October 27, 2020

Dear Partners and Friends,

In the third quarter Steel City Capital, LP gained 1.6%, net of fees and expenses. Year-to-date, the Partnership has added 2.6%, net. The table below compares our returns to a collection of widely followed benchmarks. The Partnership's results softened relative to the broader market in late September when one of our top holdings (ATEX) declined for non-fundamental reasons. As the Partnership holds a concentrated portfolio, it should be expected that individual positions will often cause results to diverge materially from market indexes. I discuss the situation at ATEX, along with several of the Partnerships other holdings, in the pages that follow.

	Steel City Capital, Net	Russell 2000	S&P 500	MSCI All World Index
2018[1]	(8.0%)	(16.5%)	(7.6%)	(10.5%)
2019	23.4%	25.4%	28.9%	26.6%
1Q'20	(10.7%)	(30.7%)	(20.0%)	(21.1%)
2Q'20	13.1%	25.4%	20.0%	18.8%
3Q'20	1.6%	4.9%	8.5%	8.4%
Cumulative Return[1]	**16.5%**	**(4.3%)**	**24.0%**	**15.3%**
Compound Annual Return[1]	**6.7%**	**(1.8%)**	**9.5%**	**6.2%**

PLUS ÇA CHANGE, PLUS C'EST LA MÊME CHOSE

As regular readers of these letters know, I typically don't spend much time prognosticating market or economic developments. I much prefer to discuss the Partnership's positions and our rationale for taking them. That said, I did want to take a brief detour to provide my thoughts on the lay of the land and what it means for the Partnership.

It is perhaps a truism that politicians – regardless of political affiliation – have a strong incentive to increase government spending, even if it means increasing debt levels to do so. The reason is fairly simple: Elected officials have a vested interest in being re-elected, and their electoral fortunes are tied at the hip to the economy (*It's the economy, stupid!)*. It should come as no surprise then, that when Republicans recently held both chambers of Congress and the Presidency, they enacted tax reform that had the dual effect of stimulating the economy *and* expanding the national deficit. GDP growth got a modest boost and unemployment continued to move lower, while deficits, both nominally and as a percentage of GDP, widened. *In the most simplistic sense, tax reform was a debt-funded stimulus.* Their actions had the desired effect: Until the pandemic struck, Republicans were odds-on favorites to retain the Presidency and Senate in the 2020 elections.

[1] Reflects returns since Steel City Capital's launch on May 21, 2018.

Today there is an emerging consensus that a clean Democratic sweep in next week's election will provide the most supportive backdrop for additional stock market gains and a strengthening of the economy. Such an electoral outcome would provide the clearest path to additional stimulus. But whether it comes in the form of an infrastructure bill, direct stimulus payments to individuals, support for small businesses, etc., *it will be little different than tax reform. It will be a debt-funded stimulus.*

There is, however, one important development that will likely make this time different. Historically, the Federal Reserve operated as a counterbalance on the tendency of elected officials to spend like drunken sailors. To use an oft quoted metaphor: "The Federal Reserve […] is in the position of the chaperone who has ordered the punch bowl removed just when the party was really warming up." In removing the proverbial punch bowl, the Fed has sought to prevent the inflationary excesses of rampant, debt-funded spending. But today, the Fed has taken a dramatically different stance. The pace of the current economic recovery has slowed and the Fed views deflation – not inflation – as one of the primary risks facing the economy in the coming years. To that end, its members are practically begging lawmakers to pass additional stimulus legislation and the Fed is standing at the ready to finance incremental deficits by printing additional money. In doing so, the Fed has also communicated that it is willing to allow inflation to run above its long-held 2% target before beginning to raise interest rates.

The prospect of rising inflation is guiding the Partnership's portfolio construction in several ways. First, it has reinforced my commitment to traditional "value" oriented stocks which trade at low multiples of free cash flow. The technical explanation for such a preference lies in the "low-duration" characteristics of such stocks, but the colloquial explanation is easier to understand. If you expect inflation to rise, would you prefer to receive a dollar today or the same dollar at some point in the future? *Today, of cours*e. By definition, low multiple stocks provide their owners with more dollars today. Several of the Partnership's positions discussed below fit this mold (LSYN, SATS, EBAY). On the flip side, rising inflation will likely weigh on hyper-growth stocks whose valuations are predicated on expectations of significant cash flows in the distant future. Such stocks should make increasingly attractive short candidates.

