June 22, 2021

Dear Partners,

Lowell Capital Value Partners, L.P. (the "Partnership") was +1.7% in May 2021 vs.+0.7% for the S&P 500 with dividends reinvested (all returns shown are net to investors). For 2021 year-to-date, the Partnership was +27.4% vs. +12.7% for the S&P 500 with dividends reinvested. As of May 31, 2021, the Partnership had 28 long positions (representing about 85% of total capital) and 3 short positions (representing 2% of total capital). The Partnership had no leverage and a 17% cash position giving our portfolio a net long position of about 83%.

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%, although we have reduced our net cash position to about 15% in recent months based on the opportunity set of investments we have encountered. The Partnership has avoided the use of leverage and, on the contrary, maintained a 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 but has performed strongly in recent months. We have an approach of investing in under-followed or misunderstood companies which generate strong cash flow 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, Part Deux**

The U.S. and global economies were growing at a modest pace, but the coronavirus pandemic struck in mid-March of 2020 and hit both economies and their stock markets quite hard. We took a more conservative position with the Partnership initially and gradually redeployed capital throughout 2020 into businesses which were under-valued and which we believed would have strong resiliency to or even benefit from the coronavirus impact. We carefully monitored commentary from businesses to help evaluate the risks going forward. Both economies and stock markets globally have recovered strongly thus far but risks certainly remain. These would include continued trade and global leadership battles between the U.S. and China, the large U.S. federal deficits 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. Higher tax rates on corporations and capital gains could produce a significant reduction in

economic activity and are a major risk. Another risk factor is inflation due to the large deficit spending by the U.S. government and the potential pent-up demand as consumers spend when the economy fully reopens. This could result in significantly higher interest rates than the markets expect.

Continued low interest rates would put a huge tailwind behind stocks. Ten-year treasury rates are the risk-free alternative to investing in equities and they are currently under 2%. Global investors have relied upon treasuries and other low-risk bonds to provide returns to support their investment strategies. The current low interest rates do not provide sufficient returns to hit their investment targets. This forces them to consider alternatives to treasuries and bonds. Stocks generate cash which is either paid out in dividends or retained in earnings but, ultimately, we believe the cash generated by companies finds its way to investors. Our "bond-like" approach to equities targets companies that are generating cash, even if it is not paid out currently to shareholders. If the cash builds up inside the company, as earnings are retained, and used for productive purposes, shareholders will ultimately realize this increased value.

Over the past year, amid the pandemic, we have further aligned our investing approach with the famous Wayne Gretzky quote: "I skate to where the puck is going to be, not where it has been". What does this quote mean to our investing process? Specifically, to be positioned in investments that have goods or services that people will want in future years and which have favorable long-term growth prospects. We want to be invested in businesses where the "wind is at our back" in terms of industry demand or the competitive positioning of the company. Does it make something or do something that customers really want or need? Will they want it for several years? What competitive protections does its market position have? It is not enough to find a cheap investment that generates great cash flow but has limited growth prospects.

Consider, for example, Berkshire Hathaway. Most of its capital appreciation has been the result of growth in its underlying businesses, held for long periods of time. This includes both its wholly owned businesses and its partial ownership of businesses via stock positions. The underlying growth of these businesses is what drives long-term shareholder value for Berkshire. It is this long-term growth that can increase the value of the Partnership over time. It is therefore important to have capital in investments that are growing and can get larger over time, and which are also attractively priced. We are increasingly focused on situations where the company has a proprietary good or service with sustainable demand or a market position that customers value and which it can use to increase sales and earnings over time. This enables us to hold our investment positions longer and let them play out further. If the underlying sales, earnings, and cash flows of our investments grow over time, eventually their share prices will also follow. We are, therefore, even more highly focused on industries which might have a strong tailwind of growth and on companies which are delivering products or services that consumers desire.

Our primary objective is to find and invest in securities which are mis-priced, generally based on free cash flow generation. 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. 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 excessively high valuations for technology companies 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 if interest rates do move significantly higher that our cash-generative equity investments are a relatively good place to have capital. We believe most of our businesses could increase pricing to adjust for inflation and maintain or improve their profitability and cash flow generation. Their asset values have a good chance to increase with inflation to protect the Partnership's purchasing power. This is a far better alternative than most bonds which offer only a fixed return at low rates and would likely drop in value in response to higher market interest rates. There is a tremendous amount of capital in bonds globally and some portion of this could move into equities to preserve purchasing power of investment portfolios.

