



April 2021

Dear Fellow Investors,

The fund returned approximately 14% net of fees and expenses in the first quarter. Returns will vary by fund, class, and investment date, so please refer to your statements for actual returns. As this marks another positive quarter of returns, one might be tempted to lose sight of the fact that markets and, more relevantly, our portfolio will continue to have down months (e.g., March 2021), down quarters (e.g., Q1 2020), and down years (2011 and 2018). Fortunately, when I look at the quality of the businesses that we own, I believe we have the opportunity for attractive long-term returns.

## TOP 5

Our top five positions represent more than 60% of our portfolio; these are the stocks that “matter” the most. Four have appeared in the top five before. Our purpose here is always to let you know what you own and why you own it – Greenhaven Road is not a machine that spits out quarterly statements. Our thesis for owning any or all of these stocks may prove to be flawed, but you should know what and how I think so that you can make an informed decision with how you manage your savings.

**PAR Technology (PAR)** – After the first quarter ended, PAR announced a long-anticipated acquisition of Punchh (yes, that spelling is correct), a complimentary software product for restaurant loyalty programs. This is another step in the direction of providing a comprehensive platform for restaurant chains, which currently use a suite of individual point solutions that interface into the point-of-sale system (POS) with varying degrees of fidelity. With the Punchh acquisition, PAR will have their Brink POS system, an inventory management system, a loyalty system, and a payments system, which all will become tightly integrated over time. The transaction included a \$160 million investment from Panera Bread founder Ron Shaich's Act III Holdings. His colleague will join the board and he will join as an observer. There may be more informed investors in the restaurant technology space, but I am not aware of them. An investment from Ron Shaich is a large vote of confidence. People build businesses, and it is wonderful to have Ron commit so much capital and come on board.

PAR remains a company that will not screen well. The financials are distorted by a legacy defense contracting business and a lumpy hardware business. The backlog of restaurant locations to be installed does not appear on their balance sheet nor do the cross-selling opportunities created by the Restaurant Magic and Punchh acquisitions. The uplift the company will receive from layering in high-margin payments revenue on top of existing and new customers does not yet appear on the income statement, nor does the potential to increase price. If PAR is successful in building a comprehensive omnichannel solution to run a modern restaurant, managing everything from coordinating the kitchen to remembering guest preferences, they will have pricing power. PAR is strengthening their team, board, and product offering while selling into an improving market that needs their solutions – I like the set-up and bought more, even with the increase in share price.

**ELASTIC (ESTC)** – In the past, I have written about Elastic’s management team (missionary), their products (mission critical), and the benefits of an open-source freemium go-to market strategy (frictionless adoption). These inputs for success are all important reasons to own Elastic. If I had to pick the two reasons why I am willing to pay a growth multiple for this company, they would be net revenue retention and the under-monetization of their user base. I realize that is a lot of jargon, so let’s break it down. “Net revenue retention” is how much last year’s customers spent this year, as if no new customers



were added. Elastic's net revenue retention has been 130% or greater for several years, meaning that existing customers spent at least 30% more this year than last year on Elastic products and services. A company with net revenue retention at this level is the modern-day equivalent of a golden goose. This growth in spending comes from a combination of increased usage and adoption of additional products. Elastic does not disclose the exact percentage of net revenue retention other than to say that it remains above 130%, but they do give some attractive cohort data. Customers added in FY 2016 tripled their spending in the subsequent four years, customers added in FY 2017 more than doubled their spending in three years, and customers added in FY 2018 more than doubled their spending in two years. ([Link to Elastic's recent investor presentation](#))

Elastic Search does face the law of large numbers, and adding 30% per year should get harder and harder as the base grows. Fortunately, their current under-monetization should become a tailwind. The vast majority of Elastic users are non-paying. To put this in perspective, the company has less than 14,000 paying customers, while their software has likely been downloaded over one billion times (note: a single user can download multiple times as versions are released). Elastic has choices about what to include in their free vs. paid versions with the ability to “nudge” their non-paying customers to upgrade over time. This past quarter, they made a change to their user license to make it more difficult for Amazon to rip them off, and there will be additional changes to follow. With Elastic, we own a world-class management team that is selling mission-critical products to customers who buy more and more each year, plus this “insurance policy” of monetizing currently non-paying customers over time.

