

February 28<sup>th</sup>, 2022

Dear Partners,

In Q4 2021, the Voss Value Fund, LP and the Voss Value Offshore Fund, Ltd., returned +13.6% and +14.3% to investors net of fees and expenses, respectively, compared to +2.1% total return for the Russell 2000, +3.9% price return for the Russell 2000 Value, and +11.0% total return for the S&P 500.

As of December 31<sup>st</sup>, 2021, the Voss Value Master Fund's total gross exposure stood at 144.5% and the net long exposure was 75.3%. Our top 10 longs had a weight of 63.4%, and our top 10 shorts had a weight of -20.7%.

Long/short strategy<sup>1</sup> assets under management stood at approximately \$312.2 million and Firm assets stood at approximately \$348.3 million as of December 31<sup>st</sup>, 2021.

Voss Value Master Fund Complex

NET MONTHLY PERFORMANCE   2021					
PERIOD	Voss Value Fund, LP	Voss Value Offshore Fund, Ltd.	Russell 2000 TR	Russell 2000 Value Index	S&P 500 TR
JANUARY	3.5%	3.5%	5.0%	5.2%	-1.0%
FEBRUARY	11.7%	11.5%	6.2%	9.2%	2.8%
MARCH	6.6%	6.3%	1.0%	5.0%	4.4%
<b>1st QUARTER</b>	<b>23.3%</b>	<b>22.7%</b>	<b>12.7%</b>	<b>20.7%</b>	<b>6.2%</b>
APRIL	5.7%	5.7%	2.1%	2.0%	5.3%
MAY	2.4%	2.2%	0.2%	3.0%	0.7%
JUNE	3.1%	3.0%	1.9%	-0.8%	2.3%
<b>2nd QUARTER</b>	<b>11.6%</b>	<b>11.2%</b>	<b>4.3%</b>	<b>4.2%</b>	<b>8.5%</b>
JULY	-0.1%	-0.1%	-3.6%	-3.6%	2.4%
AUGUST	-0.8%	-0.9%	2.2%	2.5%	3.0%
SEPTEMBER	-10.2%	-10.9%	-2.9%	-2.2%	-4.7%
<b>3rd QUARTER</b>	<b>-11.0%</b>	<b>-11.8%</b>	<b>-4.4%</b>	<b>-3.4%</b>	<b>0.6%</b>
OCTOBER	5.8%	6.2%	4.3%	3.7%	7.0%
NOVEMBER	1.1%	1.2%	-4.2%	-3.6%	-0.7%
DECEMBER	6.2%	6.3%	2.2%	3.9%	4.5%
<b>4th QUARTER</b>	<b>13.6%</b>	<b>14.3%</b>	<b>2.1%</b>	<b>3.9%</b>	<b>11.0%</b>
<b>YEAR TO DATE</b>	<b>39.1%</b>	<b>37.6%</b>	<b>14.8%</b>	<b>26.3%</b>	<b>28.7%</b>

The table below shows the Voss Value feeder Funds returns compared to some of the relevant indices:

Net Return Comparison as of December 31st, 2021								
	1 Month	3 Month	YTD	1-Year	Compound Annual Growth Rate			
					3-Year	5-Year	10-Year	ITD <sup>(1)</sup>
Voss Value Fund, LP	6.2%	13.6%	39.1%	39.1%	27.8%	20.4%	20.3%	19.8%
Voss Value Offshore Fund, Ltd.	6.3%	14.3%	37.6%	37.6%	-	-	-	30.2%
S&P 500	4.5%	11.0%	28.7%	28.7%	26.1%	18.5%	16.6%	17.4%
Russell 2000	2.2%	2.1%	14.8%	14.8%	20.0%	12.0%	13.2%	14.5%
Russell 2000 Value	3.9%	3.9%	26.3%	26.3%	17.4%	8.7%	11.9%	13.2%
Russell 2000 Growth	0.4%	0.0%	3.0%	3.0%	21.2%	14.6%	14.2%	15.3%
HFRX Equity Hedge Index	1.7%	2.6%	12.1%	12.1%	9.4%	5.5%	4.2%	4.0%

(1) Inception to Date measures the time period from Voss Value Fund, LP's inception date of October 1st, 2011, and from Voss Value Offshore Fund, Ltd.'s inception date of January 1st, 2020.

