VOSS CAPITAL

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July 23rd, 2021

Dear Partners,

In Q2 2021, the Voss Value Fund, LP and the Voss Value Offshore Fund, Ltd., returned +11.6% and +11.2% to investors net of fees and expenses, respectively, compared to a +4.3% total return for the Russell 2000, a +4.2% total return for the Russell 2000 Value, and a +8.5% total return for the S&P 500.

As of June 30th, 2021, the Fund's total gross exposure stood at 148.1% and the net long exposure was 72.8%. Our top 10 longs had a 53.2% weighting, and our top 10 shorts had a gross weight of -28.0%.

Firm assets under management stood at approximately $300 million as of June 30th, 2021.

Voss Value Master Fund Complex

ESTIMATED NET MONTHLY PERFORMANCE | 2021

PERIOD	Voss Value Fund, LP	Voss Value Offshore Fund, Ltd.	Russell 2000 TR	Russell 2000 Value Index	S&P 500 TR
JANUARY	3.5%	3.5%	5.0%	5.2%	-1.0%
FEBRUARY	11.7%	11.5%	6.2%	9.2%	2.8%
MARCH	6.6%	6.3%	1.0%	5.0%	4.4%
1st QUARTER	**23.3%**	**22.7%**	**12.7%**	**20.7%**	**6.2%**
APRIL	5.72%	5.66%	2.10%	1.97%	5.34%
MAY	2.37%	2.23%	0.21%	2.97%	0.70%
JUNE	3.10%	2.95%	1.94%	-0.77%	2.33%
2nd QUARTER	**11.6%**	**11.2%**	**4.3%**	**4.2%**	**8.5%**
JULY					
AUGUST					
SEPTEMBER					
3rd QUARTER	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
OCTOBER					
NOVEMBER					
DECEMBER					
4th QUARTER	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
YEAR TO DATE	**37.5%**	**36.5%**	**17.5%**	**25.8%**	**15.3%**

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

Net Return Comparison as of June 30th, 2021

					Compound Annual Growth Rate		
	1 Month	3 Month	YTD	1-Year	3-Year	5-Year	ITD(1)
Voss Value Fund, LP	**3.1%**	**11.6%**	**37.5%**	**99.2%**	**27.2%**	**23.7%**	**20.8%**
Voss Value Offshore Fund, Ltd.	**3.0%**	**11.2%**	**36.5%**	**97.4%**	**N/A**	**N/A**	**41.4%**
S&P 500	2.3%	8.5%	15.3%	40.8%	18.7%	17.6%	17.0%
Russell 2000	1.9%	4.2%	17.4%	61.9%	13.5%	16.4%	15.5%
Russell 2000 Value	-0.9%	4.3%	26.3%	72.8%	10.2%	13.6%	13.9%
Russell 2000 Growth	4.8%	4.0%	9.1%	51.6%	16.0%	18.8%	16.9%
HFRX Equity Hedge Index	1.2%	5.1%	7.9%	21.5%	4.4%	5.5%	3.8%

(1) Investment to Date measures the time period from Voss Value Fund, LP's inception date of October 1st, 2011

The dichotomous tension between bubble stocks and small cap value stocks is rising once again as Greed marshaled more recruits than Fear or Reason at the end of the quarter. The Russell 2000 outperformed the S&P 500 by 38.5% from March 2020 to March 2021, but since the end of March small caps have given back over 10% of relative performance. Earlier this year, in one of his more measured moments, The Great Humiliator rewarded low multiple companies and punished cash incinerating 'stonks'. Was this but a brief interlude between the dark ages for value investing? Only time will tell but based on our usual conservative bottom-up price targets our portfolio has as good of a risk/reward set-up as ever. We estimate our current long book has ~53% upside contribution from just our top 20 longs over the next twelve months and -23% if each stock hit our punitive bear case scenario simultaneously.[1]

Upward earnings revisions have been relentless this year. The Street is now looking for earnings growth of 32.4% for Value vs. 27.6% for Growth. At the start of the year, Value was expected to post a measly 3% increase in earnings growth vs. 10.3% for Growth.[2] In our view, the relative performance outlook between small and large caps is much more balanced now. We believe cost pressures that most companies are facing (e.g., labor shortages) are more problematic for small cap margins, something the market is rightfully focused on. There has also been record setting net new equity supply in small caps YTD, meanwhile share buybacks and the resulting reduction of supply will be concentrated in mega caps. Large-cap companies may just be starting a wave of capital deployment, as cash piled on balance sheets remains extremely high at about $3 trillion (~3x higher than 2008 era peak cash balances).[4] Capital spending and M&A both have room to grow from below average levels.

