



April 2020

Dear Fellow Investors,

This past month has felt like a decade as everyday life has ground to a halt. The fear is palpable in New York. My wife and I give each other daily updates on the parents of our friends and neighbors who are sick. Our mayor has taken to sharing daily updates on the number of residents who are infected with Covid-19, and our governor provides daily updates on ventilator usage in his TV briefings. The human impacts are followed by economic impacts. Daily life is on lockdown; main street is empty. Almost all stores have similar sign that effectively read: closed. We have seen multiple weekly unemployment claims of greater than 6 million, which is 10 times the previous high.

We are swimming in darkness, not sure how long the shutdown will last, how our economy will restart, and how effective the unprecedented government programs will be. With exponential increases in infections and deaths and sudden reductions in economic activity, the markets reacted violently, particularly at the end of the quarter. The Russell 2000 index, which has the greatest overlap with our portfolio, declined -30.6% during Q1. Our funds fell a couple of percentage points further over the same period. Investors, please check your statements for your individual returns.

As we sit in mid-April, there are three important questions from the fund level:

1) Why did the funds decline? Within our portfolio, we do not have any oil and gas exposure, we do have some hedges, and our cash balance grew through the quarter. All of these served to our benefit, but were not enough. The decline happened during a three-week period in March, where daily market moves of 5% or greater were the norm. Three of our largest positions – Par Technology (PAR), Digital Turbine (APPS), and SharpSpring (SHSP) – all declined in excess of 40%; in fact, PAR declined in excess of 55%. Ultimately, our performance lagged relative indices and, more importantly, we have paper losses.

It is entirely possible that Mr. Market was right to shift to safer assets and/or those “work at home” companies that will benefit from the country and closing down. In the short term, anything restaurant-related (e.g. PAR) or advertising-supported (e.g. Digital Turbine and SharpSpring) is toxic with the onset of a virus that is closing restaurants, shutting the population inside their houses, and tripling the unemployment rate. Our sectors were unequivocally in the wrong place at the wrong time and we got shot first and hardest. Could I have sold aggressively and side stepped some of the losses? Undoubtedly. However, in our less liquid positions, our sales would have accelerated losses and reentry is not simple or guaranteed. More importantly, over the intermediate term, I believe that these businesses will continue to grow their value proposition and their competitive positions could even be enhanced when the earth eventually begins to spin again. Each of these companies remain a top 5 position. I will discuss them in greater detail below, elaborating on why I believe that their excessive declines last quarter were a function of operating in sectors of the economy that were swept out in the market panic vs. irreparable long term damage to the underlying companies.

2) Have any changes been made? Yes and no. The basic investing process and selection criteria remain the same. Fundamentals still matter, management teams still matter, competitive positioning still matters. That being said,



the world is different. There is a greater focus on balance sheets because the duration of the pandemic and timing to recovery could be quite extended. Therefore, to own a company today, we have to believe they will very likely ride this out and make it to the other side. Sufficient company cash and liquid assets provide invaluable insurance. The extreme volatility has provided an opportunity to “upgrade” the portfolio, purchasing companies that were previously too expensive. I have initiated these new positions with smaller sizes given the target-rich environment and the uncertainty of the event path for the overall economy.

3) What is the prognosis going forward? I have spent enough time over the past six weeks reading about viruses, viral transmission rates, curve flattening, herd immunity, stimulus plans, processes for reopening the economy, immunizations, virus reacceleration in the fall, testing protocols, testing bottlenecks, and social distancing effectiveness to last 10 lifetimes. I have studied myriad models and their inputs and outputs, and, at the end of all of this, I am in the same place as everybody else: I don’t really know. However, my educated guess – which is embedded in our portfolio – is that the death rate is overstated, better treatment protocols will emerge, and our policy response will become more surgical to balance protecting those at greatest risk while allowing the economy to function. It will be a long, bumpy, tough road, but in a year or two this will be a painful and distant memory as people, companies, and industries regain their footing. Opportunities have been created.

Does it make sense to me that the NASDAQ is almost UP on the year in the face of the astounding unemployment levels and inevitable hiccups that will come from restarting the economy? No, it does not. Does it make sense to me that today people will lend money to the U.S. government, which is on a multi-trillion-dollar spending spree, for 10 years for well less than 1% interest? No, it does not. Does it make sense that on each of the days that record unemployment claims have been announced, the market has had massive rallies? No, it does not. However, as Dan Roller, who manages Maran Capital, wrote to a group of fund managers wrestling with these issues, “Luckily, our jobs are to find the few stocks that are pricing in the -60% camp but should only really be in the -14% camp, and not to have to get the entire market right.” Ultimately, that is the charge going forward.

