

September 25, 2019

Dear Partners,

Lowell Capital Value Partners, L.P. (the “Partnership”) was (2.8) % in August 2019 vs. (1.6) % for the S&P 500 with dividends reinvested (all returns shown are net to investors). For 2019 year-to-date, the Partnership was (1.1) % vs. 18.3 % for the S&P 500 with dividends reinvested. As of August 31, 2019, the Partnership had 17 long positions (representing about 59% of total capital) and 4 short positions (representing 3% of total capital). The Partnership had no leverage and a 44% cash position giving our portfolio a net long position of about 56%.

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.

We are not happy with the Partnership’s results for 2019 to date and we are working hard to improve them. We have an approach of investing in under-followed or misunderstood companies which generate strong cash flows and we think are under-valued. The market has not recognized these value-oriented stocks but seems more focused on fast growing technology stocks at high multiples which is not what we do. We believe our holdings are under-valued and will eventually be recognized. This could happen very quickly, but we cannot predict when it might happen or what might cause it to happen. We have used our investing approach and it has worked well for over 10 years, but it has not worked well in the last two years. We are working very hard on existing and new investments but the performance this year has been very disappointing so far.

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 Low Interest Rates

The U.S. economy continues to expand but appears to be slowing. We continue to expect modest earnings improvement. Risks include the tariff / trade war between the U.S. and China (which together represent close to 40% of global GDP). Other risks include a large U.S. federal deficit funded at very low interest rates, continuing political struggles in the U.S. and in other parts of the world such as the European Union and the Brexit situation

in the U.K. There is also the build-up of corporate, mortgage, and other debts dependent on low interest rates.

Interest rates continue to remain low globally. Interest rates could continue to remain low for a long time in the future. With myriad uncertainties, we continue to invest cautiously and defensively and leave room for surprises. We continue to believe that carefully selected equities provide one of the best options for investors to conservatively protect their purchasing power and that fixed income securities offer little value at today's prices, with ten-year treasuries offering a risk-free yield below 2%.

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 have to 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 is able to 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 very 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 gives us 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, 2019 were as follows:

Ecology & Environment (EEI)
HCA Healthcare (HCA)
Lanxess (LXS)
Liberty Global Plc (LBTYK)
Tech Data (TECD)
CRA International (CRAI)
Best Buy (BBY)
Kemet (KEM)
Famous Dave’s (DAVE)
Issuer Direct (ISDR)

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.

We had short positions in Brown Forman Class A (BFB) and Omnicom Group (OMC) as of August 31, 2019, among a few other companies.

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:

Ecology & Environment (EEI) is an environmental consulting firm that provides professional environmental services to government and private customers worldwide. We believed EEI had a well-established niche and long experience in providing professional services for environmental consulting needs by government and corporate customers. It also had a strong and diversified customer base and a cash-generative business model with limited capital requirements. Further, there was a credible activist shareholder who had purchased a major ownership stake in EEI and already made one bid to acquire the company. This activist shareholder eventually was able to secure representation on EEI's Board which we felt would help further driver shareholder value and reduce the chance of a poor, value-destructive acquisition. Also, EEI had a highly liquid balance sheet, with a net cash position of over \$10m that was over one third of its market value and a credit line of close to \$35m which was largely unused.

EEI had over-expanded in recent years into business segments and geographies that were not sustainably profitable and was gradually exiting these sub-optimal business areas. This process further accelerated with the activist shareholder joining EEI's Board and placing an increasing focus on the strongest business segments where it had a sustainable

competitive advantage. EEI had weak results in fiscal 2019 (ended 7/31) and further had to restate its financial statements for some minor technical accounting issues. However, EEI undertook a major restructuring program in December 2018 with its cost structure in U.S. operations reduced by over \$6m annually in order to address a weak revenue environment in U.S. markets, and we were encouraged by this increasing focus on profitability and cash flow generation.

Based on recent results, and EEI's publicly announced plans for restructure of its U.S. operations, we believed EEI could generate adjusted EBITDA of \$8m or more by fiscal 2020, especially considering the cost reduction programs and improved sales processes implemented by new management team. We believed EEI could have a net cash balance sheet of \$10m or more by fiscal year end 2020 (ended 7/31). Based on these results, we believed EEI could trade for 8x adjusted EBITDA or \$65m plus \$10m in net cash for a market cap of about \$75m by fiscal year end 2020. Based on 4.3m diluted shares outstanding, this would equate to a market price of about \$17 per share (versus our cost basis of about \$10 per share).

