ALTA FOX CAPITAL

Q2 2019 Alta Fox Opportunities Fund, L.P. Quarterly Letter July 2019

Limited Partners,

In Q2 2019, the fund increased 12.39% gross and 10.23% net. This compared favorably versus all major indices. The average net exposure during the quarter was 80.36%. Year to date, the fund has returned 52.17% gross and 41.20% net compared to 18.54% for the S&P 500, 16.98% for the Russell 2000, and 14.15% for the Russell Microcap index. Since inception in April 2018, the fund has returned 66.06% gross and 50.61% net compared to 14.21% for the S&P 500, 4.19% for the Russell 2000, and -1.45% for the Russell Microcap Index. See the appendix for further details.

The fund managed to outperform all major indices during both a bearish environment last year and thus far in a bullish overall environment in 2019. Notably, small and micro-cap equities have materially underperformed the S&P 500 since the fund's inception. Given small and micro-cap stocks comprise a significant percentage of our holdings, I am pleased we have been able to outperform the S&P 500 even with our strategy out of favor. Most importantly, we have accomplished these results with strict risk controls, no gross leverage, and a disciplined research process.

While I am pleased with the fund's early results, I strive to ignore short-term fluctuations and instead focus on the intrinsic value growth in our portfolio holdings, which over the long-run should converge with portfolio performance. I encourage limited partners to do the same (both in times of outperformance and underperformance). I firmly believe that in the long-run, our strategy of buying high-quality and underfollowed businesses at cheap prices will deliver attractive absolute and relative returns.

Selected Portfolio Results

3Pea International Inc. (TPNL)— as of 4/29/19, the new name is Paysign, Inc with ticker "PAYS"

I originally profiled TPNL/PAYS at ~$2.50/share and have discussed it in every quarterly letter to date. It recently hit as high as $18.00/share before a shelf offering and sell-side downgrade led to a sell-off to the mid-teens. I significantly trimmed our position in the quarter on stock strength and it is now only a small position in the fund. I continue to appreciate the strength of the business model and would look for any share price weakness as a potential buying opportunity. If interested, my original TPNL/PAYS thesis can be read here.

Investing in the Video Game Industry

The video-game industry is a fascinating one to study. It is large, rapidly-growing, and has many different publicly traded companies. As a consumer, I have benefited from amazing innovation over the last several years as games continue to get more sophisticated with better graphics, online experiences, and overall gameplay. As an investor, however, the story is not as simple. While the industry has been growing consistently at a healthy high-single digit rate per year, it is hard to pick consistent long-term winners with a fickle consumer base and rapid innovation.

Alta Fox had two meaningful winners in the videogame industry in Q2-2019. Both companies reflect a mindset for how we approach investing in an industry which can be volatile and perceived to be difficult for long-term value investors.

Keywords Studios Plc ("KWS")

Video game publishers have always been notoriously difficult work environments. Companies scale up hiring as they ramp production on a new game. These new hires are subject to a very demanding and high-pressure work environment as there is a tight game deadline. Once the game is released, a large percentage of those hired workers are terminated because they are no longer needed once the game is complete. This boom and bust hiring cycle is inefficient and leads to poor morale. Increasing game complexity in recent years has exacerbated this issue. Game creators now need a small army of highly specialized developers, artists, and project managers to create and distribute a high-profile video game worldwide. It is challenging and inefficient for studios to manage this entirely in-house due to the difficulty of identifying, hiring, and utilizing this small army of talent efficiently.

Enter Keyword Studios ("KWS"). This European-based company (headquartered in Ireland, trades on the London stock exchange) is the largest outsourcer of video game production in the world. They have rolled up the industry by buying small studios all over the world that offer various aspects of video game development including art creation, engineering, customer support, audio licensing and development, localization translation, and functional testing. The company now has the in-house capabilities to develop an entire game for their clients if needed (though this has not happened yet).

So why is this an interesting business? Well for starters, KWS has the backdrop of an industry growing high-single digits per year for the foreseeable future. I strongly believe the tailwinds for gaming will continue as the technology keeps improving and it is a relatively cheap form of entertainment. Second, while the industry is growing high-single digits, the money spent on outsourcing is growing at an even faster rate as the industry continues to achieve better service and affordability with outsourced providers. Only ~40% of videogame services spend is spent on outsourcers today. Over time, the gaming industry is likely to develop similar to the film industry, which used to have most expenses in-house, but now outsources ~90% of production costs. Third, KWS is the only player with scale in the industry. They work with 23 of the top 25 gaming companies (measured by revenue) and can offer any service with multiple price points and geographies. Lastly, KWS' strategy is working. In the last five years (2014-2018), the company expanded revenue from 37.3M EUR to 250.8M EUR (572% increase), EBITDA from 5.9M to 40.2M (581%), and earnings per share from 0.07 to 0.29 (314%). As a result, the company's stock price has increased over 850% over that timeframe. Despite this tremendous historical and likely future growth, KWS is trading for only ~30x forward earnings. I think this is very cheap given the long runway for 20%+ EPS growth.

