



October 2020

Dear Fellow Investors,

Greenhaven's estimated returns for the third quarter totaled approximately +50% net of fees and expenses. August was the best month in the partnership history. The net result is that both funds are up around 55% for the year, comparing favorably to the Russell 2000, which ended September down -8.7% year to date. We continue to own zero businesses in the S&P 500. I highlight this to help you think about where Greenhaven Road sits in your overall portfolio. As you will see in this letter, our holdings continue to skew smaller and more esoteric or, to put it another way, there is likely little overlap between Greenhaven Road and the rest of your holdings.

While your Q3 statement will be "easy" to open, we will continue to have down months, quarters, and years over time. The path to strong long-term performance is likely to be littered with both brief and protracted periods of pain and losses in the interim. This was not one of those periods, but they are the price of admission to have the opportunity for the gains we have had to date.

My father has drilled into me that I can learn more from my failures than from my successes. Our partnership lost over 30% in the first quarter, which prompted a fair amount of reflection on what I could have done differently. The most obvious change would have been to have sold our investments early in the pandemic and bought them back at market lows. This approach sounds attractive, but I have no aptitude for market timing, and I think trying to be a long-term investor who actively times the market is a paradox poised for failure. COVID-19 led to the shuttering of the U.S. economy and the initial economic fears were realized. Recent decades have presented other hazardous scenarios that ended far more benignly. Government shutdowns, the restructuring of NAFTA, swine flu, Ebola, Greek debt, the annexation of Crimea, oil shortages, and oil gluts – to name a few – had no real long-term impact on global markets. During the H1N1 scare, should we have sold everything and waited for the dust to settle? We would have generated a significant tax bill and been holding cash as the market recovered. Historically, when CNBC airs a primetime "Markets in Turmoil" special, that is a sign that the bottom is near.

The S&P 500 has had drawdowns of 30% or more a dozen times over the last 100+ years. At the company level, such drawdowns are even more frequent. Take a company like Monster Beverage (MNST), which returned more than 100X in a decade. As Christopher Mayer points out in his book "100 Baggers," on its way to delivering a 100X return, Monster Beverage had three drawdowns over 25% and one exceeding 40%. Amazon has had even more significant drawdowns, including one exceeding 90%, since its IPO. If the overall market is going to have large drawdowns and individual companies that deliver outstanding long-term returns are going to have large drawdowns, it stands to reason that if our partnership is not going to actively time the market, we will continue to have drawdowns from time to time as well.

While these drawdowns are painful, they also have historically represented opportunity. When the Royce family was considering an eight-figure investment in Greenhaven Road as part of a seed arrangement, Chuck was clearly enthusiastic about me/Greenhaven Road. However, he is prone to enthusiasm, so he has set up circuit breakers, the most important being his family office CIO, Tracy Lavery. Tracy's resume includes Yale, Harvard, Goldman Sachs, and a stint at a hedge fund, and he has overseen dozens of investments on behalf of Royce Family Investments. A few months into my "dance" with Chuck, it was time for Tracy to kick the tires on Greenhaven Road before family capital was invested. Tracy took all the historical data from Greenhaven Road and my personal accounts preceding Greenhaven Road, and produced a multi-page report slicing and dicing my historical returns in several ways. This was clearly not his first time at the manager



evaluation rodeo. While I was intimately familiar with individual companies that I had invested in and why, this was the most comprehensive aerial view of my investing I had ever seen. Tracy was generous enough to sit down with me and explain it all. There was a lot of jargon, but his folksy summary boiled down to, “you capture most of the downside when the markets decline, but, man, do you make it up – and then some – on the recovery.” These findings also were replicated by Stride Capital Group’s similarly extensive independent analysis prior to our partnership. My pattern of declining roughly in line with the overall market but generating outsized returns during a recovery has played itself out during the financial crisis, again in 2011, and again in 2020. Disclaimer: this does not mean it is guaranteed to happen in the future.