Despite the >30% spending increase by existing customers alone – continued even through a pandemic – consensus estimates have ESTC growing at 26% this year. I will take the over. I think the most unfortunate part about Elastic is that we will likely never get to see how long it can sustain net revenue retention at this level – I think it is likely that the company will be acquired for both its financial characteristics and the community of developers it has built. In my opinion, the only way Microsoft will ever get close to having a community like Elastic's is by writing a \$20 billion check.

**KKR (KKR)** – Good things happen when you own a piece of a great business run by smart people with aligned incentives. KKR has built a juggernaut, benefitting from the continued shift to larger alternative asset managers. With 35% employee ownership, the company continues organically growing assets in the mid-teens with opportunities to accelerate this through the acquisition of Global Atlantic, a leading retirement and life insurance company. They are steadily increasing their base of permanent capital and are incubating several strategies to provide future growth. In their recent investor day ([presentation linked here](#)), they laid out a path to earning \$5 per share in a couple of years (shares are trading around \$55 as of the writing of this letter). Given their secular tailwinds, balance sheet (book value of \$23 per share), stable base of capital, and track record of taking advantage of disruptions in the equity markets, if there were one business that I had to hold for five years no matter what, it would be KKR.

**RCI Hospitality (RICK)** – Last year, during some of my braver moments, I bought a basket of companies that I believed would survive the pandemic and that would reward us for taking a risk. One of those companies was RCI Hospitality, which operates a restaurant brand and upscale gentlemen's clubs. In August 2020 when we purchased the shares, you could not have paid me to go into an enclosed club, let alone gotten me to pay a cover charge to enter an enclosed club. Add in the fact that pandemic restrictions had most of the clubs closed or operating with severe capacity and open-hour restrictions, and the financial outlook appeared bleak. It was that thinking that drove many investors to short RCI, along with cruise ships, movie theaters, and other businesses in the vice grip of the pandemic. In my opinion, shorting RCI Hospitality was a “lazy” short because RCI owns all of their real estate, qualified for PPP loans, and has a resourceful management team

that navigated the pandemic extremely well. However, it was also a popular short with more than 15 days of trading volume sold short.

As the world reopens, they are set to generate several dollars per share in free cash flow and are beginning to franchise their restaurant concept. We purchased our shares on the premise that they would survive the pandemic and we were buying on a low single-digit multiple of normalized free cash flow. As many shorts have covered and we have transitioned from peak fear to moderate optimism, the price is up more than 4X from our initial purchases. What started as part of a basket has appreciated into a top five position. At the time of our RICK purchases, only Adam Wyden of ADW Capital was pounding the table.

**Digital Turbine (APPS)** – The CEO of Digital Turbine likes to quote one of his football coaches who used to say, “Potential is French for ‘ain’t done sh\*\*.’” In my opinion, Digital Turbine is a company with both tremendous potential AND a history of extraordinary execution. In the past quarter, the company reported stunningly good numbers with revenue growth of 146% and EBITDA growth of 300%. Perhaps more importantly, they effectively told investors that both AT&T and Verizon had signed up for their content products and will launch the offerings later this year. This is by far their largest example of cross-selling the Mobile Posse products that they acquired last year into the core Digital Turbine customer base, turning potential synergies into actual customers. The company also announced the acquisition of Fyber, which “has amassed an extensive network with more than 180 programmatic demand partners that reach a total of 650 million unique monthly active users across more than 180 different countries globally. The Company’s proprietary technology platform and expertise in mediation, real-time bidding, advanced analytics tools, and video combine to deliver publishers and advertisers a uniquely holistic app monetization solution.”