It is worth reiterating that pockets of euphoria are not a reliable market timing signal. Bear markets do not truly begin until the euphoria either blinds investors to deteriorating economic fundamentals and/or there is total buyer exhaustion. It is hard to tell if we are there yet because, as pro-cyclical as they are, corporate buybacks trounce all other fund flows, and they are poised to be gargantuan again 2H21.

On Housing

Rising home prices and homeowners' buildup of equity are good for home improvement spending and the NAHB Home Remodeling index continues to surge to new highs. Based on the historical trend line of spending on private fixed residential investment ("PFRI", which tallies up spending on permanent improvements to existing homes and new home construction), the US has under invested by about $1.5 trillion over the last 10 years. In our opinion, a surge in 2H 2020 and 1H 2021 in PFRI has not even begun to scratch the surface of fulfilling demand for homes and home improvement spending.

The level of housing activity witnessed recently has just been a return to normal. US Single Family Home starts are ~9% below where they were in the middle of 2001, when the housing cycle was just kicking off, 13.5% below their average from Q2 1993 to Q2 2007, when mortgage rates averaged over 7%, and are even 15% below 1959 levels, when mortgage rates were 220 basis points higher, and the population was 155 million less.[5]

Furthermore, many times throughout history when housing starts were much higher, mortgage rates exceeded 8% or even 9%. For example, from the start of 1971 to the end of 1977, average US single family housing starts exceeded our current levels by ~8% and yet mortgage rates averaged 8.47% over that time, never dipping below 7.23% versus today's average 30-year fixed rate of just 2.88%.[3] Also of note is that at present we are starting from a point of record low inventory.

Despite the incessant hand wringing over the issue lately, housing is more affordable now than it was at the start of 2020 and throughout most of history. To illustrate numerically, assume a first-time home buyer puts down 10% on a $271,300 home, can garner a mortgage rate of 3.18% (includes PMI), about 30 basis points above the current 30-year average rate of 2.88%, and has an income in line with the national median income for first time home buyers ($58,856). Their monthly mortgage payment consumes 21.47% of their gross monthly income. During Q1 2020, the same starter home may have cost $233,400 before the median home price appreciation of the last 18 months, but the effective mortgage rate with obligatory private mortgage insurance was 3.82% instead of 3.18% and the median income was $53,552, so the monthly payment required 21.98% of the buyer's gross monthly income. Despite the median home price being up 16%, lower mortgage rates and income growth mean housing affordability is technically better now than it was 18 months ago.

As the market refocuses on FANG, many of our longs tangentially related to housing have recently pulled back to what could be described as near distress level valuations as people panic over the end of the housing cycle and price in an epic demand collapse. We believe the market is once again too bearish too soon and we remain overweight housing related securities, staying positioned for the multi-year building boom that we believe is still forthcoming.