Returning to the lessons from Q1. I should have specifically encouraged existing LPs to add capital when we were down significantly and made it attractive to do so. I am blessed with a wonderful group of limited partners, several of whom added capital at the depths, but not because they were encouraged by me. It takes guts to ask somebody for more capital when their account is down 30%+. It just does. Anger is a reasonable reaction to such a request, as it violates social norms. I did not have the guts. Unfortunately, given my personality, it is unlikely I will pound the table vocally next time either. So now, during calmer times, I am making a change to our partnership that will be automated and not require me to muster courage when our performance is at its weakest but our prospects maybe their brightest. Going forward, any time our partnership is down 25% or more from the “high water mark,” any new capital invested by existing LPs will receive a 25% discount on all fees for the three-year lock-up period. I hope it will be years before this clause is relevant, but I think it makes sense to encourage investment in times of stress, when it is hardest for me to ask and hardest for you to commit.

TOP 5 HOLDINGS

The top five holdings should look familiar. In addition to the new positions that I will elaborate on further, I wanted to point out the common traits. All of these holdings have high insider ownership, recurring revenue, expanding margins, reasonable balance sheets, are not capital intensive, and are riding strong secular tailwinds such as the explosion of data (ESTC), cord cutting (Roku), the migration of assets to private equity (KKR), the importance of a modern point of sale system (PAR) and the importance of the mobile phone (APPS).

Digital Turbine (APPS) – In round numbers, the share price for Digital Turbine almost tripled during the quarter. What happened? The company enjoys a unique place in the mobile phone ecosystem as it is the only company embedded into the Android operating system to allow for app downloading. Digital Turbine sits between major carriers, such as Verizon and AT&T, and companies, such as Netflix and Amazon, that want their apps pre-installed on Android phones. With 6,000 apps being added per day to the Android platform, demand for the limited number of app slots has only increased. Fortunately for Digital Turbine, both the number of devices and revenue per device continue to improve, which helped drive up the share price. However, I think the larger driver was that earlier this year, the company acquired Mobile Posse, which provides “media & advertising solutions for operator & OEM partners while delivering richer, more relevant content to end users.” This is a content business that generates substantial recurring revenue over the life of the phone and is not as tied to activations/new phone sales as the historical app install business is. Mobile Posse’s recurring revenue nature is attractive, as is the potential to sell Mobile Posse products into the existing Digital Turbine base and vice versa. I believe that this remains a very well-positioned company with the possibility that cross-selling will yield step function increases in growth if successful.

PAR Technology (PAR) – PAR’s modern restaurant point-of-sale system (POS), which enables integration with delivery platforms such as Uber Eats and online ordering, became more valuable during the pandemic. Their customers, the larger quick service restaurants (e.g., Dairy Queen), have remained profitable during the periods of reduced seating capacity in restaurants. PAR is a counterintuitive COVID beneficiary. The company should see improved growth metrics as businesses “open up” and their employees re-enter for installations and training. PAR is also just launching their payments module. For many POS systems, the payments profit opportunity is 2X-3X their core software opportunity. Penetration will be very low initially, but it could be a significant contributor in the coming years. Finally, before the end of the year, it is very likely that PAR will divest its defense business. It is not a core business at this point. The divestiture will provide \$80M+ of capital to invest in the POS business or for an acquisition. The sale will simplify the PAR story and make it much more of a pure play. We have the opportunity for growth and multiple expansion here with a very talented CEO.

I have always respected PAR CEO Savneet Singh, who is an A player in my book. He has experienced the technology sector as an investor and operator, and has an outstanding network. From my position as a member of the SharpSpring board of directors, I reached out to Savneet to see if he had any recommendations of people in his network when it became clear that we needed to add a new director. To my pleasant surprise, he indicated that he himself might be interested as a way to stay tapped into the industry outside of the technology/restaurant-centric world he was currently operating in. After a series of approvals, Savneet joined the SharpSpring board this summer. Every interaction has reinforced my view that he is an A-Player and has an excellent chance of creating real value wherever he goes.