PORTFOLIO OVERVIEW

Liberated Syndication (Long): In the Partnership's 2Q'20 letter I made a pointed call for LSYN's Chris Spencer to resign. *Dreams do come true*! On August 5, the company announced Spencer stepped down as CEO and from the company's Board. He agreed to remain on as a "Senior Advisor" to the company. His departure is a major victory for shareholders. Not only was Spencer's tenure characterized by a series of strategic and financial missteps, his very presence represented a scarlet letter that almost certainly caused a number of investors to avoid the stock. With Spencer and his "partner in crime," former CFO John Busshaus, now gone, a significant impediment to value creation has been removed[2].

While the headline numbers might not suggest it, Spencer's departure was done at a very reasonable cost to the company. First, the company agreed to repurchase from Spencer 1,353,795 shares at $3.00 for a total cost of $4.06

[2] For the avoidance of doubt, Spencer and Busshaus did not admit or deny allegations leveled against them by the SEC. See "SEC Charges CEO and CFO of Digital Entertainment Company with Misleading Investors" https://www.sec.gov/litigation/litreleases/2019/lr24636.htm

million. These shares comprised 1,125,000 vested incentive compensation shares and 228,795 previously owned shares. This was savvy capital allocation on the part of the Board. If one believes, as I do, that LSYN's intrinsic value is multiples higher than its current level, then shrinking the company's outstanding share count by almost 5% at a price of $3.00 is a great deal. The value accretion is even higher when taking into account the tranche of unvested performance shares held by various insiders that will likely expire by the end of this year.

In addition to the share repurchase, Spencer is eligible for $1.175 million in cash payments through early 2023 and also had 775,000 of unvested shares immediately vest when he signed his separation agreement. At a market price of $3.00 per share, the newly vested shares have a value of $2.325 million. The combined cash and share value of $3.5 million was a small price to pay to make Spencer "disappear" and I fully expect it will be recouped in market value creation going forward.

The company appears to be back on a regular reporting schedule following the filing of its second quarter 10-Q. Revenue was up 11% supported by 10.6% growth at LSYN and 12.7% growth at Pair. The Pair result was a welcome surprise given the mid-20% declines that it posted in 4Q'19 and 1Q'20. OpEx was generally flat y/y, although there were some puts and takes. SG&A came down meaningfully due to the absence of certain management bonus accruals and expenses related to the proxy fight with Camac, but this was largely offset by increases in selling/marketing, technology, and customer support. At this stage, the spending increase in these areas isn't a concern to me. The company will soon roll out Libsyn5, which almost certainly accounts for some of the increase in technology spend. Similarly, considering the company's incredibly conservative net cash position, I've long advocated for an uptick in marketing spend to attract more customers to the platform. Management and the Board have indicated their strategic review determined the best way to create shareholder value is to focus on accelerating growth across the platform. I believe this is a precursor to an eventual exit, and all else being equal, higher growth will garner a much higher valuation. Said another way – I'm happy to finally see management reinvest in the business.

Unfortunately, 2Q'20 results weren't all rainbow and butterflies. The print included a $1.2 million charge for "uncertain tax positions" related to an ongoing IRS audit covering the period from 2016 to 2018. In its 10-Q filing, LSYN said "It is reasonably possible that $1.2 million of uncertain tax positions will be recognized within the next 12 months due to our inability to respond to IRS requests related to an ongoing IRS examination." This comes on the heels of the company's restatement earlier in the year which was related to the manner in which the company accounted for its NOL balance. As a reminder, former CFO Busshaus has sued the company on the basis that he resigned for "good cause" and is therefore entitled to retain certain compensation, including 1,212,500 unvested shares. If he had a shred of integrity, he would drop the lawsuit considering what his incompetence has cost shareholders. In any event, the good news is the company recently hired a new CFO whose prior experience leads me to believe he has the skill-set to get LSYN's accounting and finance operations in order.

