LOWELL CAPITAL MANAGEMENT

INVESTOR NEWSLETTER

June 14, 2022

Dear Partners,

Lowell Capital Value Partners, L.P. (the "Partnership") was (2.3) % in May 2022 vs. +0.2 % for the S&P 500 with dividends reinvested (all returns shown are net to investors). For 2022 year-to-date, the Partnership was (11.4) % vs. (12.8) % for the S&P 500 with dividends reinvested. As of May 31, 2022, the Partnership had 23 long positions (representing about 58% of total capital) and 7 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%, although we have increased our net cash position to over 40% recently based on a higher discount rate for investment opportunities due to significant inflation and other risks in the U.S. and global economies. 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 out of favor in recent years but could see increased interest as higher interest rates shift investors focus from high growth technology companies towards value companies with profits and free cash flows. 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 remain 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.

Stock Market, Economy, Tech Stocks Hit Hard, and Playing Defense

We took a more conservative position with the Partnership after the coronavirus pandemic struck in mid-March of 2020 initially and gradually redeployed capital throughout 2020 and 2021 into businesses which were under-valued and which we believed would have strong resiliency to or even benefit from the coronavirus impact. This strategy worked well in both

2020 and 2021 as global economies gradually exited the pandemic. However, both economies and stock markets globally have been hit extremely hard in 2022 to date as high inflation and supply chain issues and the war in Ukraine have all combined to create a more difficult environment for businesses and investors. Interest rates in the U.S. have moved up and it is likely they have further to go. Current inflation trends show little signs of slowing. Government spending has combined with supply chain issues and pent-up demand to drive strong inflation which will likely be difficult to control. While not certain, there is a decent risk of a recession in the U.S. and global economies. As a result of all these factors, we have reduced the Partnership's risk profile and built up our net cash position. We continue to hold our highest conviction ideas which are best positioned to deal with the current environment but have gradually reduced exposure to business models which could encounter greater challenges in this environment.

Increases in interest rates have had a huge negative impact on technology stocks, which traded at very high multiples of revenues and cash flows. Funding for companies with negative cash flows has completely dried up. Valuations for high growth business models with limited profits and cash flows have dropped sharply with higher interest rates which more greatly discount future profits and cash flows. The FAANG stocks – Facebook, Apple, Amazon, Netflix, and Google have all dropped sharply as shown below**:**

- NFLX - (72%)
- AMZN - (30%)
- APPL - (24%)
- GOOG - (23%)
- FB - (42%)

We believe the market is likely to eventually shift its focus towards companies with solid earnings and cash flows on a current basis which is our area of focus. However, we believe there continue to be many technology companies which remain over-valued and the exit and volatility from these types of stocks will continue for some time.

We have taken a more defensive posture with our investment portfolio at this time to help manage through the current volatility. We have significantly increased our current net cash position in the Partnership to over 40% of capital by retaining but reducing our largest long positions. We will adopt this more conservative approach until we believe the market has stabilized. Our primary focus is on long-term preservation of capital and conservative growth of capital. We have managed through other difficult market periods by taking this approach of building cash as we evaluate the investment opportunity set. In our experience, periods of volatility like this can heavily depress prices of some great businesses and create very attractive investment opportunities. We believe our investments remain significantly undervalued based on their cash generation and long-term growth prospects and will opportunistically increase our exposure going forward.

Our focus is on simple, cash-flowing businesses, with "Ft. Knox" balance sheets and understandable business models, which trade at low multiples of earnings and cash flows, and often pay significant dividends. We believe these types of businesses will ultimately do well as the interest rate environment normalizes and as the economy exits the pandemic.

We continue to strongly believe the Partnership's capital is best protected in carefully chosen businesses which have some essential and sustainable good or service to customers and can therefore raise prices to maintain profitability and shareholder value. While the risks to the economy and the stock market have increased, given the events cited above, we are not investing in the overall stock market, but rather a handful of carefully selected opportunities from 8,000 public companies in North America alone. We continue to focus on a handful of mispriced investments in this large and sometimes overlooked group of companies. For a meaningful portion of publicly traded companies, there is little to no research coverage or institutional following. There is an opportunity to find mispriced investments before they become obvious to the general stock market.

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.

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, 2022, were as follows:

- Celestica (CLS)
- UFP Technologies (UFPT)
- Computer Task Group (CTG)
- Redishred Capital (KUT.V)
- New Zealand Media & Entertainment (NZME.AX)
- Mastech Digital (MHH)
- Insight Enterprises (NSIT)
- Saga Communications (SGA)
- Tandy Leather Factory (TLFA)
- Terravest Industries (TVK.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:

UFP Technologies (UFPT)

UFPT designs and converts foams, plastics, composites, and natural fiber materials for the medical, automotive, consumer, electronics, industrial, and aerospace and defense markets in the United States. It offers single patient use surfaces, advanced wound care, infection prevention, and disposables for surgical procedures, endoscopic procedures, orthopedic implants, orthopedic appliances, and biopharma drug manufacturing. It offers molded components for automotive, aerospace, and defense markets, recycled protective packaging for B2C brands, and reusable cases and custom inserts. The company markets and sells its products through direct sales force and independent manufacturer reps.