At the end of September, PAR issued equity and sold more than \$120M of shares. Given that the company was sitting on \$38M in cash, it seemed like an odd decision to some, and PAR’s share price declined by more than 15% over two days. I believe that the issuance of shares precedes a large acquisition, and I am very excited to see how Savneet puts the capital to work. PAR is on a multi-year journey. Not too long ago, it was an undercapitalized business with a very attractive software asset buried inside and the wrong management team to nurture it. A lot of foundational work has been put in place to fix the balance sheet, fix the technology, and fix the team. There is a long runway with a lot of opportunity here and an excellent jockey.

KKR – Private equity is a phenomenal business: scalable, high margin, and non-capital intensive. It is not surprising that the Forbes 400 list of wealthiest Americans is stuffed with private equity folks. As it turns out, there is an even better business than private equity: private equity with permanent capital. It is a massive never-ending call option. During this quarter, KKR announced the acquisition of Global Atlantic Financial Group, which sounds innocuous enough, but is actually pretty exciting as it jumpstarts their drive towards more permanent capital. Issuing no new KKR shares, the company grew AUM from \$207 to \$279 billion (on a pro forma basis) through the acquisition, and permanent capital as a percentage of total AUM increased from 9% to 33%. More importantly, KKR has a platform to grow permanent capital further by buying annuity portfolios in the same way that the private equity firm Apollo Global has done through their ownership of Athene.

As discussed in previous letters, KKR is likely underearning now as they have 18 of 25 strategies that are 10 years or younger. During a fundraising period in a PE fund, the strategy simply centers around expenses and is ultimately a money loser. When the first fund is raised, management fees can be charged and, depending on size, it may be moderately interesting financially. The economics get more interesting in years four and on when incentive fees may be realized and subsequent larger funds can be raised. To give a specific example, KKR’s Asia business had \$4B in AUM in 2007. By 2018, that had risen to \$17B with additional Asia funds and strategies, and in 2020, the Asia AUM is \$30B, or more than 7X the 2007 AUM. The true earnings power of the Asia business is just starting to reveal itself.



ELASTIC (ESTC) – We have been involved in Elastic for almost a year, and over that time I have gotten significantly more comfortable with the “open source” business model. On the surface, exposing the IP and giving the software away to most users is a bit of a head scratcher. The monopolistic robber barons of yesteryear may not approve, but there are distinct advantages to the model. Elastic has made trial incredibly easy and frictionless with zero cost. There have been hundreds of millions of downloads of their software. The result is that there is an unpaid army of users and developers who identify as being part of an Elastic community. It is a differentiated distribution. How many non-consumer-facing software companies can you name that sell “merch” such as T-shirts and stickers on their website? ([link](#)) For a tour de force of the open source business model, Patrick O’Shaughnessy’s podcast with Elastic investor and board member, Chetan Puttagunta is a must-listen. ([link](#))

Elastic has a very strong tailwind. The value of their products increases as the amount of data and data sources a company has increase. In simple terms, the utility of a search tool is limited if you are only looking at 10 pieces of data from a single source. The same search tool is invaluable if you are looking at one billion pieces of data from 200 different data sources. Elastic typically does not price their products based on seat licenses but rather based on usage. This encourages trial of products as the cost is minimal if the usage is minimal, but it also allows Elastic revenue to be more closely tied to the data growth of their customers. The tailwind of increased data volumes and new products can be seen in the net revenue retention remaining above 130% for every quarter they have disclosed it.

As very few of us are software developers or manage software for large enterprises, it may not be intuitive; why would one pay for Elastic when it can be used for free/open source? The primary reasons are the incentives of the employees. Elastic is very often a mission-critical part of an app/website/software. Large organizations often have policies that open source code being used in “production” must have a support contract attached to it. Do you really think the hard-working employees at Walmart or other large customers ([link](#)) really want to – or can – be going into user forums in the middle of the night if the Elastic component stops working properly for some reason? How about employees at a federal agency? The open source feature is great to encourage trial and adoption, but monetization opportunities still abound. The company currently has 630 customers with an annual contract value in excess of \$100,000, and this number is steadily increasing.

Elastic is not a deep value investment, but with a sub-\$10B market capitalization, massive installed base, and very attractive revenue retention numbers, it is a bite-size acquisition for any number of strategic buyers. My hope is that we get to compound our capital inside Elastic and alongside this management team for years.