With respect to valuation, there are multiple puzzle pieces that need to be put together. The company reported 29.3 million shares outstanding in mid-August. One must back out the 1.35 million shares repurchased from Spencer and another 3.0 million unvested performance shares that will more likely than not be forfeited by the end of this year. This puts LSYN's share count closer to 24.9 million, which at the current share price of $3.75 implies a market cap close to $93 million. The company has $9.5 million of net cash on hand (after accounting for the purchase of Spencer's shares), which results in a value for the operating business of $84 million. (If we want to be conservative, we can call it $88 million to account for the "Busshaus-related" income tax payable.) YTD'20 FCF has been ~$3.6MM, implying an annualized figure of $7.2MM. Valuation (net of cash) is 11.5x P/FCF, and closer to 12.2x on a "Busshaus-adjusted" basis. Either way, that's still incredibly cheap for a capital-light business with a leadership position in a secularly growing industry.

Anterix (Long): In mid-September ATEX held an investor update call that was widely expected to include the announcement of its first commercial contract. This expectation was evidenced by the ~15% run-up in ATEX's share price between the announcement of the call and the day it was held. When management failed to deliver the goods, shares promptly sold off and today sit ~25% down from their pre-call high.

I think it's important to distinguish between management's communication (poor) and the facts underpinning the investment opportunity (strong). The market's reaction is an apparent punishment for management's ineffective communication but largely belies the facts that were shared on the call, nearly all of which are bullish.

First, management announced that the material terms of ATEX's first contract with the utility Ameren have been agreed to by both parties. The contract is in the process of being approved by Ameren, including a trip to that company's board. At the time of the update call, management was optimistic they would be able to announce a complete contract within several "weeks." Having exceeded this time frame, investors are rightly frustrated and have kept the stock in the "dog house." While I share this frustration, I also remain highly confident that the Ameren contract will be the first of many and am not inclined to split hairs on a matter of mere weeks given the upside potential I see in the stock. To that end, I have been taking advantage of the market's current pessimism and have added to the Partnership's position.

Second, management indicated ATEX's pipeline of potential customers is extremely strong. They are in discussions with up to 40 utilities that could potentially account for contracts covering ~75% of the company's spectrum. With this pipeline information in hand, management was able to confidently reaffirm its 2024 financial target for run-rate revenue of $125 million based on contracts being signed with 6-11 of the nation's top investor owned utilities.

In addition to the pending Ameren announcement, there has been a flurry of publicly reported engagement with utilities that gives me confidence additional contracts will ultimately materialize. For example:

- Xcel Energy – a gas and electric utility providing service in Colorado, Michigan, Minnesota, New Mexico, the Dakotas, Texas, and Wisconsin – has said it plans to test a private wireless LTE network in the 900 MHz spectrum band.
- Evergy has an outstanding RFP for a private LTE network buildout.
- Southern California Edison has added private LTE to its 2021 General Rate Case as well as its 2020-2022 Wildfire Mitigation Plan.
- Delmarva Power, a subsidiary of Exelon, has applied for an experimental license to evaluate 900 MHz broadband operations. Exelon's customer base is larger than Ameren, Every, and Xcel combined.

- The New York Power Authority (NYPA) announced a project to pilot a private LTE network and has filed for a 900 MHz experimental license.
- Dominion Energy applied for a 900 MHz experimental license on October 16, 2020. Dominion operates across 20 states, making it one of the largest investor owned utilities in the country.

Finally, there appears to be an increasing preference from customers to pre-pay their spectrum leases up-front or over the first two years of the lease. Per management, "Prepayments of investor owned utility spectrum leases appear to be an easier path forward for them, providing them with the ability to capitalize their spectrum investment." Capitalization of lease assets is a key component of the value proposition to utilities as it enables them to earn a *return on*, and not just a *return of*, their investment. The present value of any such prepayments at today's rock-bottom interest rates would be highly favorable for ATEX. As an added benefit, any such up-front payments would reduce or potentially eliminate the prospect of future capital raises at ATEX.

At today's $580 million market cap, ATEX's spectrum – which is backed up by a viable business model and growing customer interest – garners a valuation of $0.30/MHz-Pop, well below the $0.70-$1.00/MHz-Pop fair market value of other low band spectrum assets.

EchoStar (Long): While the Partnership's investment in EchoStar (SATS) is not new, it has not previously been discussed in any detail. The company's business is very simple – it derives the vast majority of its revenue from the sale of satellite-based broadband internet services to consumers and enterprises across the Americas. As of 6/30/2020, SATS had 1.5 million subscribers, of which 1.2 million are located in the U.S. To a lesser extent, the company generates revenue from the sale of equipment to government and commercial customers.