TOP 5 POSITIONS

To remain invested in any company right now, one must believe their balance sheet is sufficient for survival. After that box is checked, management teams matter now more than ever. In the first days of the pandemic, the macro overwhelmed the micro (company-specific), but over time, that balance may very well change, and the management teams we are invested in will help tip those scales in our favor.

SharpSpring (SHSP) – SharpSpring sells software that enables marketing automation, primarily to digital marketing agencies for small and medium-sized businesses. Fortunately, SharpSpring does not have large exposure to travel, retail, or restaurants. However, if a business stops all marketing or ceases to operate, they will cancel their SharpSpring contract. Marketing budgets are some of the first to be cut during difficult times. On the more positive side, SharpSpring pricing compares very favorably to competitors, so they may be more likely to win new business for those seeking a high-quality, lower-cost marketing automation solution.

Like any well-run company facing a sudden and unprecedented change in their operating environment, SharpSpring has revisited everything from staffing, to compensation, marketing, customer engagement, product road map,



promotion, retention, and cash management. As a SharpSpring board member, I have a front-row seat to the process. Choices have been made to cut in some areas and invest in other areas. Will they be right? Will they be enough? Time will tell, but this is a smart and scrappy team, and my confidence in management has only increased.

As publicly disclosed, before the pandemic, SharpSpring had implemented a 35% price increase and bought a business that should add 10-15% to revenues relative to last year. In the absence of the pandemic, there was a pretty clear path to growth of 50%+ this year. SHSP shares ended the quarter trading at an EV/Sales of less than 2. Absent a multi-year depression, the opportunity exists to see very substantial returns from here.

Digital Turbine (APPS) – Digital Turbine serves as a neutral third party that works with wireless carriers to preinstall apps on new cell phones, then sells the slots to app-driven companies like Uber, Amazon, and Netflix. In the long term, Digital Turbine’s success will be driven by the number of Android phones it controls (carrier/manufacturer partnerships) and the revenue per device it receives. The company has worked to expand both carriers and manufacturers as well as to add revenue streams that are not just associated with app installs upon activation.

I presume the share price got smoked in the first quarter because people locked in their houses are unlikely to activate new phones. In the hierarchy of positioning for Covid, being tied to new phone sales is not as bad as owning a bar, but it is not telemedicine. As it is hard to argue with that logic, I presume installs in late March and April from their Verizon and AT&T contracts will be down significantly. However, I would posit that perhaps there is still opportunity in Digital Turbine.

For starters, yes volumes will be down, but revenue per device may hold or actually continue to increase. In fact, on a recent investor call, management indicated that there are instances where they get paid only when an app is opened on a device. As people are stuck in their houses browsing on their phones, they are opening more of these apps – thus leading to revenue for Digital Turbine. In addition, the company is adding new carriers and expanding their presence within manufacturers such that their gains with Samsung, LG, and Telephonica will help offset some of the declines from existing customers.

The company also closed on a very significant acquisition during the first quarter. Mobile Posse provides content for the home screen on T-Mobile and other carriers’ phones and shares the advertising revenue. This is a high quality recurring revenue business that is highly synergistic with Digital Turbine, has minimal customer overlap, and should be afforded a higher multiple. It does not take wild imagination to see Digital Turbine selling their solutions to Mobile Posse customers and vice versa. The deal was done at 1X revenue, which should be highly accretive to Digital Turbine and, as a cherry on top, the day after the deal was announced, the U.S. government approved the long held-up merger between T-Mobile and Sprint. Now, we don’t know the T-Mobile/Sprint merger integration plans, but it is at least plausible that the Mobile Posse business will grow if it is integrated onto Sprint phones. It should be noted that none of the Mobile Posse revenue appears in historical financials as the deal just closed on March 10th, so many of the quantitative investors may not be factoring in the \$50M in revenues and \$10M in EBITDA that will come from the transaction.



There is well-placed fear of a recession in the United States. A recession may extend upgrade cycles as the year progresses, which would be negative for Digital Turbine, but consumers are unlikely to give up their phones en masse even when money is tight. In addition, as the year progresses and carriers roll out 5G services, there will likely be tailwinds from upgrade subsidies as it is in the carriers' economic interest to move traffic to 5G.