ROKU (ROKU) – Roku is a position that has appreciated into the top 5, after starting as part of a basket of stocks in March. The share price has more than doubled since our purchases. Roku controls the home screen for tens of millions of televisions. In the same way that Digital Turbine monetizes the limited real estate of the cell phone, Roku monetizes the home screen of smart televisions. Roku has accomplished this by providing a purpose-built operating system to television manufacturers. Roku is built into 1 in 3 of the televisions sold in the United States and increasingly in Canada, England, Mexico, and Brazil. Because the operating system is purpose built for television, it is less resource demanding than alternatives such as Android. This allows for cheaper manufacturing and a cost advantage in the very margin-constrained television market. The net result is Roku adds users for less than \$20 and does not tie up any capital in the manufacturing process.

Roku's platform sits between the 43M active users and content, making money when used. They have an ad-supported Roku channel, earn revenue share on subscriptions to streaming services like Showtime, and get a slice of advertising inventory from traditional channels, such as Fox Sports, when streamed via their Roku platform.

Roku has consistently increased revenue per user, and last quarter was up to \$24 (over a trailing 12 months). The increase in revenue per user has been a function of increased engagement and rising advertising rates. Last year, Roku purchased Dataxu, a company that helps clients enhance marketing and advertising efforts with data science, to make it easier for large advertisers to place ads. In my opinion, the growth of the user base is highly likely, as there will be a continuous upgrade to larger, better, and less expensive televisions. Roku benefits from cord cutting. There is currently a very large gap between the Roku operating system and the Samsung and Sony systems – it reminds me of the period when Nokia and Microsoft were hanging on to their mobile operating systems. With a growing user base, Roku has increasing negotiating power with content providers. Since the quarter ended, Comcast decided to put their Peacock streaming offering on Roku after resisting initially – just another sign of the increasing power of Roku. We have the opportunity for substantially growing the user base and revenue per user while consuming very little capital.

NEW POSITIONS

In the last letter, I wrote about a basket of COVID-themed stocks where the positions were smaller in size, but where I believe there is an opportunity for substantial returns. I highlighted our investment in GOGO, an internet provider on airplanes, and wrote that “with \$200M in cash, a valuable private aviation division, and a highly incentivized CEO, there are several paths to a positive outcome, many of which likely would lead to multiples of our original investment.” Since then, an acquisition was announced of their commercial aviation business. This portion of the COVID basket returned more than 3X. I have replaced GOGO with two companies: Barnes & Noble Education (BNED) and Nautilus (NLS).

Distinct from the consumer book purveyor business trading under BKS, Barnes & Noble Education (BNED) is in the unenviable position of operating college bookstores when many colleges are partly or fully remote. The company's balance sheet also could give one pause. The opportunity (if there is one) lies in the fact that the balance sheet reflects leases which are generally renegotiable on very short notice, and thus less onerous than they appear. In addition, there are several digital initiatives, including a study aide product similar to Chegg and products that offer digitized books connected to a school's learning management system, as well as offerings where books are included in tuition and revenue is shared with the school. Barnes & Noble Education is partnered with colleges to run more than 1,400 physical, virtual, and custom bookstores – they have an optimal position to reach millions of students. We purchased our shares at an implied market capitalization of roughly \$100M. In a world full of companies trading at 20 times sales, BNED is at 1/20th of sales. With a little luck and an eventual return to normal on college campuses, we could do well on this investment.

While our COVID-related investment in Barnes & Noble Education is predicated on life eventually returning to normal, our investment in Nautilus is predicated on the thesis that some aspects of life will remain changed, including a shift from formal gyms and studios to home gyms. Nautilus manufactures quality fitness equipment and has a strong direct-to-consumer business as well as extensive retail distribution, operating under the Bowflex, Schwinn, Nautilus, and Universal brands. As a rule of thumb, hardware is a bad business, and this adequately describes the historical Nautilus business. What is interesting about Nautilus is that they are increasingly adding subscription revenue streams to their crappy hardware business, which makes it a much more interesting proposition. On a recent call the CEO said:

“In 2018, we had maybe 3% of our products were ‘connectable’ in connected fitness scenarios. We took that number significantly higher with our launches in 2019, and we’ll take that number still higher, do a vast majority of all of our products available this year, so that we’ll continue to really grow that installed base. And as that installed base becomes more meaningful, then the subscription business does as well, and we’ll begin to report on numbers at that point.”

