VOSS CAPITAL

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August 23rd, 2023

Dear Partners,

In Q2 2023, the Voss Value Fund, LP and the Voss Value Offshore Fund, Ltd., returned +7.2% and +6.8% to investors net of fees and expenses, respectively, compared to +5.2% total return for the Russell 2000, +3.2% total return for the Russell 2000 Value, and +8.7% total return for the S&P 500.

As of June 30th, 2023, the Voss Value Master Fund's total gross exposure stood at 139.9% and the net long exposure was 78.7%. The top 10 longs had a weight of 72.6%, and our top 10 shorts had a weight of 26.7%.

Voss Value Master Fund assets under management stood at approximately $259.8 million and Firm assets stood at approximately $812.1 million as of June 30th, 2023.

Voss Value Master Fund Complex

NET MONTHLY PERFORMANCE | 2023

PERIOD	Voss Value Fund, LP	Voss Value Offshore Fund, Ltd.	Russell 2000 TR	Russell 2000 Value Index	S&P 500 TR
JANUARY	9.2%	9.2%	9.7%	9.5%	6.3%
FEBRUARY	-1.7%	-1.7%	-1.7%	-2.3%	-2.4%
MARCH	-5.5%	-5.5%	-4.8%	-7.2%	3.7%
1st QUARTER	**1.5%**	**1.5%**	**2.7%**	**-0.7%**	**7.5%**
APRIL	-1.9%	-1.9%	-1.8%	-2.5%	1.6%
MAY	0.5%	0.1%	-0.9%	-2.0%	0.4%
JUNE	8.8%	8.8%	8.1%	7.9%	6.6%
2nd QUARTER	**7.2%**	**6.8%**	**5.2%**	**3.2%**	**8.7%**
JULY					
AUGUST					
SEPTEMBER					
3rd QUARTER	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
OCTOBER					
NOVEMBER					
DECEMBER					
4th QUARTER	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
YEAR TO DATE	**8.9%**	**8.4%**	**8.1%**	**2.5%**	**16.9%**

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

Net Return Comparison as of June 30th, 2023

					Compound Annual Growth Rate			
	1 Month	3 Month	YTD	1-Year	3-Year	5-Year	10-Year	ITD(1)
Voss Value Fund, LP	**8.8%**	**7.2%**	**8.9%**	**29.7%**	**30.4%**	**18.0%**	**17.2%**	**17.9%**
Voss Value Offshore Fund, Ltd.	**8.8%**	**6.8%**	**8.4%**	**28.4%**	**29.3%**	**-**	**-**	**18.6%**
S&P 500	6.6%	8.7%	16.9%	19.6%	14.6%	12.3%	12.9%	14.5%
Russell 2000	8.1%	5.2%	8.1%	12.3%	10.8%	4.2%	8.3%	11.0%
Russell 2000 Value	7.9%	3.2%	2.5%	6.0%	10.8%	1.0%	6.0%	9.1%
Russell 2000 Growth	8.3%	7.1%	13.6%	18.7%	1.3%	1.4%	7.3%	10.2%
HFRX Equity Hedge Index	1.3%	2.2%	3.0%	4.6%	8.0%	3.4%	3.2%	3.4%

(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.

The clear consensus at the start of the year was that the 1H equity performance would be very weak, followed by a market rebound as investors began looking forward to a 2024 earnings recovery. The markets rarely do what most people fear. Thus, The Great Humiliator instead delivered one of the greatest 6-month runs in modern stock market history (Nasdaq 100 was up 39.4% through 1H). Granted, the gains were mostly concentrated in mega-cap tech stocks that have experienced multiple expansion (well covered by the media all year long) and driven by the AI hype bubble. Starting in May, market returns began to broaden, and sentiment was finally heating up. Fast forward three weeks into August, and we have seen a high single-digit percentage market correction with sentiment and positioning now decidedly neutral.[1, 2] There is no longer an easy consensus to game though our base case would be that we can still scale a moderate wall of worry from here. After many months of resilient economic data, the biggest brick in the wall of worry has morphed from fear of an imminent recession to broader concerns about high interest rates and a slowdown in China. Macro fears of recession over the last 18 months have been akin to a stock's sentiment being weighed down by a tiny weak segment that contributes one-tenth as much to earnings as a growing but ignored segment (Manufacturing's share of GDP comprises ~7% and has shrunk ~1% vs. Services which comprises 70% of the economy and has grown ~5%). Of note, economic growth has accelerated all year long: the Q1 US GDP was +2.0%, Q2's was +2.4% (both will be revised), and early estimates for Q3 show +5.8% from the Atlanta Fed.[3]