There is also the immediate issue of the shutdown. Is demand lost? Will it come back? While discussing the rebound in phone demand seen in China as the economy opened back up, the CEO of Qualcomm said on CNBC, "I think the biggest issue you have to be prepared for is when this thing snaps back it snaps back hard, and make sure you're in a position to take advantage of it."

APPS ended the quarter with a market capitalization of approximately \$400M, which is less than 2X estimates for FY2021 revenue and 6X adjusted EBITDA. Thanks to the Mobile Posse acquisition (done without issuing shares) and gains in the core business, revenue will likely grow at a rate of 35% or higher. New phone activations will be impacted in the short term, but I am not ready to bet against humanity's love of having a device in their hand, or advertisers' desire to reach those consumers. Digital Turbine is positioned for revenue growth, margin expansion, and multiple expansion, despite what the share price said on March 31st.

PAR Technology: As referenced on the first page, PAR declined almost 60% over the course of the quarter, ending below \$13 per share with a 50% decline happening in a 10-day period. At \$13 per share, PAR has a market capitalization of \$230M. They own a defense contracting business, not impacted by Covid-19, which is worth approximately \$100M and will likely be sold in the next year. The company also has a hardware business that sells \$100M+ of equipment to large chains like McDonalds and Taco Bell, plus the Brink software business. Brink should end the year with 12,000 locations paying in excess of \$2,000 per year. Coupled with the just-purchased Restaurant Magic software business (paid \$42M), the Brink unit should have in excess of \$35M in run rate recurring revenues with attractive growth and low churn. Because of a convertible debt offering completed in February, the company has \$70M+ of cash on the balance sheet and can survive just about any Covid-19 scenario and continue to invest in software.

Mr. Market wants nothing to do with restaurants during a pandemic. While it is unfortunate that PAR has this bullseye on its back, they are actually quite fortunate within the restaurant ecosystem. Their core customers are large QSRs (quick-service restaurants) and not those with small table service – think Dairy Queen, not your friendly neighborhood eatery with waitstaff. On a recent investor call, PAR indicated that for restaurant customers remaining open, business is down 35%, which is substantially better than credit card data showing national restaurant spending down 70%. PAR's customer base will also benefit from the stimulus plan, which should cover rent, wages, and utilities and may in fact *increase* profitability for some locations. More importantly, the stimulus will get the vast majority of PAR's customers through the pandemic, and a POS system is so critical to a restaurant's operations that if the doors are open, PAR will get paid.

In the longer term, there maybe two silver linings for PAR from the pandemic. The first is that the current environment highlights the benefits of a modern POS system including enabling mobile (smart phone) ordering and enabling integrations with delivery platforms such as DoorDash and Uber Eats. A modern POS leads to higher



revenues. The current challenging environment may also help rationalize the competitive environment and improve pricing. PAR competitor Toast, which is more focused on small chains and relies mostly on payments revenue (credit card processing fees), just laid off/furloughed half of their workforce. Toast raised \$400M before the pandemic so they are not going away, but they may scale back their desires to enter the enterprise market and relax their aggressive pricing.

In the short term, many QSR chains have banned non-employees from entering their stores. This includes Dairy Queen and Panda Express, where PAR is in the process of rolling out their software. In these instances, demand is delayed, not eliminated, as long as the locations stay in business.

If the shutdown's duration is measured in weeks and not months, PAR's customer base should remain largely intact, their value proposition should be stronger, and their competitive landscape may even be improved. The fruits of their investments in product and management talent will eventually show up in reported numbers. CEO Savneet Singh is not a miracle worker and cannot undo the interruptions caused by the pandemic, but at the same time, he has the product, team, and balance sheet to navigate this environment. In the short term, with the current volatility, PAR may well see a share price significantly below \$13, but in the long term, people will return to fast food restaurants for eat in, take out, drive thru, and delivery, and a share of PAR will no longer be available for the price of a couple of happy meals.

Kaleyra (KLR): Kaleyra is a Europe-based, U.S.-listed technology company that provides secure cloud communications platforms for enterprises. They have more than 3,000 customers who last year used their platform to send 25 billion text messages and transmit more than 2 billion phone calls. A simple use case example would be a bank that sends a text message to an account holder for each transaction or log-in. Customers include Amazon, Uber, and several financial firms. Their largest competitor is Twilio, which is also a customer. In addition, the company has an interesting new initiative with AT&T where it will maintain a registry of approved corporate SMS senders on the AT&T network. No single customer accounts for more than 15% of revenue.