<sup>1</sup> Includes the Voss Value Master Fund and SMA.

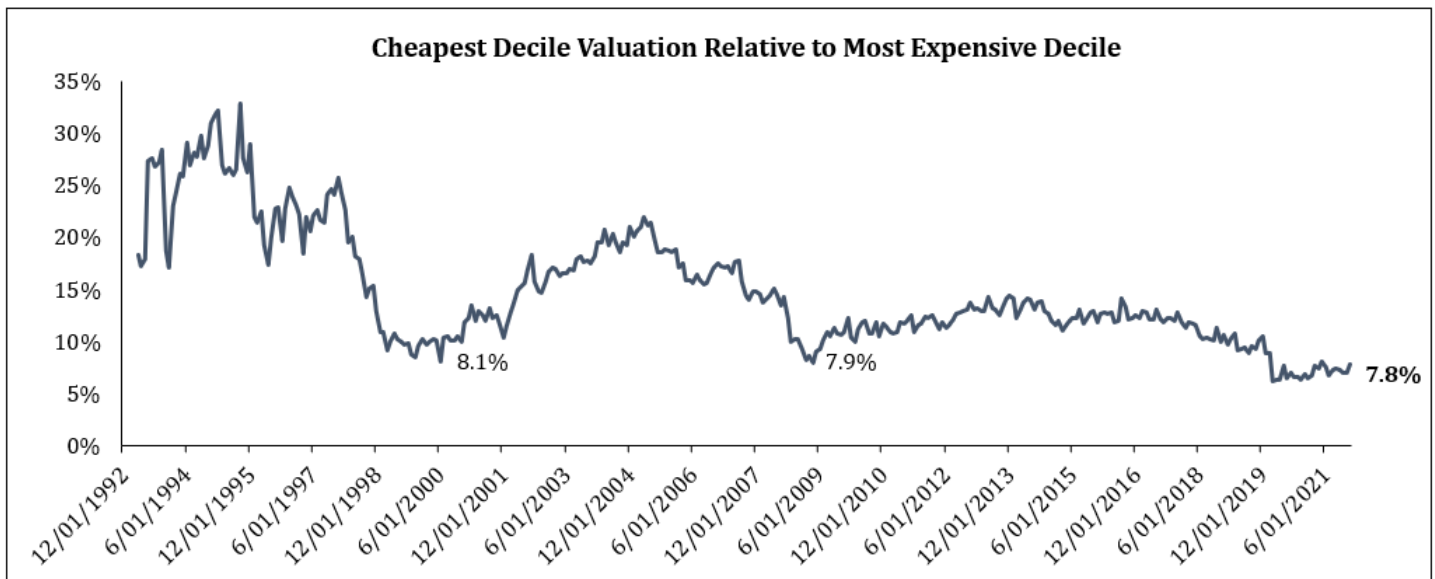
The habitual inclination of human nature to cause swings from one extreme to another is well known to us all. Mr. Market is not exempt from this universal tendency, but rather is its poster child – perfectly demonstrating the propensity of investor sentiment to fluctuate between euphoric optimism and fear-driven cynicism. The historic wave of speculative enthusiasm the market experienced over the last few years has receded, leaving many bare buns exposed. With the benefit of hindsight, the peak of the euphoria this cycle so far seems to have been early in 2021. Fast forward to today, just one blink of a trip around the sun later, and the median Nasdaq-listed stock is down roughly 45% from its 52-week high, and small cap stocks are at 20-year valuation lows.

Our portfolio as of the date of this letter reflects this extreme pessimism and, in our estimation, has never been cheaper on a historical basis.