The average consumer is unlikely to be familiar with SATS offering. While more than 100 million U.S. households have broadband internet access, EchoStar and its main competitor, ViaSat, only serve a combined 1.8 million subscribers. Most American households rely on terrestrial service from cable or fiber. The small minority of households that rely on satellite connectivity do so because it is too costly to run a terrestrial line to their location. These households tend to be located in geographies with very limited population density. Specifically, more than half of SATS consumer subscribers are located in areas with five or fewer houses per square kilometer. In areas like this, it just doesn't make sense for the local cable company to run a line to the house – they'll never earn an adequate return on their investment.

SATS is currently valued at ~3.5x EV/EBITDA (MRQ annualized) and has reasonable growth prospects ahead of it. Specifically, the company will launch its Jupiter 3 satellite in the second half of 2021, resulting in a combination of additional subscribers and the availability of higher speed and capacity for existing customers. The new satellite should begin contributing to profitability sometime in 2022. In addition to its core satellite business, the company owns a grab bag of other assets whose value could be monetized in the future. The most interesting are the S-Band spectrum licenses being used to develop new commercial service offerings (i.e. Internet of Things).

At 3.5x EV/EBITDA, SATS valuation is an outlier in the satellite communication industry. Its closest North American peer – ViaSat – currently trades at 8.0x EV/EBITDA, consistent with its historical premium. The reasons for this premium confound me – SATS is the clear leader in North America (1.2 million subs vs. 600,000 subs) and has far less exposure to the in-flight connectivity business which has been battered by the pandemic. As another point of reference, a consortium of private equity investors acquired European-based Inmarsat in 2019 at an implied EV/EBITDA multiple of ~9.0x.

SATS is also an outlier with respect to the strength of its balance sheet. The company carries no net debt, with its $2.4 billion cash balance completely offsetting outstanding borrowings. Comparatively, ViaSat's net leverage sits around 3.75x. It is utterly insane that EchoStar's lower quality competitor carries leverage at a level fully in excess of EchoStar's total valuation.

In the absence of accretive investment opportunities, the company could simply repay debt, reducing its interest burden by $160 million annually. With current run-rate EBITDA of $660 million and maintenance capital expenditures in the realm of $400 million, SATS is poised to generate in excess of $250 million of annual cash flow if it does nothing else but repay its outstanding debt. And as a reminder, EBITDA should begin to grow in 2022, following the launch of the Jupiter 3 satellite. At today's market capitalization of ~$2.4 billion, SATS offers a compelling free cash flow yield slightly in excess of 10%. Considering the company's leading market position in an effective duopoly, high barriers to entry in the markets it serves (low density rural areas), good prospects for growth, and recurring revenue streams, SATS is a compelling bargain in today's low interest rate world.

The most prominent area of pushback that I run into with SATS is the competitive threat from Low Earth Orbit (LEO) satellites. It's a hard topic to address with brevity or certainty, but I'll highlight some of my thoughts. There's a long list of hurdles that LEOs must overcome before establishing their operational and financial viability. For example, there doesn't yet exist economically viable antenna technology that would support widespread residential adoption. Second, only a small portion of the nameplate capacity of a LEO system will be saleable, which should support the competitiveness of next generation geosynchronous (GEO) satellites. In order to maximize saleable capacity, LEO operators will need to target customers outside of rural communities (EchoStar's bread and butter). Competing with the terrestrial networks that serve more densely populated areas won't be easy. And then there is the issue of building necessary ground infrastructure. In total, such an endeavor will take billions of dollars over a multi-year period. None of this is to say it can't be done. Two of the leading projects are being spearheaded by the world's best known and most deep-pocketed entrepreneurs: Starlink (SpaceX/Elon Musk) and Project Kuiper (Amazon/Jeff Bezos). But I do believe reports of the pending death of GEO satellites are greatly exaggerated.

EBAY (Long): The Partnership has taken some profits in EBAY although our position remains sizeable at 10% of capital. A substantial portion of the investment thesis has played out, namely that activist-owner Elliot Management would instigate the sale of both StubHub and EBAY's portfolio of classified businesses. The sale of StubHub was completed in early 2020 for net cash proceeds of ~$3.1 billion, and in the third quarter, the company announced it had entered into an agreement to sell the classifieds portfolio to Adevinta (ADE) for $2.0 billion of net cash and ~$6.7 billion worth of shares. The market responded positively to ADE's acquisition and today the share-based consideration is worth ~$9.0 billion.