We own shares, warrants, and puts that allow us to put our shares to the company at prices substantially higher than today's prices. We are effectively getting a "free look" at the next two earnings reports.

KKR (KKR): KKR is well positioned to benefit from the pandemic in the longer term. The firm has in excess of \$160B of fee-paying capital that is "locked up" and will continue to pay fees through the slow down. KKR can also call an additional \$60B of capital (dry powder) from LPs to further increase management fee income, and the pandemic will likely improve the returns for capital deployed during this period. KKR should also be a beneficiary on the fundraising side since private equity is the most credible path to 8% annual returns with interest rates hovering around 0% and the losses recently seen in the public equity markets.

Our returns from holding KKR will have four drivers: The balance sheet investments, management fees, incentive fees, and capital market fees. Given that the vast majority of KKR's balance sheet is invested in KKR funds, there will certainly be a mark down for the most recent quarter. As a point of reference, KKR's 2018 decline in investments was approximately half that of the Russell 2000. In the short-term, the firm's balance sheet has likely taken a hit on the order of \$3+ per share. The losses may be reversed if and when the world recovers. The second



driver of returns, which will certainly take a short- or medium-term hit, are the incentive fees. In early March, KKR announced that their realized monetizations would total approximately \$500M in Q1. Given the breadth and diversity of KKR funds across geographies and asset classes, while incentive fees will decline, it is unlikely that they will disappear entirely. Fortunately, employees own more than 40% of the equity and the compensation structure at KKR has a large variable component, such that as incentive fees ebb and flow, expenses do as well.

Private equity remains one of the best business models in the world and KKR remains one of the best positioned to take advantage of the growth. The strong balance sheet, high insider ownership, and 40-year track record all remain in place. They will be investing mountains of capital at distressed prices. KKR is built to withstand just about anything, including a pandemic.

ROPES OUT

Given the decline in value experienced by our holdings in the first quarter, we need substantial returns to get back to even before we can even think of compounding our capital. The month-to-date April market rebound end has helped, but we are climbing out of a real hole. To keep sane in the face of a hobbled portfolio during the financial crisis, one portfolio manager created a routine of recreating his portfolio in Excel using the values of what he thought his companies were worth, not what the market was saying they were worth. He called the exercise laying ropes that showed the way out of his hole. In that context, I think it may be helpful to highlight a couple of other existing holdings where I think the actual value is multiples of the current share price.

The most obvious is Chicken Soup for the Soul Entertainment (CSSE), which provides ad-supported video on-demand under a variety of banners, including Crackle. Not surprisingly, streaming hours have increased as people are shut in and every professional sport has been suspended. That is good for Crackle, but while a 20% or 40% increase in hours streamed for a few months is nice, it is not monumental. However, more important than this likely uptick in viewership, the industry is consolidating and every other independent advertising-supported network has been purchased or is in the process of being purchased. As the CEO said on the most recent earnings call:

“I’d like to spend a moment addressing the recent high-profile transaction activity in the AVOD and SVOD marketplaces, both rumored and announced. As soon as Comcast made the announcement about Peacock, industry peers realized they needed an AVOD strategy along with their SVOD initiatives. So then it becomes a question of build or buy. The reason you’re seeing so many acquisitions is that it takes several years to build a successful AVOD platform, rights to content and ad-selling machine, which would give -- and an ad-selling machine, including relationships with resellers that provide access to local ad demand, are only a few of considerations. The combination of these attributes equates to speed to market, which would give the buyers essentially a multiyear lead.”

He went on to indicate that there are a dozen logical acquirers for their Crackle property. In March, Fox purchased a private competitor, Tubi, for \$440M. This would imply a valuation in the mid-\$20s for CSSE or almost 4X the share price at the end of Q1.



Another rope out is provided by a turnaround opportunity at Canadian software company Optiva (OPT), one of our least liquid positions. Sometimes shares do not trade for hours even after earnings announcements. OPT can also experience 10% price movements with less than \$10,000 of stock trading hands. While I don't want a portfolio of only illiquid positions, large mispricings can occur and create opportunity. Optiva's business is a combination of the old Nokia billing unit and a company called RedKnee. The turnaround is being led by ESW Capital, which owns common shares, preferred shares, and warrants, as well as two of the largest vendors Optiva does business with. ESW has had enormous success in the software space, stripping costs out of businesses and dramatically improving the economics, which they have been pursuing at Optiva. As a point of reference, the company has gone from a \$53 million operating loss in FY 2016 (before ESW's involvement) to \$11.6 million operating income for the 2019 calendar year.