- 28% of our long book is under 6.5x earnings
- 28% is in between 6.5x-10.0x earnings
- 33% is at all-time low valuations (on the relevant metrics) including March 2009 and March 2020
- > 40% have at least a 10% FCF yield, with many exceeding 20% yields despite limited-to-no leverage
- Median/Average revenue growth rate of 11% forecasted for 2022

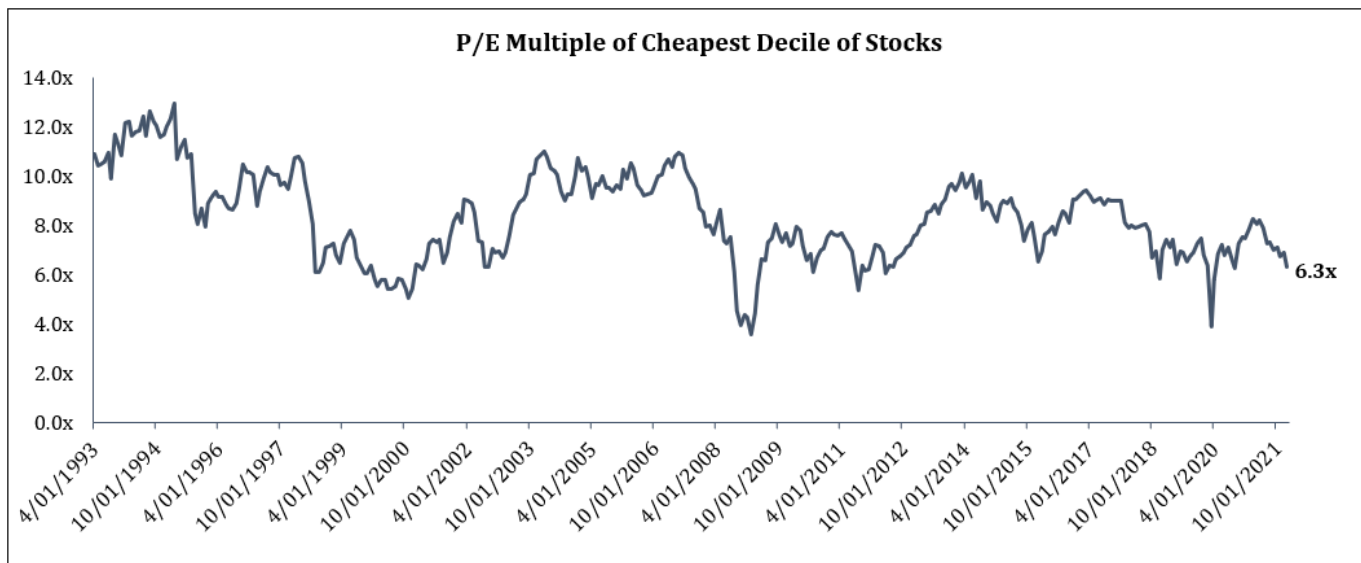
Despite using the terms frequently in our discussions with Partners, we have always struggled with the concept of "Value" versus "Growth," because most Value and Growth indices have significant industry overweights and underweights due to their Price/Book ratio classification. For instance, Value will always be heavily weighted in Energy and Financials, while Growth will have large overweights in Technology and Biotech.

So, to measure how cheap Value is relative to Growth on a *sector neutral basis*, we broke the US universe into ten deciles and compared the median Next Twelve Months (NTM) P/E from each decile (measured monthly). This analysis gives us a view of how cheap the cheapest are compared to the most expensive over recent history. As demonstrated below, the lowest decile names have not been cheaper relative to the most expensive names as far back as we have data (December 1992), even after the material correction in high growth/high duration equities.