KWS is riding a very powerful trend (outsourcing) within a rapidly growing industry. As the leader in video game outsourcing, KWS is poised to benefit from more cross-selling of services and deeper relationships with their clients over time. Mark Twain famously wrote that "During the gold rush, it's a good time to be in the pick and shovel business." KWS is effectively a pick and shovel seller to the videogame industry. They benefit from the industry's growth, but they have minimal direct exposure to the successes or failures of individual game titles. I believe KWS' strategy will continue to be a winning formula for shareholders. The company was a material positive contributor to Alta Fox's Q2 results, but there is still a long runway for KWS to outperform the market.

Nintendo Co. (NTDOY)

Nintendo needs no introduction. After all, it was founded in 1889! The Japanese-based firm has the best collection of intellectual property within the video-game industry through various characters and brands such as Mario, Zelda, Super Smash Brothers, Pokémon, which are recognized and adored by multiple generations of fans.

Our thesis on Nintendo was (and still is) rather simple. We purchased the company for <13x forward earnings on an ex-cash basis. This is a steep discount to most of its U.S-peers despite Nintendo growing faster, owning better long-term brands, and having more upside optionality. Nintendo has failed investors in the past with disappointing hardware results at times (i.e. the Wii U device) which likely explains the valuation discount today. However, the market has structurally improved for Nintendo since the Wii U disaster. The migration from physical copies of games bought at places like GameStop ("GME") to digital downloads is greatly beneficial to Nintendo for a few important reasons. First, it increases their margin significantly as they do not have to pay the middleman. Second, it reduces new console risk. Consumers can now upgrade their hardware while keeping their game library. This change mitigates the primary risk that existed during the Wii U days. Finally, digital downloads are more convenient for the consumer (and should lead to more consumption other things being equal) and open up new forms of monetization such as the "freemium" model. Sometimes investing theses do not have to be that complicated and that is the case with Nintendo. The company is too cheap given its timeless intellectual property, shift towards higher margin and more recurring revenue, and strong balance sheet.

The video-game market can be a difficult one for long-term investors given the fad nature of many games and a fickle consumer base. With Keywords Studios and Nintendo Co., the fund has made a bet on the "picks and shovels" supplier to the videogame industry and the company with the most enduring intellectual property. Both companies should be able to capitalize on the video game industry's long-term growth without the typical fad risk associated with many of their publicly traded competitors.

Conclusion

I am proud of the portfolio performance thus far and excited about our current positions and opportunity set. The fund has grown faster than I expected since the initial launch, but we are still well below any capacity constraints for our strategy. Importantly, the majority of our incremental investors have come from inbound inquiries, allowing me to focus nearly all of my attention on the portfolio rather than traveling and actively marketing the fund.

Our next capital opening will be September 1st. If you are not a current LP, 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.altafoxcapital.com/contact/.

"If you don't know who you are, the stock market is an expensive place to find out."
— Adam Smith