UFPT is highly focused on design and engineering capabilities which enables them to be deeply integrated into their customers. This creates a sticky and recurring relationship with customers as UFPT avoids selling commodity products and is often involved very early on in product design and engineering with its customer base. This enables UFPT to earn higher margins and develop longer-term relationships with customers.

UFPT has grown both internally and through several successful strategic acquisitions. UFPT sells advanced components to the automotive, consumer, electronics, industrial, and aerospace and defense industries. However, it has increasingly focused on the medical industry and med-tech due to the resiliency of this industry. This includes infection protection, minimally invasive surgery, protective packaging, patient comfort, wound care, and wearables.

UFPT has an extensive med-tech business, and the global medical device market is growing steadily with a 5%+ CAGR over time. UFPT has focused on the medical segment due to its growth opportunities and resiliency characteristics over time. Medical currently accounts for almost two-thirds of UFPT's total profits.

We invested in UFPT at about $42 per share in April 2020. UFPT's shares were depressed due to the pandemic's impact on the economy and the stock market. UFPT had about 7m shares outstanding for a market cap of about $300m at investment. UFPT had a "Ft. Knox" balance sheet with close to $25m of net cash, for an enterprise value at investment of about $275m. UFPT had generated about $33m of adjusted EBITDA and $25m of free cash flow in 2019 prior to the pandemic, which were attractive relative to its valuation. We believed UFPT results would rebound to these levels and beyond as the pandemic gradually eased. As expected, UFPT's business gradually improved throughout the pandemic and its share price moved up with stronger results. UFPT shares recently traded in the mid-$70 range and we exited our position based on valuation.

Mastech Digital (MHH)

MHH is a provider of IT staffing, digital transformation, and data and analytics solutions. The company has two business units – IT staffing segment, which offers services that range from standard IT engagements to higher margin digital transformation solutions, and Data & Analytics (D&A) segment, where service offerings are primarily under higher value-added and longer-term multi-year contracts. IT staffing is lower margin with EBITDA margins of 6% to 9% while D&A is higher margin, with EBITDA margins of 25% to 30%. Management is gradually shifting an increasing amount of total revenues towards the higher margin, longer-term D&A segment. We expect D&A to become a progressively larger share of revenues and profits over the next few years.

MHH has an impressive history of growth both organically and via acquisitions. The Company has gradually built up its revenues and adjusted EBITDA over the past several years which in turn has driven shareholder value. We expect this process to continue. Insiders own almost 60% of the company (Ashok Trivedi and Sunil Wadhwani, who are co-chairmen of the board). These two co-chairmen successfully sold iGate (a business process outsourcing company) and made very substantial gains on the sale (several hundred million dollars each). We believe they are deeply involved in the architecture of the current strategy for MHH and that this plan will continue to be successful. MHH has completed multiple successful acquisitions, most notably to build up the rapidly growing and high-margin D&A segment and these have been completed at attractive purchase prices.

MHH has a highly cash-generative business model with limited capital expenditures. MHH has a strong "Ft. Knox" balance sheet with only about $5m of net debt at 3/31/22. We believe MHH has a good business model to manage through the current environment which is capital-light and can likely pass increased inflationary costs on to end customers and is less exposed to supply chain challenges other companies may face. We further believe MHH has solid growth prospects in its IT services-related businesses which should help support continued growth over the next few years. In Q1 2022, MHH total revenues grew strongly by almost 20% and profitability also increased as well. We expect the higher margin D&A segment to grow relatively faster over time and help increase total adjusted EBITDA.

MHH has completed multiple strategic acquisitions in recent years to build up the D&A segment and has made these acquisitions at attractive multiples (about 5x to 6x adjusted EBITDA). MHH incurred debt to make these acquisitions and has largely repaid this debt from its strong cash flows in recent years. We estimate MHH can generate close to $20m of free cash flow per year on a sustainable basis.

MHH shares currently trade at about $17 per share with about 11m shares outstanding for a market cap of about $190m. MHH has a "Ft. Knox" balance sheet with a net debt position of $5m as of 3/31/22 for an enterprise value of about $200m. EBITDA in 2021 was about $22m and capital expenditures were only about $1m due to the non-capital-intensive business model. We expect MHH to generate adjusted EBITDA of about $24m in 2022 and free cash flow of about $20m. MHH is trading close to a 10% free cash flow yield unlevered. We believe this multiple is attractive for a capital-light, cash generative business model like MHH which has strong growth prospects.

We believe as MHH's growth in its D&A segment continues and this becomes an increasingly large contributor to total revenues and profits, MHH's multiple could increase over time. D&A's business segment warrants a much higher multiple versus the lower-margin IT staffing segment.

We believe MHH can continue to generate strong organic revenue growth of 10% or more and that its profit margins can increase as the higher-margin D&A segment becomes a larger component of revenues. We believe MHH can generate adjusted EBITDA of $32m by 2024 and trade for 10x adjusted EBITDA with net cash of $25m or a market cap of about $350m. With 12m shares outstanding, this would result in a share price of close to $30 per share versus the current $17 share price. Further, we believe MHH could represent an attractive acquisition to a strategic or financial purchaser.

Short Positions

We have sought to protect the Partnership's capital with short positions of 1% or less on several companies with extremely high valuations and unsustainable business models. As of May 31, 2022, the Partnership had 7 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,
Portfolio Manager

Abby Zimmerman,
Research Analyst

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