The acquisition should be accretive, but the real “potential” lies in plugging the technology into the existing base of app owners and marketers using Digital Turbine’s various offerings. Bill Stone and his team have executed brilliantly and have been rewarded by the markets, but given their momentum and assets, there is a long runway ahead. Digital Turbine is a toll collector on the most valuable per-square-inch real estate in the world – cell phones. They sit between consumers and the companies desperate to reach them and have an increasing arsenal of monetization tools.

## GOING DOWN THE RABBIT HOLE

As an investment committee of one, how and where I spend my time is one of the most impactful decisions I make. At the same time, there is no simple formula for what companies to look at or how much time to spend on each. To help narrow the world, I prefer to focus on special situations (mergers, spinoffs, rights offerings, etc.) and high-quality companies with some combination of high insider ownership, recurring revenue, and operating leverage. Because I only want to add a few ideas per year to the portfolio, I can’t afford many false starts. One large new investment per quarter is plenty. Some of the investors I respect the most go entire years with no new investments. While I will have a cursory look at several hundred companies per year, my “hit rate” is de minimis, and that is a feature, not a bug.

The path from research to investment is often not a straight line. In 2018, I spent a couple of days working on a potential Partners Fund investment in a very niche strategy investing in Airbnb properties. Given the illiquidity of the holdings, I knew that consummating the investment was almost an impossibility, but I was drawn to the elegance of the strategy. I thought it brilliantly married a thesis on technology adoption (Airbnb), very affordable non-recourse leverage (Europe had negative rates), operational improvements (get properties to show higher in the rankings), a regulatory mispricing

(Barcelona-related), and a macro view on real estate (Spain would recover). I forwarded the investment to a couple of friends, put it in the “can’t do everything” bucket, and moved on. A year later, the brain behind this elegantly designed niche fund became the interim CEO of a company with high insider ownership, recurring revenue, and operating leverage: my sweet spot. The time I had spent with him was no longer a “waste” but instead a deep dive into his thought process on capital allocation. That interim CEO is now the permanent CEO, and his company has been a top five holding for two years. I am referring to Savneet Singh of PAR Technology. Every day, I thank 2018 Scott for following his curiosity, even when the immediate payoff for the time investment seemed very unlikely.

This is a long wind-up to say that I am going to be spending more time going down the SPAC rabbit hole. I expect mostly dead ends, as, broadly speaking, this rabbit hole is a cesspool of deceit. Why SPACs? Why now? The short answer is that an enormous wave of SPACs has been raised and many are in the land of “nobody cares.” More than 250 were raised in the first quarter alone, so now more than 500 are actively looking for companies to merge with. There are domestic SPACs, international SPACs, space SPACs, gaming SPACs, hospitality SPACs... you name it, there is a SPAC targeting that space. The way a SPAC (special purpose acquisition company) works is that a pool of capital is raised and the team has a defined period of time to “merge” with another company – a way for private companies to go public without a traditional IPO. The incentives are such that the SPAC sponsors only make money if a deal is completed. When a SPAC finds a target company to merge with, the merger is brought to shareholders for a vote. Forward projections are provided as part of that process, since it’s technically a merger, unlike a traditional IPO, where forward projections are not given. The set-up is rife with conflicts of interest and the potential for abuse. The long-term returns for SPACs have not been attractive, and the abuses of some SPAC promoters blur the lines between comical and criminal ([Link](#)).

Poor long-term returns and misaligned incentives do not seem like a very good starting point for a rabbit hole. However, I think SPAC land may very well be a stock-picker’s paradise. There will be hundreds of deals announced: many will be horrible – and we can short some of those – most will be “passes,” and there will be a few gems. Because there are so many SPACs, they are hard to track and there is no sell side research. You have to do the work. Context matters, and it is hard to be a tourist. On top of the volume of mergers to be announced and the complexity of the ecosystem, SPACs have multiple ways to invest, including common shares, PIPEs, rights, and warrants. The combination of apathy/disgust, volume, and multiple types of securities strikes me as a place where hard work, common sense, and selectivity could pay off.