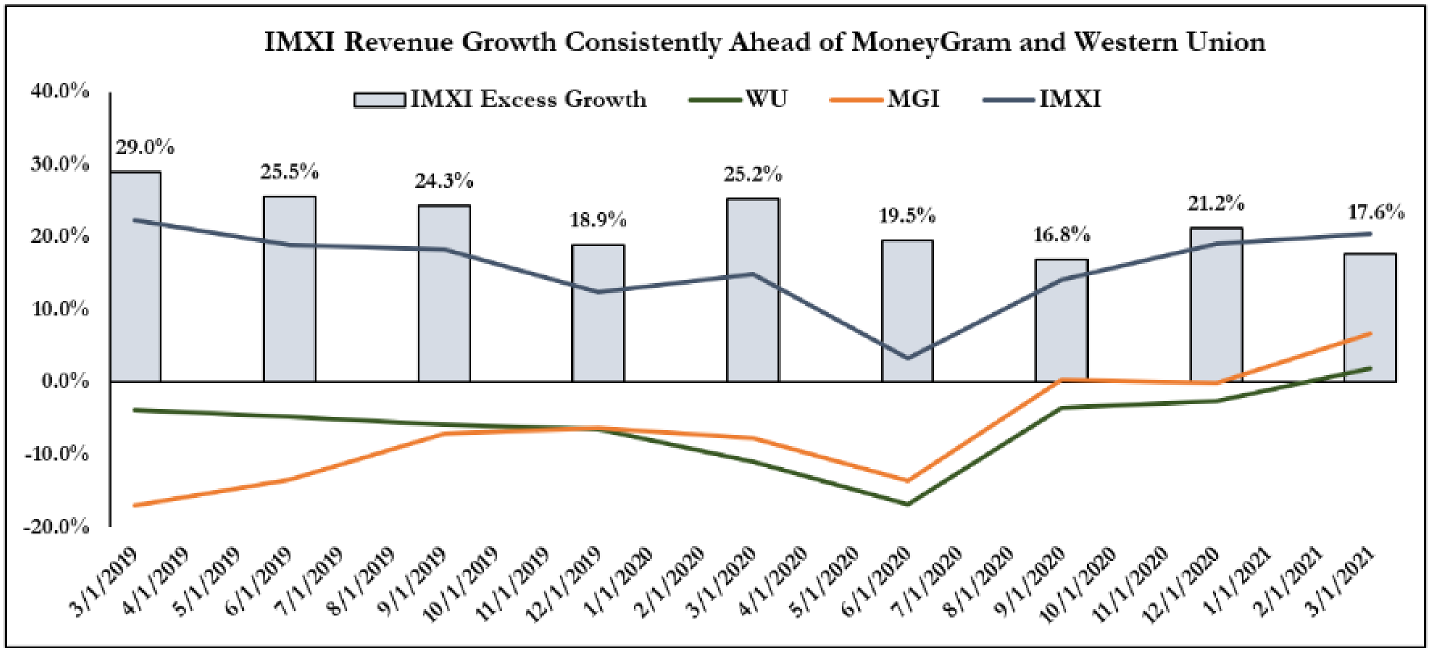
New Long: IMXI

We believe Intermex (International Money Express, IMXI) is a compelling long. IMXI is an international money remittance company that focuses primarily on transactions emanating from the United States and going to Mexico and Guatemala. They make their money by charging a fixed fee for each remittance transaction (85% of revenue), and to a lesser degree from foreign exchange arbitrage on transactions (14%). Their customer base is primarily low-income and under-banked immigrants from Mexico and Guatemala with family/friends remaining in their home country that need financial support. We believe IMXI is a simple story to understand, with a clean capital structure, very low capital intensity (outside of some working capital swings), a strong brand, savvy management, and excellent ongoing execution (e.g., 15-20% growth at high incremental margins). We believe there are flaws in the negative narrative surrounding the company that we can exploit, namely the skepticism around the sustainability of its growth, the stickiness of the customer base, and a misunderstanding about the economics of a digital remittance transaction versus in-person.

The consensus narrative on Wall Street is that IMXI is making a strategic error by not going "all in" on digital transactions, as MoneyGram (MGI), Western Union (WU), and well-backed private competitors like Remitly and Wise are. You will hear that the wave of the VC money shows you what the future beholds, and remittances initiated via physical brick & mortar stores are dying. As the digital transition occurs, Intermex will lose their customer base, and given the operating leverage in the model, profitability will be hit hard. Bears also argue that digital is cheaper, easier, and should create a stickier customer base in the long term. Furthermore, Intermex's focus on only a few markets makes it hard to scale the business and they will quickly run into a wall on growth.