Now, there is more variation in the topics on investors' minds, as everyone is no longer zeroed in on one or two major macro worries. Forward inflation expectations have collapsed to below long-term average/median expectations for a while now.[4] Consumer leverage remains very low by historical standards, and with consumption driving ~70% of the US GDP, this cuts off the tail risk of an economic collapse.[5] As stated in our last quarterly letter, one of the most important indicators that the team has been watching is bank lending, given the fear of a slowdown due to the lagging effect of tightening rates and an inverted yield curve. Bank lending growth, however, has also proven resilient, growing at a >5.5% annualized rate in Q2 across publicly traded regional banks in the US[6], and only in the last two weeks has total US bank loan growth gone slightly negative year-over-year, a development worth keeping an eye on.[7]

The overall market is not on the far-right side of the bell curve in terms of absolute valuation, but what is at an extreme is recent large-cap performance relative to small-cap and the growth factor relative to the value factor. Both extremes have been headwinds that will provide a welcome reprieve for Voss's portfolio if they finally abate. Through the end of Q2, the Russell 1000 Growth index was +24% ahead of the Russell 1000 Value index YTD (+29% vs. +5%), more than reversing its +21% underperformance last year (-29% vs. -8%). This +24% outperformance represents a 98th percentile 6-month performance for the Growth index over Value. Additionally, the Russell 2000 underperformed the Russell 1000 by roughly 9% YTD through the end of Q2, representing a 91st percentile 6-month lead for large vs. small caps.[8] Large caps and Tech earnings revisions have been relatively good, providing solid reasoning for the overall outperformance for large-cap tech. S&P 500 earnings in Q2 have come in at a comfortable ~8% ahead of consensus thanks to better-than-expected margins and have seen positive 5.5% revisions to 2023 total EPS estimates since the middle of April.[9]

Actual 2Q23 Earnings Versus Estimates For Companies That Have Reported

Sector	2Q23 EPS Expectation	2Q23 EPS Actual	% Difference vs. Consensus
Communication Services	33,908	36,078	6.4%
Consumer Discretionary	30,743	37,692	22.6%
Consumer Staples	26,747	28,367	6.1%
Energy	29,855	30,707	2.9%
Financials	75,820	80,994	6.8%
Health Care	53,418	55,885	4.6%
Industrials	40,144	43,512	8.4%
Information Technology	64,487	69,345	7.5%
Materials	13,235	14,200	7.3%
Real Estate	6,339	7,413	17.0%
Utilities	10,784	11,435	6.0%
S&P 500	385,481	415,629	7.8%

Morgan Stanley Research

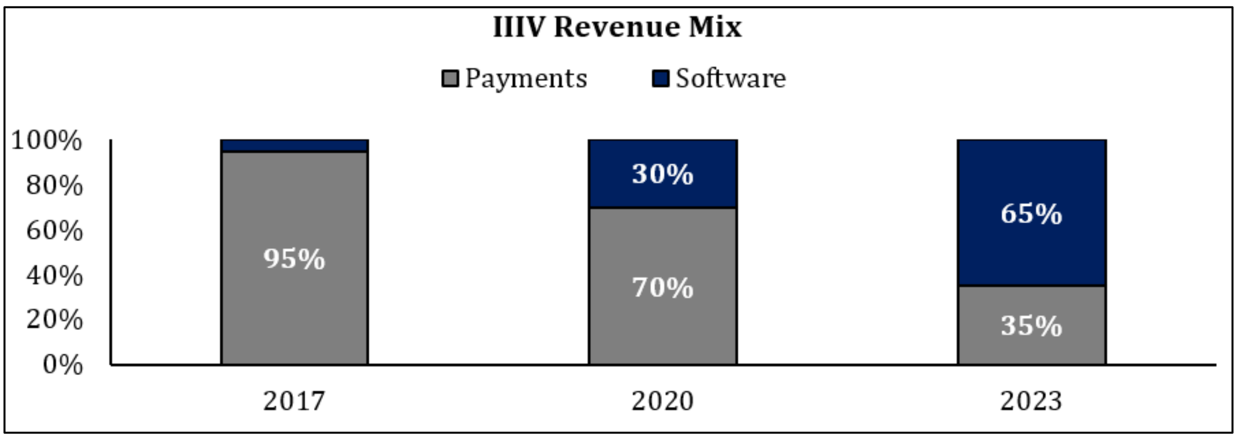
Although the first half of this year has presented our strategy with one of the worst factor performance headwinds over any 6-month period in market history, if the perking up of value that began in June continues over the remainder of 2H 2023, we could expect an outsized positive impact on our relative returns.