I realize this is a very theoretical discussion of SPACs, so let me give you an example of a SPAC we are buying. It is firmly in the land of “nobody cares.” When a company announces earnings, I mentally estimate what I think the price reaction should be. If the company dramatically cuts guidance, I might scribble -15, shorthand for the stock should be down 15%. I then compare my estimate to the market reaction. When there is a large gap, that is either a sign that I am missing something or that there is an opportunity. I like to dig in when there is a gap. Last month, a SPAC updated their 2021 projections, increasing their revenue growth projection from 33% to 54% and raising cashflow projections as well. I wrote down +15%. Then the market opened and the price did not even go up a penny... likely due to some combination of the market not caring, not knowing, or not believing. We bought warrants for the next five days. I think we have a real chance to make multiples of our capital in a couple of years. These warrants would be my entry into the Greenhaven Road “two bagger” contest because I think they are really seven baggers (*LPs: as suggested in the annual meeting presentation, just a reminder to email your idea to [twobagger@greenhavenroad.com](mailto:twobagger@greenhavenroad.com) to receive your gift*). Because they are warrants, it is a smaller position, but the set-up of hundreds of deals coming and nobody caring has me excited. It will be an exercise of picking through the rubble, but that is small cap investing.

What does going down the rabbit hole look like? There are three components. The first is that I am going to bring on an analyst to help. It will still be an investment committee of one, but there will be hundreds of SPACs to look at and I want help to winnow down the universe and do some of the work. Keeping track of all of the SPACs and doing preliminary diligence is a full-time job, and we are better off as a partnership if it is not *my* full-time job. I am in the final stretches with a candidate who I expect to bring on in Q2. The second component is that we seeded an investment manager focused on arbitrage opportunities within SPACs. The manager of Space Summit Capital is Keith Fleischmann, an investor who I have known for 20+ years: he was the one who first hired me into the business. I think they have a very realistic chance of generating 25%+ returns over time with minimal downside. I considered pursuing the strategy myself as I thought the risk/reward was so attractive, but to do it well requires undivided attention to make dozens of trades per day. I think we are going to generate very attractive risk-adjusted returns through this investment, and we also have a call option on Keith and his partner Ben Fader-Rattner building a large business. Keith and Ben are also a very smart set of eyes and ears looking at SPACs every day. I don't know what insights will come of this partnership, but I like the embedded call option on top of the attractive potential returns, as well as access to two people living in the SPAC ecosystem. The final component of the SPAC initiative is Greenhaven's new Special Opportunities Fund, which was formed to focus on risk capital and warrants as opportunities present themselves.

It may be hubris to think that we can find gems in the SPAC trash bin, but I am not afraid of looking foolish. The sheer volume of SPACs, and the fact that SPACs are a four-letter word in investing circles, are drawing me in. That being said, Greenhaven Road is not turning into a SPAC fund. At cost, I would be surprised if we exceed 15% of the portfolio in the main fund in SPAC-related investments. More of our special situation investments will likely be SPACs, but I expect that in a year, our top five holdings will look very similar to today. But, with planning, hard work, and good fortune, it is possible that our SPAC weighting could grow through appreciation (I believe these are potential multi-baggers). If we do end up with even one outsized warrant position through appreciation, I would consider that a real win.

If you see the opportunity I have described and are not completely turned off by the inherent flaws of SPACs, the Special Opportunity Fund may be of interest. We will have a second closing in July. As a reminder, this fund is only available to those who are/become invested in Greenhaven's main fund and/or Partners Fund. LPs: please email Ally ([InvestorRelations@greenhavenroad.com](mailto:InvestorRelations@greenhavenroad.com)) if you have questions or would like to receive the materials.

## SHORTS

The partnership remained short major indices and no individual companies as the SPAC frenzy has cooled and there does not appear to be a permanent bid for even the silliest companies. I would not be surprised if we dipped our foot back into those waters.