Voss has a variant view. After much polling of the customer base and study of the cultural drivers, we believe that IMXI's customer base will be very slow to transition to digital as digital requires a bank account and can take longer for the funds to become available to the recipient in cash. With WU and MGI focusing on digital, IMXI continues to take in-person market share and capture an increasing amount of the superior unit economics that come with it. Digital has a much lower Lifetime Value (LTV)/Customer Acquisition Costs (CAC) ratio due to intense competition requiring high marketing costs and increasing “churn”. Digital also is not necessarily a cheaper way for customer to send money given that the digital players try to juice revenue with greater currency arbitrage to make up for the low advertised transaction fees, something we have found the astute customer base is keenly aware of. We would also argue IMXI’s in-person customer base is likely stickier than the overly digital-focused Wall Street imagines. A worker stopping by the IMXI counter in the same store they are cashing their check or buying food is part of a routine and that convenience and familiarity is sticky. Management has noted that many of the customers who switched to using IMXI’s digital product last year during lockdowns returned to in-person when stores opened back up.

Intermex's disciplined focus on a few markets instead of reaching for growth in every country allows it to dominate those high-volume corridors and take share consistently and profitably. In direct contradiction to the bearish sentiment and narrative, IMXI is consistently growing about 20% faster than competitors WU and MGI.



Source: Voss Capital

At its current valuation of ~8x NTM FCF and 7x EBITDA, the market's expectations are exceptionally low on this 20% organic grower. We believe they can sustain 10%-20% growth, paving the way for the stock to double over the next 2-3 years through a combination of continued organic growth and some multiple expansion as the market realizes their runway is much longer than currently forecasted. Our price target is $29 (90% upside) based on 10x our 2023 EBITDA estimates. If the stock's multiple does not improve between now and then, we believe there are both private equity and strategic acquirers who would be interested in buying the entire company.

New Long: ECN CN

ECN Financial (ECN CN) has undergone a complete business transformation that we believe is underappreciated and/or misunderstood. They have transitioned from a highly capital-intensive railcar/aviation leasing business to an attractive asset light, fee based FinTech model that originates loans to super-prime customers in attractive industries all while taking on no credit risk. We believe ECN is a leader in three attractive niches: 1) home improvement loan origination 2) manufactured housing loans 3) credit card portfolio services/M&A advisory. They are in the "bullseye" of the top macro themes we currently want exposure to - the country's affordable housing shortage (which may require sustained growth in manufactured housing units shipped), US home remodeling, and consumer spending/credit (tied to credit card loan balances).

Segment	Business	NTM EBITDA Growth Est.	EBITDA Margins
Service Finance Company	Home Improvement Loans	46%	66%
Triad Financial Services	Manufactured Housing Loans	32%	52%
Kessler Group	Credit Card Portfolio Advisory	17%	60%

ECN appears to be relatively under followed despite its $1.8 billion USD market cap and is met with general apathy. The consensus view seems to be that the management team came close to blowing up the previous asset-heavy leasing businesses and it is only a matter of time before ECN is tripped up again by the very same CEO. Skepticism around management competence is misguided, as the three recent major acquisitions have all proven to be inarguable home runs. In hindsight, they paid just 2-4x forward EBITDA for three rapidly growing companies doing 52-66% EBITDA margins and in our minds, they have redeemed themselves as savvy capital allocators who have learned a lesson from their past mistakes. Judging from recent market action and the valuation multiples ascribed to home builders, building products distributors, etc., it is clear most investors think that US housing/remodeling demand was pulled forward due to Covid related lockdowns and is poised to collapse as home affordability worsens and interest rates rise. As we have already discussed above and in the last quarterly letter, we believe this view is a false fear that should be actively exploited.

The Voss variant view is that secular growth in manufactured housing is needed to alleviate the severe shortage of affordable housing inventory (Triad), home remodeling demand is underestimated and has a multi-year runway of above trend growth potential (Service Finance), and consumers are more willing to lever up and purchase large ticker items and thus build credit card balances (Kessler). ECN is perhaps the best way to gain exposure to these end markets and macro trends, as it is a much higher quality business than any manufacturer or financial taking credit risks.