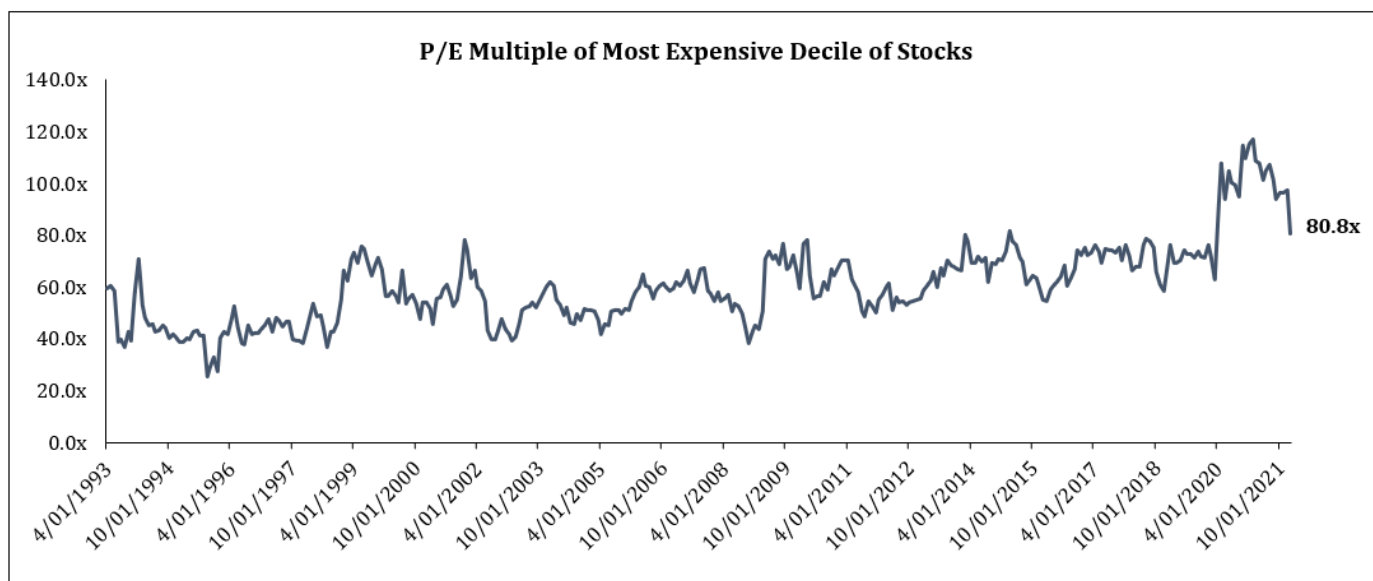


This dispersion gives us confidence that we may indeed be on the verge of longer-term outperformance of "Value" names, similar to 2000 – 2005, a style leadership regime not witnessed on a sustained basis since Voss Capital was launched over 10 years ago.

The chart below shows the median NTM P/E of the cheapest decile of US stocks on a sector-neutral basis. This cheapest decile has de-rated from ~8x earnings in November to about 6x earnings currently, or a ~25% de-rating.



The below chart shows the median of the most expensive decile of stock which has de-rated from nearly 120x earnings to 80x earnings (33% de-rating).



Thus, while some believe this is only the beginning of a giant bubble bursting with a long way to go, others see small caps at their cheapest levels in 20 years. The reality is that both can be correct. As such, we believe this is a time to keep our gross exposures elevated. We could experience a prolonged rotation out of expensive stocks and into cheaper ones such that the relative valuation ratio compresses to a more historically normal level. In doing so, it is possible the broader indices spin their wheels—diabolically disappointing and shocking both the bulls and the bears, while superior stock pickers outperform.

**New Longs**

**Avaya Holdings Corp. – AVYA**

Avaya is an American multinational technology company headquartered in Durham, North Carolina, that specializes in cloud communications and workstream collaboration solutions. Avaya is a “legacy” tech player undergoing a material business model transition from perpetual license and maintenance to a cloud and subscription model. The company has amassed a giant enterprise customer base in their Telephony (100 million seats) and Contact Center

(6 million seats, ~40% global market share) businesses. Avaya is working to rapidly convert these customers to a subscription model while also moving as many as possible to public and private cloud infrastructures.

