \$100 per share which compares to our average cost at purchase of about \$35 per share.

Short Positions

We have sought to protect the Partnership’s capital partially by maintaining small short positions (1% or less) on several companies with extremely high valuations and unsustainable business models. As of August 31, 2020, the Partnership had 3 short positions.

Concluding Thoughts

We think we own an excellent group of businesses with asymmetrical risk-reward characteristics biased in the Partnership's favor. We have long-term confidence in the North American economy and believe carefully selected equities remain one of the best ways to participate in their economic growth and protect purchasing power from inflation. We have tried to position the portfolio to achieve these objectives.

We focus on detailed research on individual investment opportunities with asymmetrical risk-reward characteristics in the Partnership's favor. We are keeping the Partnership's capital well-diversified in companies with "Ft. Knox" balance sheets. We are doing our best to balance well-publicized macro risks against our micro work on specific companies. A "Ft. Knox" balance sheet, both at the Partnership level and at our individual investments, helps us sleep better at night. Our first goal is always capital preservation, followed closely by prudent, intelligent growth of capital.

We believe that small cap stocks offer us excellent opportunities for attractive risk-adjusted returns. Most investors on Wall Street simply cannot focus on these smaller companies due to their small size. This should give the Partnership an advantage over time. There are greater opportunities to find a specific business or security which is meaningfully mispriced before it becomes clear to other investors. We do a large amount of research on these individual positions to achieve a high conviction level which allows us to establish and remain committed to a larger position. We often have detailed discussions with the senior management of our investments to better understand these companies and their industries and thereby strive to increase our competitive advantage.

We are one of the largest investors in the Partnership and continue to have a significant investment. We will always maintain a large amount of capital in the Partnership and make sure our interests are closely aligned with our limited partners.

Our goal is to significantly outperform the major indices over a three- to five-year period while taking a conservative approach to risk and we continue to believe we can achieve this goal.

We remain cautiously optimistic on our investments due to our continued ability to find what we believe to be good businesses that are under-valued. We are doing our best to position the Partnership to earn attractive risk-adjusted returns in this environment. We appreciate your patience.

Please do not hesitate to call (310-426-2045) or email (jez@lowellcap.com) us with any questions. We appreciate your confidence in the Partnership and we will do our best to protect and conservatively grow the Partnership's capital over time.

Sincerely,

Jim Zimmerman

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