ECN's Service Finance segment, which comprises about half the company's revenue and EBITDA, originates unsecured home improvement loans for HVAC, windows and doors, and roofing via trade repair men (e.g., HVAC repair firms) and general contractors. Originations are sold to banks/insurance companies/pension plans **and ECN has no recourse to credit performance**, prepayments, or interest rates. The typical Service Finance loan has a balance of $11,000 with a 30-month life and is underwritten for super prime credit rating customers (average FICO 770). **<u>Attention all Compounder Bros</u>: They have grown originations at a whopping 54% CAGR since 2013 (all organic) while doing >60% EBITDA margins**. There has not been a single quarter with origination growth of less than 20% since 2016 (Q2 2020 growth = 20.5%). With only ~2% market share of their addressable market, we believe ECN can maintain a very high growth rate all the while taking no credit risk and generating nearly 70% EBITDA margins. Compared to other high flying FinTech comps, we can make an argument that Service Finance alone comfortably covers ECN's entire enterprise value.

We believe ECN's second most valuable segment is Triad, the second largest Manufactured Housing (MH) loan originator in the US. Just as with Service Finance, Triad originates and sells loans for a gain, retains servicing rights that create a recurring revenue stream, and has no recourse on the credit risks, which have been pristine judging from Triad's historical peak charge off rate of only 1.2%. Triad has several growth drivers just beginning to ramp up this year, including a new land <u>and</u> home loan program through the GSEs. Previously, Triad offered "home only" loans (Chattel loans, in industry parlance). By now offering land and home loans, their average loan amount could more than double, further driving growth in origination revenue and recurring servicing fees. Like Service Finance, Triad is also now extending their loan offering to the lower end of the credit spectrum to capture more of the declined customers, all of which will remain non-recourse to ECN. Additionally, they have a new commercial loan program for lending directly to manufactured housing community owners. Given about one-third of all MH shipments are directly to MH rental communities, this significantly expands Triad's addressable market. Manufactured housing shipments remain about 50% below the historical 40-year average (and >66% below 1997 peak) and have plenty of room for growth.

ECN's third, albeit we believe to be the least valuable segment, Kessler, advises retailers and banks on their co-branded credit card offerings and brokers credit card portfolio sales. There are hundreds of co-branded credit cards out there (e.g., an American Airlines credit card or an NRA credit card, which supposedly has the best credit performance of any co-branded credit card in the country) and oftentimes the retail partner wants to change banking partners in order to cut fees or get better service. These types of large credit card portfolio level transactions were significantly curtailed in 2020, and we believe they were only delayed and thus Kessler's transaction services revenue is poised to bounce back quickly. Kessler is also attempting to create more recurring revenue streams by offering full-service credit card offerings (from marketing to credit decisioning and servicing) to small banks and credit unions that it has established relationships with. If this initiative gains traction, it could decrease this segment's historical reliance on lumpy transactional revenue and drive multiple expansion beyond the 10x pre-tax income multiple that we assign the segment for the sake of conservatism despite the eye-popping 60% segment level EBITDA margins and high teens projected EBITDA growth rate.

The stock is trading at a material discount to trading comps despite having a vastly superior business model. Given ECN has multiple unrelated segments, this also gives the Board upside optionality if/when they choose to unlock the current sum-of-the-parts discount. We think the company's 2021 guidance is sandbagged across each segment and a potentially sizable beat and raise are coming post Q2. It is noteworthy that ECN has bought back 38% of their shares since 2017 with more to come thanks to ample free cash flow. In sum, ECN is a nice collection of extremely high-quality financial services businesses that retain no credit risks, and we believe it deserves to be valued with a premium "FinTech" type of multiple as opposed to the massive discount it currently has to inferior trading comps. We believe the stock has 45% upside over the next 12 months to our $14.15 price target.