Converting a customer to subscription on its own provides an over 20% uplift in recurring revenue but moving them to public and private clouds gives a far more substantial uplift as the customer is able to generate significant savings from the move.<sup>i</sup> Management has guided to \$1 billion in Annual Recurring Revenue from transitioning to subscriptions/cloud by the end of this year and \$2 billion by fiscal year 2024 (versus \$620 million now). We believe the buy-side is skeptical of these numbers given the valuation and recent collapse in the stock. Putting aside the fact that the company has *raised* their ARR estimates each of the last four quarters, what finally convinced us they are making tangible progress in converting large cloud customers (as opposed to just subscription) was a \$400 million, seven-year win with a “major financial institution” in Q4 for Contact Center as a Service (CCaaS).<sup>ii</sup> We believe this came in at roughly \$125/month/seat which, if extrapolated to the rest of their Contact Center base, would give them a \$9 billion ARR TAM. Keep in mind that this estimation is just considering their existing customer base and does not even include the 100 million Telephony users. The company only needs to convert a small percentage of its current base to cloud to achieve its stated \$2 billion ARR target.

Our thesis is that the company's inflection toward rising overall revenue growth and rising free cash flow margins simultaneously (what we refer to as “Voss Sauce”) will begin to kick in during the back half of 2022 and accelerate into 2023. With FCF currently depressed because of the SaaS transition and debt levels still high (>\$3 billion net debt), along with Avaya's reputation as a market share loser, we can understand the current negative sentiment. However, we believe based on industry research there is strong customer loyalty to Avaya, high stickiness around enterprise Contact Center as a mission-critical application, significant inroads into private cloud in particular, and a revamped channel presence that will help stabilize their SMB market base.

AVYA currently trades at 1.2x sales, 5x EBITDA, and 4.5x earnings. By the end of the year, they will be trading at 4x their subscription base, growing 70%+, with zero value ascribed to the remaining \$2 billion in revenue. We have a \$30 price target (134% upside) based on fiscal year 2024 numbers, which assume 10x FCF, 7.5x EBITDA, and 3x subscription revenues (<2x overall revenues). We hope this target will prove to be quite conservative as Avaya's narrative changes from that of a market share losing legacy dinosaur to one of the growing, niche-dominating SaaS leaders.

### **Olin Corp. – OLN**

Olin is a multi-segment business, with two segments in the chemicals industry (chlorine, caustic soda, and epoxy production) and a small segment in the ammunition industry. Unlike many chemical companies, we believe Olin has a few idiosyncratic catalysts that can potentially make the stock a core-sized position for us.

First, we believe the company has an underappreciated moat as the low-cost chlorine producer in North America. New CEO Scott Sutton has started to leverage that moat in the form of contract renegotiation and supply constraint (e.g., shutting down unproductive plants) to maximize the value of producing and storing a toxic gas like chlorine. Our current understanding is that incremental demand for both chlorine and caustic soda is set to significantly outstrip incremental supply and that any incremental supply will take years to build out and come online. We think OLN's other chemical business, Epoxy, is in a similar position with a 5-to-7-year runway of low-cost production leadership, at scale, that will allow for substantial margin expansion. Additionally, a sale of the ammunition business could unlock significant added value – opening the door for investors interested in a chemical pure-play and concerned about ESG. Finally, a full 30% of the company's chlorine production goes to Dow Chemical in the form of a very low-value, long-term contract that expires in 2025, something the CEO has suggested could be amended well before 2025, in a “cash accretive” way.<sup>iii</sup>

We believe these catalysts over the next 2-3 years, along with a smoother earnings trajectory and massive share buybacks/deleveraging, will result in a rerating of the stock closer to the 8x EBITDA multiple CEO Scott Sutton's previous company Celanese (CE) now enjoys. Olin currently trades at under 5x NTM FCF and has guided towards a

20% FCF yield for the next five years with over 40% of FCF going towards share buybacks. Our price target of \$100 is based on 10x 2022-2025 earnings.

### **Asbury Automotive Group, Inc. – ABG**

Asbury Automotive is an auto dealer that we purchased recently at ~5x earnings and free cash flow. We believe the stock's value has been partly obscured by their recent acquisitions along with auto dealers having derated significantly over the last few months due to perceived fears of "over earning" in 2021 and 2022, as average profit per car has shot up due to supply constraints. We have constructed a framework of "normalized earnings" for 2023 and concluded that ABG trades at ~7x earnings versus a historical range of 7-15x, or around 11x on average. We thus believe the stock can rerate to 11x normalized earnings, or around 40-50% higher from our purchase price of ~\$160. Downside should be limited given the company's very depressed multiples, although we will be watching for an acceleration of rates raising which could whack what is currently pent-up demand for vehicles.

