Long Cast
ADVISERS LLC

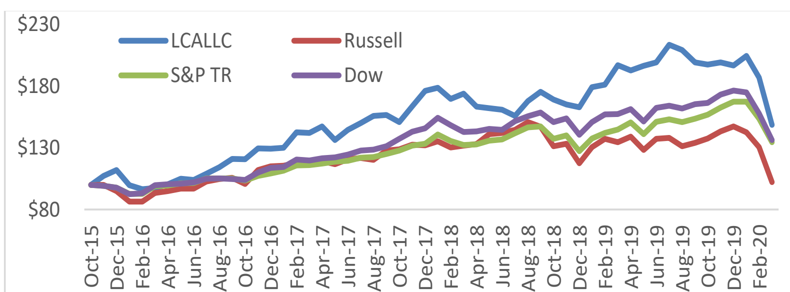
Dear Friends:

For the 1Q20 quarter, cumulative returns on accounts managed by Long Cast Advisers declined 24%, net of applicable fees. This was better than the Russell 2000 index (down 30%) but worse than the Dow (down 23%) and S&P Total Return (down 20%). Returns for separate accounts managed by LCA ranged from -29% to +3% for the quarter, with the positive tail skewed by newer accounts that were barely invested in the quarter. The median account return was down 26%.

Since inception in November 2015 through quarter end 1Q20, LCA has returned a cumulative 49% net of fees, or 9% CAGR, ahead of the baseline market indices. *Past performance is no guarantee of future results.*

Because our portfolio is comprised of just a handful of typically small "off the beaten path" businesses that we tend to own for long periods, it is expected that returns will vary considerably from the baseline. As a reminder, LCA will not invest in companies exposed to the hydrocarbon or defense industries, a small effort to align capital growth, business ownership and personal ethics.

	Long Cast	R2000	S&P TR	Dow
	Percentage Change			
2015 (2-mos)	12%	-5%	-2%	-2%
2016	15%	21%	12%	17%
2017	36%	15%	22%	28%
2018	-8%	-11%	-4%	-3%
2019	21%	25%	31%	25%
Cumulative chg	49%	2%	35%	36%
Count	53	53	53	53
CAGR	9%	1%	7%	7%
LTM	-25%	-24%	-7%	-13%



PERFORMANCE / PORTFOLIO HOLDINGS

In 1Q20, two of our top three, and three of our top-10 declined ~50%. It was a difficult quarter, one I compared in a March email to a rip current. My conclusion now is no different than it was then: I am confident that over time business will resume and while "normal" may look a bit different in a mask, creativity, adaptation and entrepreneurship will eventually prevail over this temporary crisis, as it has time and time again.

I'll start by discussing our four stocks in our portfolio that declined the most in the quarter, touch on those stocks that are exposed to "at risk" industries, and close with a new idea that I think has both thematic and underlying long term attractive qualities.

SFE (-51%). This is pretty much a publicly traded portfolio of 15 venture capital investments. Over the last two years, with the benefit of shareholder activism from Echo Lake and Horton Capital, the company has been winding down its portfolio and monetizing its holdings.

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Based solely on "last round" valuations mostly in the 2017-2019 range, the entire portfolio "is worth" ~$350M with about $250M concentrated in its top-five holdings; four healthcare related companies (Syapse, Prognos, Aktana and meQuilibrium) and a digital media company (MediaMath).

Obviously, with the current dislocation, what something "is worth" is rapidly changing so I anticipate portfolio valuations to change and "realizations" (ie exits) to take longer.

Against this unknown but in a good case $350M portfolio valuation, we have a publicly traded company with $25M in net cash with an enterprise value at recent prices of ~$90M. It seems as if there is a margin of safety and potential opportunity to reward patient investors. The company recently replaced its CEO, who long dragged his feet on the asset selling process with someone experienced in monetizing illiquid assets, I think further weighing the scales more favorably towards the patient investor.

CTEK (-49%). On one day in early March, this small company stock traded ~400,000 shares and gapped down ~$3 to ~$1.50 indicating that a large owner simply wanted out.

At $1.50 / share the stock is trading at an EV of $12M, roughly in line with revenues *for just its managed services business* (total company revenues in 2019 was $21M). There have been a lot of frustrated long term shareholders since the sale of the legacy Managed Print Services business revealed a core healthcare cybersecurity business in disarray, as if the Board and management were asleep at the wheel. Now there is a new Board, new management and a new long-time oriented shareholder base in place, including one large and patient holder that has committed capital in case of need.