New Long: i3 Verticals, Inc. (IIIV)

Given the *relative* valuations of many FinTech stocks that have been hitting 10-year (Visa) or all-time lows (SSNC, EEFT, etc.), FinTech is noticeably out of favor on Wall Street, especially post-SIVB-bank failure/financial sector scare.

One FinTech stock we have been buying is Nashville-based i3 Verticals (Nasdaq: IIIV). IIIV is a software and payment solutions provider, mainly to the Public (e.g., municipalities for utility payments, states for auto registration billing), and Healthcare sectors. IIIV was originally known as more of a pureplay payment processor, but over the last few years, the company has employed a software acquisition strategy whereby they acquire the software assets and then layer their payments engine onto the acquired businesses to fuel organic growth. Through the implementation of this strategy, IIIV has been rapidly shifting to a higher mix of recurring SaaS revenue and transitioning from majority "payments" revenue to a majority "software" company.

Below is a mix of their revenue in Payments vs. Software in 2017, 2020, and currently:



Company Financials

Now, "Software and Services" constitute 65% of their revenue and 72% of EBITDA, and the company's gross margins have expanded from an already healthy 69% to a robust 77% in the most recent quarter. It is our thesis that the market will soon take notice of this positive mix shift and value the company more as a software firm than a pure payments company. Profitable, growing payments companies tend to trade closer to what IIIV trades at (9-12x EBITDA), while software companies with similar profiles will tend to trade closer to 15-20x, or higher, especially those with noncyclical end customers like IIIV's.

Last quarter IIIV grew revenues 17%, including roughly 10% organic growth, while also achieving overall recurring revenue growth of 17%. We foresee ongoing opportunities for growth as they continue to layer payments over their software assets – especially within their Healthcare vertical, which has only recently launched. More importantly, the company claims that with their more complete offering of software solutions to state agencies, they are now being invited to and winning more RFPs at a larger scale. Their management team has reiterated over the last few quarters that they have made substantial progress in integrating their 48 acquisitions since 2018 into more complete subvertical solutions that can win statewide mandates. For instance, in the most recent quarter, they called out a 5-year contract from their "Justice Tech" division with a state-level mandate, and a state level DMV solution that utilizes several of their software products.[10] In other words, they are building cost and revenue synergies across their asset base and beginning to see preliminary success, something we view as crucial for the stock to re-rate higher.

The management team is led by serial payments industry entrepreneur Greg Daly, who has gotten the "band back together," and recruited executives from his previous companies iPayment Inc. and PMT Services, the latter of which Daily founded and was sold for over $1 billion dollars over 20 years ago. IIIVs management team has exhibited a disciplined approach to M&A. In an era when many executives and buyout firms were paying >10x revenue for young and growing software firms, IIIV has not paid >10x EBITDA for small software tuck-ins. They are now becoming even more conservative with aims to cap the multiple at 8x, partially because of higher interest rates crimping how accretive the acquisitions would be to the company. The biggest risk we will be watching for is whether they are simply unable to make the types of accretive acquisitions they have been making for the past 2-3 years, in which case the upside will be more subdued.