With a key component of the thesis realized, why not completely exit the position? The answer is what remains – the core EBAY marketplace – continues to trade at a modest price relative to its cash generating capacity. At the shares' current price of $53, EBAY's market capitalization is $37.5 billion. This includes $5.8 billion of cash and investments, implying a value net of cash of $31.7 billion. The company should generate an additional $1.25 billion of free cash flow in the second half of the year, receive $2.0 billion in net cash proceeds from ADE, and shares in ADE worth another $9.0 billion at current prices. Backing out these additional items results in a clean market cap of $19.5 million for EBAY's core marketplace.

By 2022, EBAY's managed payments initiative should more or less offset the cash flow the company will lose as a result of the sale of the classifieds portfolio. Steady state free cash flow should remain in the realm of $2.0 billion. To this end, I believe we are paying an effective 10x P/FCF multiple for the core marketplace business. Say what you want about EBAY, but this is hardly a demanding valuation for a capital-light (a positive in an inflationary world) e-commerce operator (a positive in a pandemic-stricken world).

TC Pipelines (Long): When I initiated a position in TCP in late March, I did so because the shares were a screaming buy. At the time, TCP's P/E and P/FCF multiples were sub-7x and shares offered a safe dividend yield in excess of 12.0%. Despite a rebound to low-$30s (a gain of roughly 50% on our cost basis), shares remain extremely attractive for a business characterized by a high degree of cash flow visibility and strong investment-grade counterparties.

Apparently TCP's corporate parent – Canadian-based TC Energy – knows a bargain when they see it as well. They recently offered to acquire all of TCP's outstanding shares at a price of $27.31. I view this offer as an opportunistic attempt to purchase all of TCP at a steep discount to the company's intrinsic value and published an open letter to the company's Board of Directors. The full text of the letter is attached as Appendix A. Any deal requires the approval of a majority of current shareholders and the top of TCP's register is highly concentrated. The top 5 shareholders will have considerable sway in how the situation unfolds and I remain optimistic that they will push for a more appropriate valuation.

Trupanion (Short): TRUP remains a frustrating short for the Partnership. While already underwater before the 2Q'20 print, the position added insult to injury when shares immediately added more than 20% on the back of what I viewed as an underwhelming earnings print. Management guided total revenue higher by ~$14 million, inclusive of $9 million from the "Other" business and $5 million from the company's core insurance business.

The best the company could offer up in the way of additional profitability was an incremental $1 million of "adjusted operating margin," which importantly, is reported *before pet acquisition costs (PAC).* Guidance was taken from $55 million to $56 million, which is still below the $57 million guided to at the beginning of the year. The full $1 million is coming from TRUP's core insurance business, with the incremental $9 million of "Other" segment revenue coming without any material profit. Because TRUP has promoted itself as a SaaS-like business, investors are unfazed by the prospect of revenue growth without profits. When you're valued on the basis of EV/Sales – as opposed to traditional insurance metrics like P/B or P/E – sales growth is paramount. Here on planet earth, TRUP's shares trade at 1,830x next year's earnings and 15.7x P/B.

I continue to expect that over the medium term, fundamentals will roll over, thereby depriving this high-growth story of the oxygen it requires to remain on fire. Specifically, I believe TRUP will become increasingly squeezed on both ends of its P&L. Starting with revenue, there continues to be a growing number of competitors entering the market. In many cases, their policies are priced more attractively than the company's. TRUP can't afford to cut premiums – its loss ratios won't allow it – and over time the rising competition should place pressure on both its gross adds as well as churn.

Additionally, rising competition is becoming increasingly evident in the company's pet acquisition spend. While the company increased guidance for its "adjusted operating margin," pet acquisition costs are trending disastrously in the wrong direction. During 1H'20, PAC averaged $222, artificially held down by spend of only $199 in the pandemic-afflicted second quarter. Management still expects full year average PAC to range from $240-$270, implying an average of $290 in the second half. While management raised revenue and pre-PAC profit targets, there will be very little left over for shareholders after properly accounting for all of the company's expenses. This is hardly the kind of outlook that justifies the stock's performance following its second quarter print.

