
Q3 2018 Alta Fox Opportunities Fund, L.P. Quarterly Letter

October 2018

Limited Partners,

In Q3 2018, the fund was up 17.12% gross and 13.68% net compared to 7.71% for the S&P 500. The average gross exposure during the quarter was 97.7%. The average net exposure during the quarter was 85.4%. Year to date (since the fund's inception in April) through the end of September, the fund is up 26.27% gross and 20.56% net compared to 11.41% for the S&P 500.

While I am pleased with the strong results in the quarter, I also view such short-term results as mostly “noise” amid our larger investment objectives. To overly praise or bemoan short-term results would distract from the long-term focus of the fund. I am much more focused on the intrinsic value growth in our portfolio holdings, which over the long-run should converge with portfolio performance. I encourage LP's to focus on the process and performance of our portfolio holdings rather than the daily fluctuations in stock prices.

Selected Portfolio Results

We profiled two significant positions in the fund in [our last quarterly letter](#): Xpel Inc. (DAP.U) and 3PEA International Inc. (TPNL). Both companies delivered excellent Q2 results and remain significant holdings in the fund.

XPEL Inc. (“XPEL”)

In Q2 2018, XPEL grew revenue 69.3% year over year and Adj. EBITDA 143% y/y. The company has guided to continued strong revenue growth and margin expansion throughout the rest of the year and heading into 2019. Shares currently trade for <12x our base case EPS estimate for 2019 despite explosive revenue growth, significant margin expansion, a top-notch management team, and high returns on capital. I continue to believe XPEL remains a very attractive risk/reward heading into 2019.

3PEA International Inc. (TPNL)

TPNL also delivered strong Q2 results. Revenue increased 59.8% year over year, EBITDA increased 69.6% year over year, and the company released a very bullish outlook for the remainder of the year. Of all of our portfolio companies, TPNL is undergoing the most significant amount of change: it recently brought in an extremely well-respected new Chairman of the Board, is expanding into adjacent payment verticals utilizing mostly existing technology, and hinted in the latest press release at the potential for accretive M&A opportunities. I believe TPNL is a very high-quality business. I cannot name another business that can boast the following characteristics (and if you can—please let me know):

- 1) The end market has no foreign competition (FDA products require U.S.-sourced plasma)
- 2) The end market has no product substitutes (there is no synthetic plasma alternative)
- 3) The end market has grown at a high-single digit % rate per year over the last decade
- 4) The end market has a predictable high-single digit % growth rate for the next decade, including through a recession
- 5) Operates in an effective duopoly market that is driven by service rather than price (plasma centers care about customer service and reliability—not price)

- 6) Has very high incremental margins and opportunities to enter attractive adjacent markets
- 7) Has a long runway for accretive M&A

In TPNL, I think we get all of the above alongside a very incentivized management team and Chairman of the Board. If interested, see my previous full TPNL write-up [here](#). The fund remains long the stock, and I think it has the potential to be worth \$10/share over the next few years.

Nevada Gold & Casinos Inc. (“UWN”)

UWN was a classic example of what I look for in a special situation investment. The company had a messy history which involved buying mostly low-quality gaming assets. I started looking at the company in July because, within the past year, the company had sold two of its three major gaming assets, moved its headquarters from Nevada to Seattle, and announced the CEO was stepping down. To me, this was writing on the wall that the company was likely to be sold. The relevant exercise then was simply figuring out how all of these corporate changes would impact pro-forma EBITDA and how much that resulting EBITDA would be worth to potential buyers in a sale. Shortly after I started acquiring a position for the fund, the company announced on August 3rd that they were in exclusive discussions with a third-party to purchase the company. In one sense, this was a major disappointment, as the fund still had a very small position and the stock rallied over 10% on the news. However, the stock gave up some of those gains over the next month, which allowed the fund to build a medium-sized position (5%) in the equity with increased conviction in the final outcome. In late September, the company announced it was being acquired for \$2.50/share in cash, resulting in a strong IRR for the fund. These types of positions are never going to drive the fund’s overall results, but should produce attractive absolute returns with low volatility over time.

Fund Updates

The fund has moved into a recently renovated office building in the WestBend area of Fort Worth, TX. If you are in town and would like to see the office, please contact me.

I am personally sponsoring a small-cap focused undergraduate investment competition held at Harvard on Saturday, November 3rd. If you are in the area and would like to attend, let me know. We have received about 30 submissions from schools all over the country as well as Canada. That list will be narrowed down to fewer than 10 finalists, which will present at Harvard on November 3rd. This contest is a fun way for me to give back to a club that was an important part of my investing development, to learn about several different small-cap business models I may have otherwise not researched, and potentially to find a promising intern for the fund next summer. I will be tweeting out the presentations from the top three finalists. Follow me [@AltaFoxCapital](#) if you are interested.

Closing Points

I am humbled that you have elected to invest a portion of your assets with me and am excited about the prospects of our portfolio companies. Our next capital opening will be November 1st.

Current investors can access returns and current capital balances at [this link](#).

If you are not a current L.P., but are interested in more information about the fund, please email: info@altafoxcapital.com. We welcome referrals for long-term oriented investors interested in our

strategy. Investors can sign up for our email distribution list for all future updates and publicly posted ideas here: <https://www.altafoccapital.com/contact/>.

“The way to build long-term returns is through preservation of capital and home runs.”

– Stanley Druckenmiller

Sincerely,



Connor Haley

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