A Board member who was an advocate for rapidly acquiring growth in order to scale overhead recently resigned, indicating to me that the company is tacking towards an organic growth strategy likely on a lower G&A footprint. I prefer a more patient pursuit focused on building a business with a durable foundation. The receipt of nearly $3M in PPP funds should help alleviate G&A pressure.

I recognize that hospitals and healthcare are under strain – elective procedures, which have largely been deferred, drives margin for hospitals – but healthcare consumption is not shrinking and the information security aspect of healthcare isn't going away, especially if there is continued trend towards telemedicine. Patience can be trying at times, but I think over time this business, which has a known brand in its niche, has ingredients for success.

QRHC (-46%). Their focus on commercial waste, which includes industrial, construction and automotive markets, infers near term declines in volume and route densities. Some of this could be offset by grocery collections.

The Chairman entered into a 10b5-1 plan to allow Roth Capital to buy the stock during what is normally "quiet periods" and that could help support a "bottom". Furthermore, this is the type of business that should rebound with a return in industrial activity.

PESI (-40%). This is another waste company but focused on government funded nuclear waste cleanup. The business is driven by fed budget cycles not industrial activity - the waste it cleans up has been waiting for decades – but reduced activity reduces revenues. The impact of this idling will be mitigated by $5.7M in PPP money, which covers about two quarters of SG&A.

The "big award" at Hanford, a long anticipated catalyst for the stock, will likely be delayed for the foreseeable future (PESI is believed to be bidding on the team partnered with Jacobs). On its most recent conference call, the CEO indicated that even if the team is *not* awarded the large services contract, it will be involved in treating the tank waste, and this alone could be transformative.

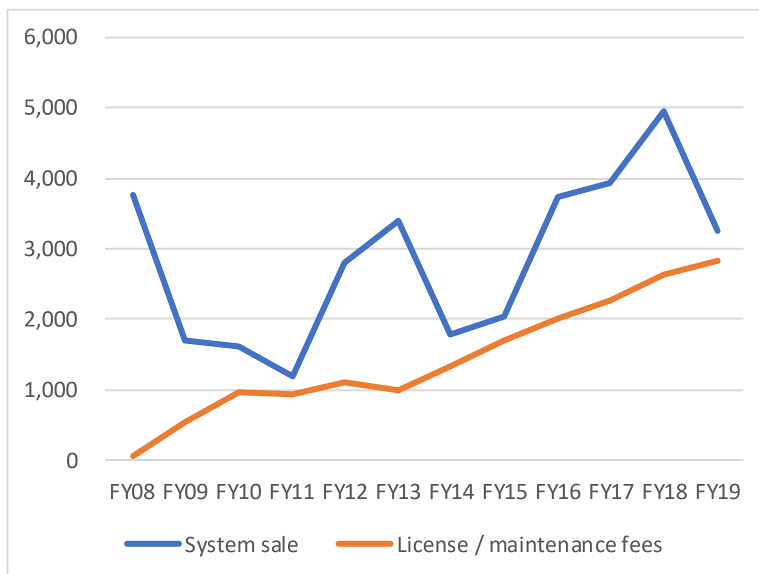
On the same call, the CEO indicated that pre-COVID, the company was on target for $100M in sales in 2020, up from $75M in 2019. These projects are likely to be deferred but are not expected to disappear and many are government funded and already budgeted.

Two additional companies in our portfolio have not significantly declined but have specific exposure worth discussing.

TBTC. Developer and distributor of casino management software, with a particular niche in the US Indian gaming market and growing outside of it.

During the '08 Recession, Indian Gaming revenues were flat. I'm not sure that's the right proxy for the current situation but it is a point of reference.

Recurring revenues (license and software fees) has grown to roughly $3M / year from an immaterial amount in 2008. This will help support the company even if systems sales slow.



My concern is the possibility that some casino doors close permanently from a combination of COVID and the growth of online alternatives. It is possible. However, management has diversified its revenue sources through recurring sales, partnerships and international expansion, indicating an ability to adapt and change, and I suspect they will adjust to the environment as necessary.

PSSR. In the last 12-months the company brought in two senior executives with significant aviation industry, elevating John Thomas to Executive Vice Chairman in August 2019 and [replacing the CEO in February] (new CEO is Brian Cook). Both were welcome events.

More recently, the company reported a terrific F1Q20 (for the quarter ending January 2020), with a new high in quarterly revenues and 8% EBITDA margins adjusted *to include* capitalized software, indicating that at long last, investments over the last three years were beginning to pay off.