There is another problem. With PAC exploding, the company will quickly find itself outside of its target IRR range of 30-40%. Basic math implies the company will likely end the year spending $300+ per pet in the fourth quarter if PAC is to average $290 in the second half. At these levels, 4Q'20 spend will be 35% higher than the prior comparable period. This rate of growth is unsustainable, and as we progress through 2021, rising PAC will drive IRRs well below 30%. The company will be faced with two choices: Either slow growth to maintain its target IRRs, or maintain growth with economics diminished by higher PAC spend. I don't believe either will be pretty for the stock.

Hanesbrands (Short): HBI has been somewhat of a permanent fixture in the Partnership's short book over the past two years. I have long believed that various aspects of the bull thesis – it's cheap, everyone wears underwear, and Buffett owns Fruit of the Loom – are lazy and half-baked justifications for owning the stock. The investment proposition is substantially more nuanced and less attractive. Competition from private label offerings and new brand names have slowly been chipping away at HBI's market share. The company is somewhat hamstrung in its ability to shift sales to the likes of Amazon given their heavy reliance on Wal-Mart and other brick-and-mortar retailers. Demand is anything but stable in downturns, a point illustrated by second quarter results. And lastly, HBI's heavy reliance on company owned manufacturing facilities has embedded a high degree of operating leverage in the company's cost structure.

It is this last point – operating leverage – that is perhaps most underappreciated by longs. Part of the company's multi-year acquisition program has been predicated on consolidating manufacturing into existing facilities, thereby increasing their utilization and enabling HBI to better absorb fixed costs at the plants. Management has highlighted that approximately three fourths of the units it sells are manufactured at company facilities and they trumpet the mantra "volume up, unit costs down." But this relationship works in reverse, too. *Volume down, unit costs up.*

During the second quarter, the company dodged a big bullet on this front. Sales came in at $1.74 billion, barely changed from $1.76 billion in the prior comparable period. Operating profit of $241.5 million was actually *up* 18.6% year-over-year. What happened? Revenue included a $752 million benefit from the sale of protective garments and facemasks (PPE). Absent the contribution from PPE, sales would have fallen 40%. Perhaps more instructive is the experience of HBI's Activewear segment which did not book any PPE sales during the quarter. On a 52% revenue decline, *segment operating profit fell more than 110%*. Without PPE sales, operating profits would have been crushed across the board.

HBI's outlook is considerably gloomier than 2Q'20 results suggest. Management noted the potential for a much reduced $150 million of PPE sales in the second half, U.S. apparel imports remain in negative territory, and back-to-school demand was hurt as educational institutions embraced distance learning. And while not issuing formal guidance, management noted, "While we continue to tightly manage SG&A expenses, the amount of temporary cost savings from the second quarter are currently not expected to repeat in the second half. Combined with a lower overall unit and sales volume, we believe it is reasonable to assume year-over-year pressure on margins in both this third and fourth quarters." *Volume down, unit costs up.*

From a valuation perspective, shares are trading at 11.0x next years' estimated earnings. At best, this is "in-line" with the five-year average of 10.2x, but it's worth noting the long-term average is biased upwards by late 2015 figures which were influenced by considerably higher organic sales growth and non-fundamental demand for shares following HBI's addition to the S&P 500. Viewed over a shorter three-year window, HBI has traded with an average multiple of 9.2x forward year earnings. At 11.0x – about one standard deviation above the three-year mean – shares are trading fairly rich. Such a valuation would be justified *if* the company were expecting improving organic sales growth and unit profitability, but there's little reason to believe anything of the sort is right around the corner.

Ollie's Bargain Outlet (Short): OLLI delivered a blowout second quarter – same store sales were up 43.3% and overall sales were up 58.5%, operating income tripled, and the company generated more than $160 million of free cash flow. Current conventional wisdom is the company's position as a bargain retailer in the middle of a recession should support improving financial performance and thus its stock price. But in reality, shares are down nearly 15% since the company reported second quarter results. What gives?

Underpinning OLLI's robust cash generation was strong sell through of existing inventory. At the end of the second quarter, inventory sat at ~$895,000 per store, more than 10% below the company's three-year average of approximately $1,000,000 per store. At first blush, declining inventory would seem like a *positive*, particularly given my prior contention that OLLI was over-inventoried late last year. But today, the pendulum has swung too far in the opposite direction. With sales on track to grow at a mid-teens clip in the third quarter, I anticipate store-level inventory metrics will further deteriorate.