Sincerely,

Connor Haley

Appendix

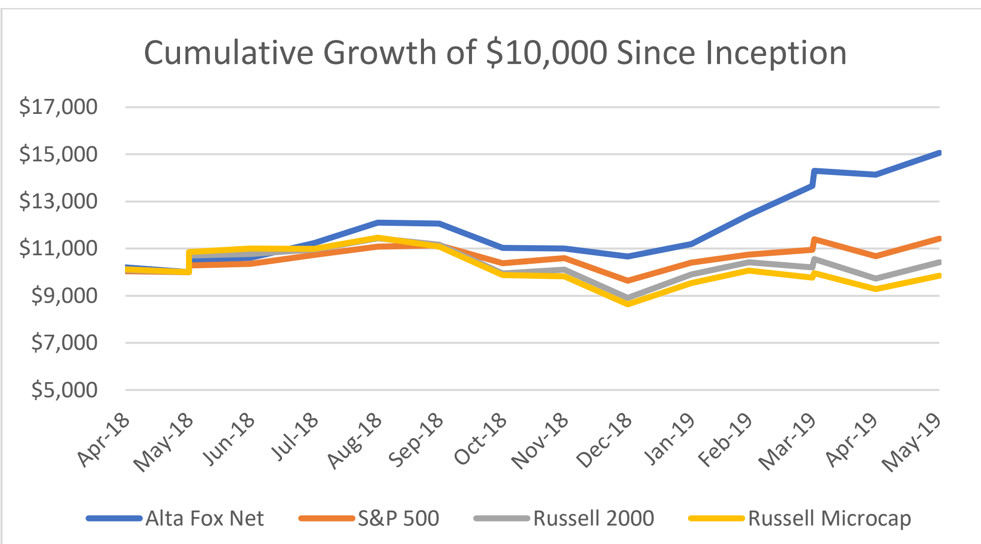
Monthly and Quarterly Fund Returns

	Alta Fox Gross	Alta Fox Net	Alta Fox Net Exposure	S&P 500	Russell 2000	Russell Microcap
Apr-18	2.63%	2.03%	50.24%	0.38%	0.86%	1.25%
May-18	3.56%	2.80%	96.39%	2.41%	6.07%	7.22%
Jun-18	1.45%	1.11%	91.32%	0.62%	0.72%	1.30%
Q2-2018	**7.82%**	**6.05%**	**79.31%**	**3.43%**	**7.75%**	**9.97%**
Jul-18	7.36%	5.91%	80.92%	3.72%	1.74%	-0.07%
Aug-18	9.53%	7.77%	81.12%	3.26%	4.31%	4.30%
Sep-18	-0.41%	-0.40%	94.28%	0.57%	-2.41%	-3.26%
Q3-2018	**17.12%**	**13.68%**	**85.44%**	**7.71%**	**3.58%**	**0.83%**
Oct-18	-10.16%	-8.55%	83.03%	-6.84%	-10.86%	-10.90%
Nov-18	-0.22%	-0.25%	71.48%	2.04%	1.59%	-0.64%
Dec-18	-3.59%	-3.01%	77.19%	-9.03%	-11.88%	-12.05%
Q4-2018	**-13.57%**	**-11.52%**	**77.23%**	**-13.52%**	**-20.20%**	**-22.14%**
2018	**9.13%**	**6.67%**	**80.66%**	**-3.65%**	**-10.94%**	**-13.67%**
Jan-19	6.16%	4.86%	76.97%	8.01%	11.25%	10.49%
Feb-19	13.77%	11.08%	82.10%	3.21%	5.20%	5.48%
Mar-19	12.11%	9.97%	89.95%	1.94%	-2.09%	-2.95%
Q1-2019	**35.41%**	**28.10%**	**83.00%**	**13.65%**	**14.58%**	**13.10%**
Apr-19	5.62%	4.67%	87.00%	4.05%	3.40%	1.91%
May-19	-1.27%	-1.14%	82.29%	-6.35%	-7.78%	-6.74%
Jun-19	7.77%	6.53%	81.06%	7.05%	7.07%	6.19%
Q2-2019	**12.39%**	**10.23%**	**83.45%**	**4.30%**	**2.10%**	**0.92%**
2019 YTD	**52.17%**	**41.20%**	**84.00%**	**18.54%**	**16.98%**	**14.15%**
Since Inception	**66.06%**	**50.61%**		**14.21%**	**4.19%**	**-1.45%**
Annualized	**53.00%**	**40.60%**		**11.40%**	**3.36%**	**-1.17%**

Growth of $10,000 Since Inception

	Alta Fox Net	S&P 500	Russell 2000	Russell Microcap
Mar-18	$10,000	$10,000	$10,000	$10,000
Apr-18	$10,203	$10,038	$10,086	$10,125
May-18	$10,489	$10,280	$10,699	$10,856
Jun-18	$10,605	$10,344	$10,775	$10,997
Jul-18	$11,232	$10,728	$10,963	$10,990
Aug-18	$12,105	$11,078	$11,436	$11,462
Sep-18	$12,056	$11,141	$11,161	$11,089
Oct-18	$11,025	$10,379	$9,948	$9,879
Nov-18	$10,998	$10,591	$10,107	$9,816
Dec-18	$10,667	$9,635	$8,906	$8,633
Jan-19	$11,185	$10,407	$9,908	$9,539
Feb-19	$12,424	$10,741	$10,423	$10,061
Mar-19	$13,663	$10,950	$10,205	$9,764
Apr-19	$14,301	$11,393	$10,552	$9,951
May-19	$14,138	$10,670	$9,731	$9,280
Jun-19	$15,061	$11,422	$10,419	$9,855

Cumulative Return	**50.61%**	**14.22%**	**4.19%**	**-1.45%**
Annualized	**40.60%**	**11.40%**	**3.36%**	**-1.17%**



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