## NEW INVESTMENT – TWITTER

I think there are many elements of Greenhaven Road that are contrarian, including the previously mentioned willingness to invest in SPACs and having a fund of funds (the Partners Fund). However, we don't have to be contrarian all the time; often, the consensus is correct. There is a wisdom in crowds. I think our investment in Twitter (TWTR) falls into the category of "the crowd has this one right." I have been a Twitter user for seven years. For several of them, I was puzzled by the fact that the company was spending hundreds of millions of dollars per quarter on research and development with no

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evidence of improvement. Allowing users to go from 140 to 280 characters did not seem like it should require billions of dollars of engineering. Twitter struggled to recreate community with poor monetization and lackluster growth. It fell into the category of “love the product but not sure about the management or the investment prospects.” In fact, one could have purchased Twitter shares at or below their IPO price just last year, seven years after their 2013 IPO.

There are a number of reasons for the dearth of innovation at Twitter, the seeds of which were laid in their growth strategy. Twitter was built by bolting on acquisitions. Over time, products focused on cell phone SMS technology became an advertising-supported social network. It’s not an easy feat to fix technical issues while running a product that has almost 200 million daily users sending over 500 million tweets per day. Rebuilding the airplane while flying takes a long time. In the case of Twitter, it took years, but we are finally on the other side of the effort. While resolving technical debt sounds mundane, it is enabling innovation with positive business implications. In fact, Twitter has a wave of improvements that substantially enhance the user experience and monetization opportunities. Company leadership laid many of these out in their recent investor day presentation, where they also promised a dramatic acceleration in the introduction of new features.

The headline is that the Twitter of next year looks much different than the Twitter of 2020, which should drive engagement and monetization. Changes include allowing users to follow by area of interest vs. just following people, which will both improve engagement and monetization, and improving monetization of content creation through “tipping” and subscription products. Twitter is supporting live audio events through Spaces, and is rolling out new ad formats and tools for advertisers. The company also is likely to enable e-commerce, which will encourage collecting of payment information as well as verifying users. The monetization options are nearly endless and, to date, have solely consisted of advertising.

Personally, I have found Twitter to be a valuable tool on the investment research front, connecting me with content that I never would have found otherwise. I can see the thoughts of investors I respect in real time. Often when a stock “moves,” I can get a better understanding of why it happened on Twitter than by using Bloomberg or other purpose-built tools. Twitter has the combination of network effects (the more people use it, the better it is) and user-generated content. The new technology stack offers many opportunities to improve engagement and monetization. Combined with activist investors, new board members, and a management team that has taken steps in the right direction, Twitter has the opportunity for continued revenue growth, earnings growth, and multiple expansion. Elliot Turner of RGA Investment Advisors was generous with his time and incredibly patient explaining the possibilities presented by the rebuilt backend technology at Twitter. As sometimes happens (not often enough), we had rapid appreciation in our Twitter shares and have sold the position. I suspect we will revisit Twitter as there are many attractive elements.

## **OUTLOOK**

Last year was one where the real economy was getting pummeled by pandemic lockdowns and a fear that leaving the house could lead to death. Counterintuitively, the equity markets had a good year in 2020, and our partnership was even more fortunate. It is almost inevitable that the real economy will prosper in 2021 from the combination of stimulus, the reopening, pent-up demand, and 2020 being a very easy comparison year. They are handing out freedom at the local CVS in the form of Covid vaccines. If managing money were as simple as predicting what the real economy would do, it would be “party time” over here at Greenhaven Road.

Unfortunately, I think the backdrop for the equity markets is more challenged than that for the real economy. The list of boogie men that may rattle the market include inflation and tax reform. Our 24-hour news cycle needs fodder, and fear



sells, so they will find something to fan the flames of panic no matter how well things are going. That being said, we don't own the economy and we don't own the entire market. We own just a handful of companies run by talented managers. I really don't know what the balance of the year will bring, and I would not be surprised by a pullback in equity markets, but I do like our chances over a multi-year period. Given the large move up in equity markets in recent quarters, it might surprise you to hear that, at present, I have more ideas than capital. I am finding what appear to be very compelling opportunities in SPAC land and outside.

Just as I have ended many of our letters... 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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