Absent the ability to quickly restock – which is challenging given the current speed of the treadmill – OLLI will likely struggle to maintain positive comps over the next several quarters and will face particular challenges in 2Q and 3Q of FY'2021. OLLI currently trades at 31x next year's earnings, in-line with the company's 3- and 5-year averages, which I believe makes for an attractive short position given the fundamental outlook.

* * * * *

I know these updates are long, but I believe it is vitally important for partners and prospective partners to understand my thought process and rationale for making investments. I am available for any questions, comments, or concerns that you may have.

If you are an accredited investor who would like to learn more about becoming a partner, please reach out to me and we can arrange a time to have a more in-depth conversation. Please also know that even if an investment in the Partnership isn't for you, the highest compliment that you can pay me is an introduction to someone who might be a good fit.

I want to thank those of you who have already joined as partners of the Fund. I am grateful for the opportunity to grow your assets alongside mine and appreciative of your trust.

"The more things change,

the more they stay the same."

Sincerely,

MHacke

Michael G. Hacke, CFA
Steel City Capital Investments, LLC

APPENDIX A

October 7, 2020

Board of Directors
TC Pipelines, LP
700 Louisiana Street
Suite 700
Houston, TX 77002

Dear Members of the Board:

Steel City Capital, LP (the "Partnership") is a value-oriented investment partnership that seeks to acquire interests in high-quality businesses that are trading substantially below their intrinsic value. In TC Pipelines, LP (NYSE: TCP), we have found a business characterized by a high degree of cash flow visibility and stability, strong investment-grade counterparties, and an attractive valuation. For these reasons, the Partnership counts TCP among its top holdings.

I am writing to communicate my objection to TC Energy Corporation's (TSX: TRP) recent offer to acquire all of TCP's common units at an implied price of $27.31 per unit. I harbor deep concerns that the offer represents a steep discount to TCP's intrinsic value.

Over the past several years there have been a number of similar transactions whereby parent entities have elected to "buy-in" their MLPs. The table below includes the valuation multiples of these comparable transactions. It's worth highlighting that excluding the acquisition of Boardwalk Pipeline Partners by Loews – a transaction in which several parties raised concerns about the potential abuse of unitholders[3,4] – historical transactions have been executed at an average of 11.2x EBITDA. Viewed in this context, TRP's offer to acquire TCP at a multiple of only 8.2x FY'2021E EBITDA significantly undervalues TCP's diversified portfolio of high-quality assets.

Transaction	Transaction multiple[i]
APU/UGI	10.6x
BWP/L	8.4x
DM/D	12.3x
EEP/ENB	10.8x
SEP/ENB	10.5x
TEP/TEGP	11.0x
WPZ/WMB	12.0x
Average	**10.8x**
Average ex. BWP/L	**11.2x**
TRP/TCP	**8.2x**

Source: Barclays Research report dated October 5, 2020 and Steel City Capital estimates
i. Implied TRP/TCP transaction multiple reflects proposed acquisition price of $27.31 per unit and FY'2021E EBITDA of $471 million.

[3] Bandera Partners Letter

[4] TAM Capital Management Letter

Precedent transaction multiples imply TCP's fair value is north of $40 per unit, where the units traded as recently as February 2020. Considering there have been no material changes to TCP's business profile – asset utilization remains healthy, counterparty risk is low, and growth opportunities are robust – there is no reason that TCP shouldn't garner the same valuation the market ascribed to it only several months prior.

I remain optimistic that the Conflicts Committee of the TCP Board will see this offer for what it is: an opportunistic attempt to purchase all of TCP at a steep discount to the company's intrinsic value. Unless and until TRP makes an offer that I believe reflects the full and fair value of TCP, I plan to vote against any proposed transaction. I hope the members of TCP's Conflicts Committee, along with a majority of TCP's public unitholders, do the same.

Sincerely,

MHacke

Michael G. Hacke, CFA
Steel City Capital Investments, LLC

ABOUT STEEL CITY CAPITAL, LP
Steel City Capital, LP is a long-biased investment partnership formed in 2018 and is located in Pittsburgh, PA.
https://www.steelcitycap.com/

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