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 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 May 31, 2021, were as follows:

Calloway’s Nursery (CLWY)
BBQ Holdings (BBQ)
Tilly’s Class A (TLYS)
Insight Enterprises (NSIT)
Terravest Industries (TVK.TO)
Computer Task Group (CTG)
Cambria Automobile (CAMB.LN)
Delta Apparel (DLA)
Kirkland’s (KIRK)
New Zealand Media & Entertainment (NZME.AX)
Transcontinental Class A (TCL-A.TO)

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 of 2008-9 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:

**Computer Task Group (CTG)** is an undervalued information technology (IT) services company in North America, South America, Western Europe, and India. It provides business process solutions, which include strategic advisory, data strategy, digital workplace, enterprise platforms, information disclosure, and regulatory and compliance services. The Company also provides IT and other staffing services, including managed staffing, staff augmentation, and volume staffing services. CTG serves the financial services, healthcare, manufacturing, and energy industries, as well as technology service providers.

CTG has gradually transformed itself from a staffing services company into an IT solutions company with higher margins and more stable performance. Adjusted EBITDA has increased from $9.5m in 2018 to $12.5m in 2019 and $15m in 2020. CTG performed well during the pandemic and its business showed strong resilience as work from home requirements drove increased demand for its technology services.

CEO Filip Gyde ran CTG's European division successfully for many years and was made CEO in early 2019 and has pursued an aggressive program to exit lower margin staffing services and grow higher margin and more resilient solutions services since taking over. This is the same strategy Gyde executed in Europe for CTG which resulted in profitable growth for nine consecutive years. We believe Gyde has a laser-focus understanding of which specific solutions services are most critical to existing and potential customers and is carefully building a strong and resilient solutions business across all of CTG. Non-GAAP operating income and non-GAAP operating margins have consistently improved as IT Solutions continues to become a larger share of total revenues for CTG. CTG's European operations currently provide a dominant share of total operating profits even though they are only about 40% of total revenues. This is due to Gyde's strategy in Europe which has been executed for many years there. Further, CTG is under intense pressure to achieve continued improvements given an aggressive position held by an activist group, which made offers to purchase the company in mid-2019 and early 2020.

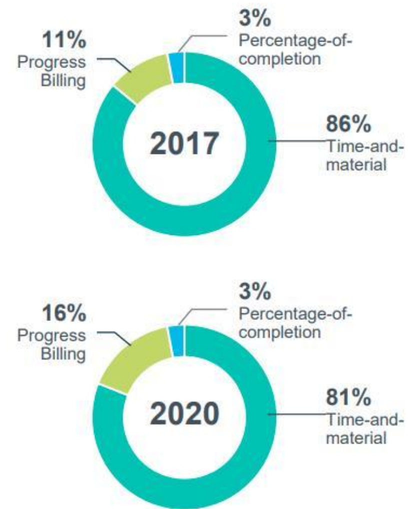
CTG's long-term targets include IT solutions revenue of over $250m and adjusted EBITDA of $35m by 2023. While we are not convinced CTG can achieve these aggressive targets, we believe CTG will move aggressively towards them and, as a result, drive strong shareholder value. CTG has a highly cash-generative business model with limited capital expenditure requirements and a "Ft. Knox" balance sheet with a net cash position of about $33m at Q1 of 2021, or about 20% of total market value.

CTG's shares currently trade at about $10 per share with about 15m shares outstanding for a market cap of $150m. CTG has a "Ft. Knox" balance sheet with net cash position of about $33m as of 3/31/21 for a total enterprise value (EV) of about $120m. LTM EBITDA is about $16m. LTM free cash flow (FCF) is about $12m. CTG is currently trading at about 7.5x adjusted EBITDA and a 10%+ unleveraged FCF yield.

CTG's strategy is to grow its IT solutions business to $250m of revenue by 2023. As indicated below, IT Solutions is growing and becoming a larger part of CTG's overall business, as CTG is concurrently exiting less profitable IT Staffing business. CTG owns or leases a total of 25 facilities throughout the world, including North America, Europe, South America, and India.

## Revenue Breakdown

Revenue by Contract Type

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CTG 22

CTG has grown EBIT from $6m in 2017 to $11m in 2020. Adjusted EBITDA grew from $8m in 2017 to about $16m for LTM ended 3/31/21. We think adjusted EBITDA can grow significantly by 2023 to $25m or more via modest organic growth in revenues, improved margins due to increased emphasis on IT Solutions, and strategic, targeted acquisitions to add services and geographies required by customers. CTG has completed three small acquisitions recently, one each in 2018, 2019, and 2020, and these have helped to drive growth. We believe CEO Gyde is carefully assessing which services are most critical to existing and potential customers and using this to target accretive bolt-on acquisitions.

We believe CTG can sustainably generate $10m+ of FCF with current operations for an unleveraged FCF yield near 10% which we believe is attractive with 10-year treasury rates near 2%. We believe CTG will use its free cash flow and "Ft. Knox" balance sheet to grow organically as well as inorganically via bolt-on acquisitions. As IT Solutions continues to become a larger share of total sales and profitability, we expect CTG's valuation multiple will increase. Based on 10x adjusted EBITDA of $25m by 2023 plus $50m in estimated net cash, CTG would have a market cap of $300m or about $20 per share vs. the current $10 share price (+100%).