The most direct public trading comp in our view, Tyler Technologies (NYSE: TYL), is well followed and has been anointed by investors as a high-quality, scarce software asset that routinely garners one of the highest valuations in the public software space. Given IIIV is not a public sector pure play like TYL, it is unlikely to receive the same stratospheric valuation. However, the stock's current massive discount given its robust growth and healthy overall profitability is too extreme for savvy investors not to take notice. If they don't, we think the Board will gladly welcome a strategic acquirer to come in and close the valuation gap at a more opportune moment sometime in the next few years. Our base case price 12-month target of $32 gives the shares ~50% upside and is derived from using 15x NTM EBITDA – a > +50% discount to TYL.

	IIIV	**TYL**
Organic Sales Growth	10%	10%
Gross Margin	79%	46%
EBITDA Margin	28%	25%
% Recurring Revenue	82%	79%
Valuation FY2		
EV/Sales	3.3x	8.2x
EV/Gross Profit	4.2x	17.7x
EV/EBITDA	11.8x	32.1x
P/FCF	11.5x	47.2x

<u>Conclusion</u>

Mr. Market forever scoffs at the idea of trying to neatly fit the square peg of current circumstances into the round hole of any one historical analog. We would argue that, economically, conditions are now "mostly normal," thus leaving the door open for investors to focus on good old fashioned stock picking. Yet, most share prices are still only masquerading as a reflection of fundamentals and the reality is that human behavior creates and perpetuates technical feedback loops that drive security prices far from rational valuations. With a collection of growing businesses and a current weighted average free cash flow yield on our long portfolio of over 12.5%, (>8% greater than the 10-year treasury yield), we are confident that our stocks have effectively wrung out a lot of risks and have strong valuation support. Despite any frustrating near-term market vacillations, our investments are solidly allied with time and poised to provide exceptional returns if our investment theses continue to be mostly right.

Guided by timeless investment principles and valuation discipline, our perpetual hunt for alpha continues.

Sincerely,

Voss Team

Appendix:

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[1] https://www.cnn.com/markets/fear-and-greed?utm_source=business_ribbon
[2] Equity exposure/sentiment is ~45th percentile, on average: source JP Morgan Institutional clients.
[3] www.Bea.gov
[4] Federal Reserve Bank of New York
[5] St. Louis Fed: https://fred.stlouisfed.org/series/DPCERE1Q156NBEA
[6] DA Davidson Research
[7] FederalReserve.gov
[8] FactSet/ Bloomberg
[9] Bloomberg
[10] Q2 2023 IIIV Conference Call and Press Release

Common Terms:

CAGR – Compound Annual Growth Rate	*IRR – Internal Rate of Return*
CAPEX – Capital Expenditures	*LTM – Last Twelve Months*
COGS – Cost of Goods Sold	*M&A – Mergers and Acquisitions*
DCF – Discounted Cash Flow	*NTM – Next Twelve Months*
EBIT – Earnings Before Interest and Taxes	*OPEX – Operating Expenses*
EBITDA – Earnings Before Interest, Taxes, Depreciation & Amortization	*P/E – Price to Earnings*
EPS – Earnings per Share	*P&L – Profit and Loss Statement*
EV – Enterprise Value	*P&S – Parts and Service*
FCF – Free Cash Flow	*SG&A – Selling, General and Administrative Expenses*
GDP – Gross Domestic Product	*YTD – Year to Date*

Disclosures and Notices:

Beginning January 1, 2020, all investment activity is conducted by the Voss Value Master Fund, LP (the "Master 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. Net results are presented after deduction of all operational expenses (including brokerage commissions), 1% per annum management fee, and 20% performance allocation. Prior to Q1 2023, 2022, and 2023 net results were presented at the Fund/feeder level but were subsequently updated to match the method of presentation used for the Fund's 2022 Audited Financial Statements. A full chart is available upon request.

This letter is provided by Voss Capital, LLC ("Voss", "the Firm", "the Voss Team", and "our team") for informational purposes only and does not constitute an offer or a solicitation to buy, hold, or sell an interest in the Voss Value Fund, LP (the "Fund") or any other security. An investment in the Fund is speculative and involves substantial risks.

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