Obviously, this is all cold comfort for a company that makes software to help airports manage capacity. There are likely opportunities to cut some expenses but for the company to sustain its operations until the aviation industry turns around, the Chairman will have to continue to provide a backstop as I'd imagine severe revenue pressure until travel returns to normal.

I have opened a position in a new idea that I think has both thematic and underlying long term attractive qualities.

CCRN (Cross Country) is a new position for Long Cast Advisers though I covered it as an equity research associate many years ago so I have long been familiar with its operations.

The company does a variety of specialty medical staffing, primarily travel nurse staffing (13-week assignments), per diem nurse staffing (daily nurse staffing), locum tenens (ie physician replacement staffing) and allied healthcare staffing (other medical specialties such as elective procedures).

It has three attributes I like: A thematic tailwind. It is trading at a 10x P/E, below its historical valuation. It is also a turnaround taking shape under its founder, Kevin Clark, who left in 1994 and returned last year to take over the business. In the interim 25-years according his self reported business bio, he ran three other businesses including a portfolio of healthcare staffing and a related SaaS company that he sold to AMN Healthcare in 2015, CCRN's largest competitor. He has already simplified and rationalized brands and is investing much needed and long overdue technology into the business and platform.

There is a lot of negativity in the space. Until hospital execs learn to treat COVID and remain open for business, a "walk and chew gum at the same time" kind of problem (not an easy lift, I realize, but it needs to be figured out fast), the company's 15% exposure to Allied Nurse Staffing and the 10% exposure to Physician Staffing will likely experience headwinds.

This company has always been the laggard to AMN. It has done practically nothing since I last looked at it. I guess this is why it interests no one. But something material has changed in terms of operations and management leading me to identify what I think is a long term opportunity.

CONCLUDING THOUGHTS: LOOKS LIKE I PICKED THE WRONG WEEK …

When my older son was eight years old, he was having emotional outbursts that were hard to anticipate, impossible to predict and difficult to mitigate. In an effort to try to provide him with coping mechanisms, we took him to a therapist and in a follow up appointment, I was told by his therapist: "*Children his age cannot hold an emotional thought and a rational thought in their heads at the same time."* It is a predicament that I think challenges people of all ages.

Our son learned calming strategies and my wife and I concurrently learned the concept of "low emotional content", ie don't get aggravated when your kids are going crazy (perpetually a concept around here.)

And now here we are living in a global pandemic and there is a lot of fear and uncertainty in the world. March firearm background checks set a new monthly record. There is an abundance of news and little information. The markets have swooned and partially rebounded faster than in any time in history.

All of these factors (and more) feed two concurrent thoughts I've been holding in my head. The sublime thought is how brilliant FDR was to observe 10-years before Maslow identified the hierarchy of needs

that fear itself is that thing we should most avoid. The ridiculous thought is the recurring "Looks like I picked the wrong week …" joke from Airplane.

I have never been one to follow short term moves by the market but it has been hard to avoid recently and I have been utterly confused by what I'm seeing, a reminder that watching it serves little point. Obviously, the market is a discounting mechanism and obviously, it is looking past what it thinks will be the worst of this and digesting as well the large growth in money supply and the federal backstop of risk. However, I'm not sure it's providing accurate price discovery as much as the "heads I win / tails I win" mentality of investors who are treated by the government as if they are too big to fail.

Worried about the overall vulnerability of small caps, I have considered jumping on the bandwagon and buying larger stocks on the dips, but that's when I walk away from the computer and seek distraction (there is always a project to do around the house). I walk away because I never want to let fear drive a decision.

I am now on my third "once in a lifetime market experience" (including 9/11 and the Great Recession), and in both prior times the accounts I managed focused on small companies did worst at first (down 40% during the Great Recession) and best over the long run. So despite the circumstances, I will stay true to the patient playbook of owning well researched small companies for the long term.

Though I think the decline in value of our capital will prove temporary, it is still painful to observe and endure and it has led me to reflect on what I can do better or different. There are always opportunities to improve. But I see no change to the general strategy of finding good companies that can or already do generate cash; operating in a niche with room to grow; with invested management, an engaged board and a balance sheet to support growth; trading at a reasonable valuation.

As always, I appreciate your entrusting me with your capital and the responsibility of being its steward. If you have any comments or questions, please don't hesitate to write.

Sincerely / Avi
April 2020
Brooklyn, NY