Segment	2022 Pretax Income	Multiple	Value ($USD)	Per Share (CAD)	Comment
Service Finance Corp	$135	20x	$2,700	$12.71	Growing at 30%+ CAGR with long runway
Triad	$53	14x	$742	$3.49	Multiple new initiatives provide 20% annual growth opportunity
Kessler	$53	10x	$530	$2.49	Repositioning to recurring rev model, potential for multiple expansion
Corporate Overhead	-$23	14x	-$322	-$1.52	
Debt/Preferred			-$643	-$3.03	
Total	**$218**		**$3,007**	**$14.15**	

In many ways, the stock market right now is a bit like that popular Indian parable about three blind men and an elephant, which explores the multitudinous nature of truth and limits of individual perception. One of the blind men feels the trunk and thinks the animal is a giant snake, one feels the tail and describes the creature as a rope, and one feels the tusk and says the creature is smooth and hard like a spear. In some versions of the story the men come to blows over their contradicting viewpoints, despite each drawing a rational conclusion. Likewise, an investor could look at various pockets of securities and make compelling historical analogues to various market regimes. For example, one may look at median valuations, meme stonks, ARKK holdings and SPAC issuance and conclude this market is like the 1999 bubble on steroids. Another may be deep in the weeds on small cap home builders that are at fractions of tangible book value and 4x earnings and conclude that we are either in a 2008 redux or on the precipice of an epic cyclical downdraft and the low multiples for some cyclicals will be rectified by earnings collapsing. Still others may see ~$13 trillion in sovereign debt priced with negative rates and think we are in an unprecedented deflationary depression. We admit, each could form convincing arguments based on their bounded viewpoint of the overall investment landscape.

Unlike the blind men in the parable, we never claim to possess any absolute truth or certainty based on our limited subjective perspective. We recognize that any dogma which we have inadvertently fed too much could be taken to the woodshed at any moment and savagely cut to size by The Great Humiliator. As always, we aim to preserve capital security-by-security by exercising valuation discipline, controlling risk through conservative position sizing, and ruthlessly questioning all our previous assumptions on an ongoing basis. We willingly embed a margin of uncertainty every step of the way by saving some mental space for skepticism, ever ready to change our minds even on our most cherished ideas; indeed--*especially* on our most cherished ideas.

Sincerely,

Voss Team

Appendix:

[1] We estimate our top 20 longs have ~124% of contribution potential over the next twelve months using our Bull Case price targets, which are generally derived from simply assuming the stock garners a multiple more in-line with the next cheapest trading comp.
[2] Source: Jefferies Valuation Handbook July 6th, 2021
[3] Source: Freddie Mac
[4]: Source: Bloomberg
[5]: Source: Bloomberg

Common Terms:

CAGR – Compound Annual Growth Rate	*GDP – Gross Domestic Product*
DCF – Discounted Cash Flow	*IRR – Internal Rate of Return*
EBITDA – Earnings Before Interest, Taxes, Depreciation & Amortization	*LTM – Last Twelve Months*
EPS – Earnings per Share	*NTM – Next Twelve Months*

EV – Enterprise Value	*P/E – Price to Earnings*
FCF – Free Cash Flow	*YTD – Year to Date*

Disclosures and Notices:

Beginning January 1, 2020, all investment activity is conducted by the Voss Value Master Fund, LP (the "Fund"), which has two feeder funds, and therefore performance figures from January 1, 2020 onward are calculated based on the Master Fund. All limited partners invest in the Fund through one or more of the following feeder funds: Voss Value Offshore Fund, Ltd. (the "Offshore Fund") and Voss Value Fund, LP (the "Predecessor Fund"), each a "Feeder Fund". Performance figures for the Predecessor Fund are contributable to Travis Cocke as sole portfolio manager. Mr. Cocke maintains the same the position with the Fund and the Fund will employ a similar strategy as the Predecessor Fund. Actual returns are specific to each investor investing through a Feeder Fund. Each Feeder Fund was established at different times and has varying subsets of investors who may have had different fee structures than those currently being offered. As a result of differing fee structures, differing tax impact on onshore and offshore investors, the timing of subscriptions and redemptions, and other factors, the actual performance experienced by an investor may differ materially from the performance reported above. Portfolio statistics shown are inclusive of the Predecessor Fund and the Offshore Fund.

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Past performance does not guarantee future results.