**BBQ Holdings (BBQ)** was formerly known as Famous Dave's of America, Inc. (DAVE) which develops, owns, operates, and franchises barbeque restaurants under the Famous Dave's name.

It offers smoked, barbequed, and grilled meats, as well as entrée items and side dishes that are prepared using proprietary seasonings, sauces, and mixes. The Company operates full-service and counter-service restaurants. When we originally invested in BBQ, around May 2018, it owned 15 locations and franchised 136 restaurants in 33 states, Puerto Rico, Canada, and the United Arab Emirates.

We originally expected that BBQ would transform itself into a high-margin, high multiple franchising business. However, this investment did not play out as we expected due to weak franchisee performance and large restaurants for sit-down dining which were not what consumers really wanted. BBQ revenues and net income and cash flow were weaker than we expected. Nevertheless, we liked the focus by CEO Jeff Crivello on take-out dining and digital marketing and digital ordering and rationalizing restaurant sizes towards smaller sizes and drive thru options. We thought Crivello was shifting BBQ towards food items and services that consumers would want. He was also aggressively reducing operating expenses and capital expenditures.

When franchisees balked at investing capital into new units or remodeling existing units, Crivello pivoted towards purchasing weak franchise restaurant units at low multiples. He continued to shift the business model towards take out and healthy options, modeled after successful chains like Chipotle and Panera. We liked his focus on evaluating both organic and inorganic investments on a cash-on-cash basis – how much cash are we spending and how soon do we get it back? This is exactly how we approach investing in public equities. We continued to hold our investment position and added to it modestly.

In March 2020, the coronavirus pandemic struck, immediately after BBQ had acquired Granite Brewery. BBQ was forced to close all its restaurant units which created an extremely difficult operating environment. We carefully monitored how BBQ handled this difficult period and talked with Crivello several times during this period. We thought he was making the right moves to reposition the company. While restaurants were closed, BBQ was able to substantially mitigate the decline by increasing its off-site business. BBQ used texting to alert customers about specials of the week which drove traffic and reduced expenses. We liked that management owned a large stake (30% plus) in the company. Also, BBQ had a solid balance sheet, which enabled it to survive and emerge stronger after the pandemic. This is a big reason why we invest in companies with "Ft. Knox" balance sheets.

BBQ recently released updated investment guidance for 2021 with strong results. The Company has net cash of about $10m. BBQ has 47 company-owned restaurant locations and 98 franchised restaurant locations in 31 states, or over 67% of total units franchised. For 2021, BBQ expects net restaurant revenue of $150m to $155m, royalty and license revenue of $10m to $10.5m, and system-wide sales of $360m to $365m, and cash EBITDA of $10m to $10.5m.

We believe BBQ has several attractive growth opportunities that align with what consumers want, especially with take-out at over 60% of total revenues. BBQ is focused on ghost kitchens and dual branding concepts which are driving strong return on investment metrics. BBQ has several franchisees interested in expanding these lower cost food service models which may have payback periods as quick as two years. BBQ has also developed a "line service" model (like

Chipotle) where customers serve themselves with less labor required. BBQ is also expanding its consumer-packaged goods licensing of its brand in grocery stores. For its Granite City restaurant units, BBQ is working on dual branding options and ghost kitchens to drive more volume through these larger footprint units, including upscale breakfast options to fill units during morning hours. Overall, we believe BBQ could have significant long-term growth potential beyond the strong cash EBITDA projected for 2021.

We originally invested in BBQ at about $4.50 per share in mid-2018 with about 9m shares outstanding for a market cap of about $40m. After the strong Q1 results in 2021 and strong guidance for full year 2021, BBQ stock price moved up to about $13 to $14 per share for a market cap of about $130m. BBQ has a "Ft. Knox" balance sheet with a net cash position of about $10m, for an enterprise value of about $120m. While we have trimmed our position in BBQ, it continues to be significant, as we believe there could be substantial long term growth opportunities given the various programs BBQ is pursuing, all of which are focused on goods and services that consumers want (take-out, smaller stores, dual brands, online ordering, etc.). Also, if BBQ can reinvigorate its franchise model, it might be able to expand units rapidly on a capital-light basis, and this could drive a high valuation multiple for the business. Lastly, we believe BBQ could be purchased by a strategic or financial buyer, given the attractive growth opportunities it is developing.

**Short Positions**

We have sought to protect the Partnership's capital by maintaining small short positions (1% or less) on several companies with extremely high valuations and unsustainable business models. As of May 31, 2021, the Partnership had 3 short positions. We continue to research several short position candidates.

**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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