### **ArcelorMittal – MT**

ArcelorMittal is a global integrated steel producer trading at around 2x EBITDA which will likely generate over 50% of their market cap in free cash flow in the next 8-10 quarters. This is after a period of substantial deleveraging which now allows the company to use FCF primarily towards share buybacks. We also believe the company's numerous joint ventures have an underappreciated \$10+ billion of value. When accounting for this, we believe MT is even cheaper on a price/tangible book basis (~0.4x).

If the company can simply maintain its multiple while returning most, if not all, that FCF to shareholders in the form of buybacks, we believe 50%+ upside is conservative. Given the company's deleveraged balance sheet, even if steel pricing and profitability decline materially, we believe the downside will be limited as historically MT trades in a range of 5-7x EBITDA versus the current 2x.

### **Staying Long US Home Repair & Remodeling (R&R) Related Stocks**

Home remodeling spending grew at a healthy clip of 5.5% annualized rate from 2014-2019 and then exploded higher in 2020 and 2021, +13% and +13% y/y, respectively. Consensus expectations appear to be for growth in remodeling spend to drop to ~2% per annum over the next several years, much lower than the lowest growth rate in any recent year, which was +3.8% in 2019. However, this expectation conflicts with consumer surveys showing homeowner intentions for various types of remodeling is anywhere from 25-200%+ higher now than at any point from 2014-2019 across a wide variety of R&R project types such as replacement of lighting fixtures, replacing a roof, painting a home, adding a deck, etc.<sup>iv</sup>

Interestingly, despite the hand wringing over home price appreciation and hysteria over rising rates, US consumer intention to buy residential property is almost twice as high today as it was anytime from 2014-2017 (~40% now versus a peak of ~20% then). Consumers' intention to sell their home is also at a modern high, >30%, up from 15% in 2015.<sup>v</sup> This would be bullish for home and building products companies, as housing churn is a key driver for R&R activity.

R&R spend has consistently outpaced GDP growth almost every year for 20+ years and rarely turns negative. The idea that R&R spending growth will now moderate to about half of the lowest growth rate from 2014-2019 seems unlikely in the face of \$2.8+ trillion of excess savings still on consumer balance sheets, home equity exploding higher and up by several trillion over the last twelve months, and consumers' intent to remodel at an all-time high. The historically very accurate (correlation coefficient to actual spending of 0.82) Leading Indicator of Remodeling Activity Index (LIRA) from the Joint Center for Housing Studies of Harvard University is pointing to a massive *acceleration* in home remodeling spend in 2022, with a jump to 19.7% y/y growth by Q3 2022, again conflicting with consensus expectations.<sup>v</sup>

As we have pointed out in previous letters, the existing stock of homes is rapidly aging as we underbuilt for about a decade. In fact, >50% of homes in the US are now over 40 years old.<sup>vi</sup> R&R spending goes up by *multiples* on a home

that is >20 years old versus one that is say, nine years old. For example, only ~1% of kitchen and bath remodels occur in homes less than 10 years old. An outsized proportion of homes are now approaching ages where remodeling spend inflects massively higher given the peak in single-family construction occurred 16-20 years ago from 2002-2006.

We believe our portfolio remains positioned to capitalize on robust R&R trends. Many of the related securities are at or near all-time low valuations, such as building products distributor BlueLinx (BXC), which continues to regularly exceed earnings expectations by upwards of 100% and trades for less than 2.5x our 2022 EPS estimates. The vast majority of the company's earnings are coming from its more stable and higher margin Specialty Products segment. We believe the housing market's fundamentals and supply/demand picture have rarely been stronger in all of modern history, underpinned by a historic lack of inventory and record low vacancy rates across both single-family homes and multi-family.