On August 28, 2019, EEI announced it had entered into a definitive merger agreement with WSP Global ("WSP") pursuant to which WSP would acquire EEI for \$15 per share in cash and a special dividend of up to an additional 50 cents per share. WSP is a large, Canadian-based environmental consulting firm. We continue to hold our shares in EEI as the Company has "go-shop" clause to pursue higher bids within a 30-day period. The current price represents a gain of about 50% on our original cost basis in EEI.

Kemet Corp (KEM) manufactures and sells passive electronic components under the Kemet brand worldwide. The Company operates in three segments – solid capacitors, film and electrolytic, and electro-magnetic sensors and actuators (MSA). KEM is well positioned to capture growing demand for custom-designed, higher-margin electronic components and capacitors given strong industry tailwinds. The Company has completed a structural transformation which has resulted in increased and sustainable margins, and a stronger durability of its revenue base. KEM has strong proprietary technology to support growth in future key markets.

KEM has significantly strengthened its business model over the last several years and we do not think investors appreciate this transformation yet. In multi-layer ceramic capacitors (MLCCs), KEM focuses on high-capacitance, large-case size MLCCs used primarily in automotive and industrial applications, which is a niche in the market that several top competitors are de-emphasizing. Growth in MLCCs (34% of total sales) should offset weakness in other product segments. KEM has reduced net debt to only \$90m at present (versus LTM adjusted EBITDA of over \$280m) and has backward integrated operations and reduced costs.

We believe the market is under-appreciating how significantly KEM has changed and strengthened its business model over the past several years. KEM's structural changes involved (1) the vertical integration of its Tantalum supply chain to focus on specialty high CV ceramics and (2) the acquisition and integration of TOKIN in Japan. We believe

these actions together have been a “game-changer” for KEM’s business model strength. While KEM is not immune from industry dynamics we do believe it is somewhat insulated with its higher value-added product focus. The market continues to value KEM as a highly cyclical business, but we believe its business model and product focus will make it more stable and growth oriented than its low current valuation would indicate.

We invested in KEM at the market cap of about \$1.1b with net debt of about \$100m for an enterprise value of about \$1.2b. LTM adjusted EBITDA was about \$280m for a multiple of about 4.5x. LTM cash from operations were about \$180m. While KEM is expected to spend close to \$130m in capital expenditures for fiscal 2020 (ended 3/31), we believe most of these capital expenditures are growth-oriented and targeted to drive increases in revenues and EBITDA and cash flows. We believe maintenance capital expenditures are closer to \$50m per year. On this basis, we believe KEM is generating free cash flow close to \$130m per year for a nearly 10% free cash flow yield unleveraged. We believe these valuations are attractive given the long-term growth potential in KEM’s markets and its proprietary product line.

KEM has long-term financial targets of: (1) 5% per annum revenue growth, (2) 22% adjusted EBITDA margins, (3) capital expenditures at 5% of revenue, and (4) 5% per annum incremental revenue growth via “bolt-on” acquisitions. We believe that by fiscal year end 2021 (ended 3/31), KEM could achieve revenues of about \$1.5b and adjusted EBITDA of \$300m with zero net debt by fiscal year end 2021. We believe KEM could trade for 7x adjusted EBITDA or a market cap of about \$2.1b or, based on 58m fully diluted shares outstanding, about \$36 per share (or +80% versus current price of about \$20 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. We are continuing to research several candidates and as of August 31, 2019, the Partnership had four 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 ones 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 “Fort Knox” balance sheets. We are doing our best to balance well-publicized macro risks against our micro work on specific companies. A “Fort 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 truly 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

The information contained in this investor letter, which is a quarterly publication circulated by Lowell Capital Value Management, LLC (“**Lowell**”), is for discussion purposes only designed to highlight various market and portfolio information. While Lowell believes all the information set forth in this letter is from reliable sources, no representation or warranty can be made with respect to its completeness. Any projections, market outlooks or estimates in this presentation are forward-looking statements and are based upon internal analysis and certain assumptions, which reflect the views of the Lowell and should not be construed to be indicative of actual events which will occur. As such, the information may change in the future should any of the economic or market conditions Lowell used to base its assumptions change.

Please note the securities identified and described are not representative of the entire portfolio. The investments discussed herein are for illustrative purposes only and it should not be assumed that such investments were or will be profitable or that the investments or recommendations Lowell makes in the future will be profitable or will equal the anticipated results discussed herein. Past performance is not necessarily indicative of future results. The S&P 500 is

referenced merely to show the general trend in the markets in the periods indicated and are not intended to imply that the underlying returns were comparable to the index either in composition or element of risk. There are significant differences between the Partnership and the S&P 500, markets and countries herein including, but not limited to, risk profile, liquidity, volatility, and asset composition.