We acquired our shares at a little more than 1X revenue and a sub-\$500M market capitalization. The maker of Nordic Trak recently secured an investment at 7X revenue and Zwift, a startup that hosts virtual-reality cycle races, raised \$450 million last month. Nautilus is unlikely to ever get a Peloton, Nordic Track, or Zwift valuation multiple, but they did grow revenue 94% year over year, have very good distribution, a record backlog, and a growing installed base. This could very well be profitable to own over the medium term.

In the last letter, I briefly discussed shares we owned and sold in a Martin Frankel SPAC, API Group. This quarter, we bought warrants in the company (JCQQ). The headline here is that you do not own these anywhere else in your portfolio and it was only possible to do because we have long-term capital. Without getting too far into the details, the warrants were “delisted” in May and basically ceased trading in the open market. There were weeks the warrants did not trade and weeks that we were the only “buyer.” I use quotes on the word buyer because the trades could not be settled until the listing issues were resolved. From conversations with the company, I was confident that it was a question of *when* they would trade again, not *if* they would trade again, so the situation was temporary. The pricing of the warrants became distressed. I liked the underlying company, and I loved the discount we were receiving. Because I knew I our capital was long-term, I was able to buy aggressively. The warrants began trading freely at the end of September, generating attractive short-term returns. Thank you for the long runway and flexibility.

NEW INVESTMENT – AUDIOEYE

One of the interesting dynamics of buying stock in a company is that our downside is known. In the worst case, we can lose 100% of our investment. In the best case, we can make many multiples of our original investment. Our most recent investment has all the trappings of a dumpster fire. A CEO being demoted (check), another CEO being demoted after three months (check), replacing the head of sales (check), changing the business model (check), and a short report that outlines years of dysfunction (check).

So, what are we doing? Are we trying to prove that the most that we can lose is the 100% of the capital that we invest? Might lighting the money on fire be a quicker way to dispose of it? Just looking at the drama that I laid out above, I would assume that the health of the underlying business was moribund. If I had to predict the revenue and margin trends for a company with so much turmoil, I would assume that there is a race to see which can decline faster – the revenue or the margins? Would it surprise you to learn that in the quarter that the CEO was demoted, this dumpster fire saw sales increase by 116%, margins expand, and cash burn slow? In fact, the company has seen triple-digit revenue growth for the last three quarters. One might ask, what kind of numbers does the CEO have to put up to keep his/her job?

The company in question is AudioEye (AEYE) and the most favorable characterization is that it is a firm in transition. AudioEye is “the industry-leading digital accessibility software solution provider, delivering web accessibility compliance at all price points to businesses of all sizes.”



The Americans with Disabilities Act requires that websites be accessible to people with disabilities such as blindness. This may not be a simple task, and compliance has been very low (sub-3%) historically. However, in the last three years, there has been a significant increase in the number of lawsuits against companies for ignoring their legal obligations. In addition to being the right thing to do and most likely good for business, there are compliance tailwinds. AudioEye has had multiple incarnations, but with regards to making websites accessible, they had a labor-intensive, very high-touch offering that was appropriate for large companies like ADP. It was effectively a mix of professional services and technology, with gross margins in the 50% range serving larger customers. This is not a particularly attractive or scalable business.

A changing cast of B and C players with an unscalable and unattractive business model does not sound like a very good place to invest a portion of my life savings or yours. What is going on? It can really be boiled down to David Moradi. He has had a colorful episode in his personal life, which you can Google, but he has also worked as an investor at Soros and Pequot, firms with tremendous track records. His family office, Sero Capital, owns almost half of AudioEye, and he joined the board in 2019 before recently becoming the interim CEO in August. While I am not a fan of investors as CEOs, I think David realizes that there is a very large opportunity and he is highly motivated to seize it. He is the source of urgency, the driving force behind the management changes, margin improvement, and product changes. The strategy that Moradi is trying to implement is simple. By working with large clients on labor-intensive projects to identify and rectify website issues that impede access, AudioEye has built a large database of issues and remediations. As the database grows, the opportunity to automate increases, the labor component decreases, and the opportunity to serve smaller customers in a more hands-off manner improves.