We believe housing-related securities such as BXC are poised to continue seeing upwards earnings revisions and multiple re-rating higher from distress levels, as they scale a gargantuan wall of worry. Assuming BXC's commoditized lumber segment, Structural Products, sees a sharp revenue drop and reverts to 8% gross margins (from the 20%+ guided to for Q1), and the company trades at an extremely discounted multiple of only 8x earnings, we believe the stock still has ~140% upside.

### **Conclusion**

Mr. Market is forever in motion, ramifying and unpredictable. However, if we step from back the immediacy of the moment, we believe it is clear he has long-term upward bias along with some enduring peculiarities that should keep playing to our benefit, such as his tendency to misjudge the actual level of economic impact certain threats have and his proclivity to oftentimes anchor to the wrong information amongst the vast sea of available data. What is salient to the market at this moment is unlikely to be next month, and it is this myopic attentional hierarchy of market participants that creates long term opportunities for us. To reiterate, in our estimation, our portfolio is the cheapest now it has ever been, and valuation dispersion among all stocks is the widest it has ever been as far back as we have data. It is quite possibly the best time in modern history to be a fundamental stock picker with a value-bent and we are optimistic about our forward return prospects.

Sincerely,

Voss Team

## Appendix:

<sup>i</sup> AVYA Q1 2022 Earnings Conference Call, February 9, 2022

<sup>ii</sup> AVYA Q1 2022 Earnings Conference Call, February 9, 2022

<sup>iii</sup> OLN Q3 2021 Earning Conference Call, October 22, 2021

<sup>iv</sup> Source: UBS Evidence Lab US Housing Intentions Consumer Survey

<sup>v</sup> Source: JCHS of Harvard University Leading Indicator of Remodeling Activity – Fourth Quarter 2021

<sup>vi</sup> LOW Q4 2022 Earnings Conference Call, February 23, 2022

## Common Terms:

<i>CAGR – Compound Annual Growth Rate</i>	<i>GDP – Gross Domestic Product</i>
<i>DCF – Discounted Cash Flow</i>	<i>IRR – Internal Rate of Return</i>
<i>EBITDA – Earnings Before Interest, Taxes, Depreciation &amp; Amortization</i>	<i>LTM – Last Twelve Months</i>
<i>EPS – Earnings per Share</i>	<i>NTM – Next Twelve Months</i>
<i>EV – Enterprise Value</i>	<i>P/E – Price to Earnings</i>
<i>FCF – Free Cash Flow</i>	<i>YTD – Year to Date</i>

## Disclosures and Notices:

Beginning January 1, 2020, all investment activity is conducted by the Voss Value Master Fund, LP (the “Fund”), which has two feeder funds, and therefore performance figures from January 1, 2020 onward are calculated based on the Master Fund. All limited partners invest in the Fund through one or more of the following feeder funds: Voss Value Offshore Fund, Ltd. (the “Offshore Fund”) and Voss Value Fund, LP (the “Predecessor Fund”), each a “Feeder Fund”. Performance figures for the Predecessor Fund are contributable to Travis Cocke as sole portfolio manager. Mr. Cocke maintains the same the position with the Fund and the Fund will employ a similar strategy as the Predecessor Fund. Actual returns are specific to each investor investing through a Feeder Fund. Each Feeder Fund was established at different times and has varying subsets of investors who may have had different fee structures than those currently being offered. As a result of differing fee structures, differing tax impact on onshore and offshore investors, the timing of subscriptions and redemptions, and other factors, the actual performance experienced by an investor may differ materially from the performance reported above. Portfolio statistics shown are inclusive of the Predecessor Fund and the Offshore Fund.

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of the fund. Indexes are unmanaged and have no fees or expenses. An investment cannot be made directly in an index. The Fund consists of securities which vary significantly from those in the benchmark indexes listed below. Accordingly, comparing results shown to those of such indexes may be of limited use. The S&P 500 Total Return Index is a market cap weighted index of 500 widely held stocks often used as a proxy for the overall U.S. equity market. The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index. The Russell 2000 serves as a benchmark for small-cap stocks in the United States. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price/book ratios and higher predicted and historical growth rates. The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower expected and historical growth values. HRX Equity Hedge Index consist of Equity Hedge strategies which maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios.

**Past performance does not guarantee future results.**