Optiva is investing in building the next generation of cloud-hosted billing solutions for telecom companies. The cost savings for the telecom companies can be significant because they do not have to build data centers for maximum capacity as public cloud allows for dialing capacity up and down. Optiva estimates their customers will receive an 80% cost savings and a 10X improvement in performance. They have been more circumspect about their own dynamics – if their customers upgrade to the cloud version of the software, while the customer's overall spend will go down 80%, Optiva will likely realize a 2X-3X growth in revenue and higher growth in profitability. The customer savings will come from reduced data center spend and reduced spend on Oracle database software, not from reduced Optiva spend. So, the upgrade is a win-win for Optiva and their customer and a loss for Oracle.

In the past six months, Optiva has gone live with two customers that are primarily proof of concept and reference customers. This includes an installation for an India-based wireless provider with more than 200M subscribers. The contract was a loss leader, done for FREE, but proves the scalability of the technology. The adoption cycle for the software is uncertain, but it is market-leading. None of this is priced into the OPT share price, which ended the quarter at CAD \$22 per share, implying a market cap of USD \$83M and an enterprise value of approximately USD \$130M. In the last 12 months, they generated USD \$14.5M in EBITDA while investing USD \$11M in their cloud product, implying a valuation of a little more than 1X revenue, 9X EBITDA or 5X EBITDA ex cloud investment. If Optiva is successful in upgrading existing clients, there is an opportunity for substantial revenue growth and multiple expansion. If Optiva is successful in taking market share, all indications are they have the leading cloud-based product, and the company could be worth multiples of today's prices.

In the heat of a pandemic meltdown, complicated was not a good quality, but I believe that these are but two of many examples in the portfolio that represent the potential for substantial returns going forward.

NEW POSITIONS

In the depths of the recession Seth Klarman wrote, "If you look to "Mr. Market" for advice, or if you imbue him with wisdom, you are destined to fail. But if you look to Mr. Market for opportunity, if you attempt to take advantage of the emotional extremes, then you are very likely to succeed over time." As the pandemic progresses and volatility perhaps subsides, I suspect that we will increasingly invest in high free-cash-flowing companies that were previously not available at any price I considered compelling. At the end of the first quarter, our purchases



were smaller. We acquired a basket of “platform companies” with variable cost structures, balance sheets to survive the shut down, and a pathway to substantial growth. The basket included Uber (since sold), Roku, Pinterest, and Carvana. Both Roku and Pinterest should enjoy short-term traffic tailwinds which will be partially offset by declines in advertising rates. Carvana is likely to take market share in the used car market with a sales process that has superior selection, convenience, pricing, and does not require close person to person contact.

SHORT POSITIONS

We ended the quarter short the ETF of major indices, company in the air travel business, a hotel chain, a concert business, and a company in the process of being acquired. If the planned acquisition were to not go through, the decline in share price would likely be dramatic. It is a case of risk \$1 with the opportunity to make \$10+.

ADMINISTRATIVE NOTE

We are in the process of finalizing the K-1s, which we expect to distribute this week via SS&C’s investor portal. If you have any questions or need assistance, please email Ally at InvestorRelations@greenhavenroad.com.

OUTLOOK

I realize that it is easier to sound smart as a pessimist, and there is plenty of fodder to feed the angst, but in my lifetime, never has humanity been so singularly focused on a common cause as we are now with navigating this pandemic. There are more than 50 drug trials underway, and there have been massive changes in personal behavior and unprecedented government interventions. The path will not be smooth, and the economic and financial pain will be real, but I also believe in my little corner of the world, opportunities have been created. We own a few and will find a few more. The overall market does not need to go up for us to make money.

In this unprecedented time, I am grateful for our LPs, from one in Asia who has provided insights into the impacts of the virus on regional economies, to those sharing relevant industry-specific insights, to those who had the conviction to join the partnership or add capital during a time of sustained market panic. As we pursue long-term success, I could never ask for a better group of partners.

Just as I ended the last letter... as volatility arises, I will attempt to take advantage of the opportunities it creates. We will continue to invest with a long-time horizon, and we will continue to invest like it is our own money – because it is. Thank you for the opportunity to grow your family capital alongside mine.

Sincerely,

Scott Miller



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