AudioEye has seen an explosion in customer count, growing from 6,000 to over 20,000 this year alone. To date, their biggest growth engine has been vertical integration partners in finance, education, automotive, marketing, and government. These vertical integration partners provide industry-specific website templates for smaller players to use.

The vertical integration partner goes to their membership highlighting recent lawsuits around digital accessibility, and for a nominal fee (shared between AEYE and the vertical integration partner) they turn on AudioEye. Because the vertical integrators have standardized platforms, the customers can be profitable customers at very low prices (ARPU's).

In addition to further penetrating the vertical integrators, there are two very large growth levers that AudioEye can pull. The first one is a freemium model, which they are currently experimenting with (they call it marketplace). The company raised capital at the end of August and is now in a position to pursue it more aggressively. The even larger opportunity is for "native integrations," where AudioEye is offered as an add-on for hosting companies like Wix or Squarespace on a revenue share basis with the hosting company. For this to be successful, there is technical work to be done, as well as a further growth of the database of issues. Currently, approximately 50% of issues can be resolved in an automated fashion, up from 20% a year ago. An improved technical team was brought on this year.

David Moradi owns tens of millions of dollars' worth of stock, and is now on the board and serving as interim CEO. I think it is fair to say that he cares. He has articulated a strategy that I think makes a lot of sense, and he has taken several concrete steps towards realizing the strategy. The stock trades at approximately 8X the last quarter annualized monthly recurring revenue. Even if growth decelerates, we have a very high likelihood of getting revenue growth and multiple expansion. The company is approaching breakeven and will be able to choose between taking additional capital and investing in growth. People build businesses, and David is in the process of driving a large upgrade in the talent and resources. We can be scared off by some of the historical issues, and perhaps that would be prudent, but the siren song of triple-digit growth, single-digit



multiple EV/S, a long runway for growth, and very high returns on marketing spend are too hard to ignore. Yes, there is a chance we lose money, but there is also the set-up to make multiples on our capital. If this works, David Moradi will be the biggest beneficiary and the one most responsible, as it should be.

SHORTS

My largest concern for the overall market remains multiple compression, as we have stocks trading as high as 100X revenue (we don't own those). We have a short position in the NASDAQ, which has been the biggest beneficiary of multiple expansion. We are short other indices as well as a no-growth dividend-paying company that, to be generous, trades as a bond proxy or, to be less generous, trades at an absurd valuation.

OUTLOOK

Investors have been willing to ignore bad news. There was a time when China taking over Hong Kong would have rattled equity markets – not in 2020. There is a virus, a vaccine, the distribution of the vaccine, a Presidential election, the settling of the Presidential election, a possible stimulus bill, and many other variables. I have thought about “sitting out” the fall or trying to significantly hedge our portfolio, but given the esoteric nature of many of our holdings, simply shorting an index is a very imperfect hedge. For example, over the medium term, PAR Technology will rise or fall based on the number of restaurants they are installed in, the revenue per restaurant, and the penetration rate of their payments product. The rise or fall of GDP or the unemployment rate will have almost no impact. There will be some impact of multiple expansion or compression on the share price, but it is entirely possible for the Russell 2000 or Nasdaq and PAR to move in opposite directions such that we could lose money on our hedges and our shares accomplishing nothing. As one of our LPs said to me, “the best hedge is to be right.” That is where I have focused my energies. I don't pretend that I have a chance of getting the very short term right, but over the medium to long term, I think we have a very good chance of being right with many of our holdings.

Just as I have ended many of our letters... as volatility arises, I will attempt to take advantage of the opportunities it creates. We will continue to invest with a long time horizon, and we will continue to invest like it is our own money – because it is. Thank you for the opportunity to grow your family capital alongside mine.

Sincerely,

Scott Miller



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