STEEL CITY CAPITAL, LP

April 23, 2020

Dear Partners and Friends,

In the first quarter the Partnership declined 10.7% net of fees and expenses. The table below compares our returns to a collection of widely followed benchmarks. Against the volatile market backdrop in March I was aggressive in adding to several of the Partnership's existing positions and simultaneously initiated new holdings. At quarter end the Partnership had exposure of 125% long and 50% short.

	Steel City Capital, Net	Russell 2000	S&P 500	MSCI All World Index
2018[1]	(7.97%)	(16.47%)	(7.60%)	(10.47%)
2019	23.38%	25.39%	28.88%	26.58%
1Q'20	(10.7%)	(30.65%)	(20.00%)	(21.05%)
Cumulative Return[1]	**1.39%**	**(27.36%)**	**(4.73%)**	**(10.52%)**
Compound Annual Return[1]	**0.74%**	**(15.77%)**	**(2.57%)**	**(5.79%)**

I thought it would be helpful to set the tone of this quarter's letter by sharing two quotes that heavily influenced my actions during the past several months. The first comes from one of the most successful investors of all time – Stanley Druckenmiller – in a speech given in early 2015:

> "Never, ever invest in the present. It doesn't matter what a company's earning, what they have earned. […] **You have to visualize the situation 18 months from now, and whatever that is, that's where the price will be, not where it is today**. And too many people tend to look at the present, oh this is a great company, they've done this or the central bank is doing all the right things. But you have to look to the future. **If you invest in the present, you're going to get run over.**"

The second comes from one of the most successful *and* well-known investors of all time – Warren Buffett – via an Op-ed published in the New York Times on October 16, 2008 in the depths of the Great Recession:

> "A simple rule dictates my buying: **Be fearful when others are greedy, and be greedy when others are fearful**. And most certainly, fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies makes no sense. These businesses will indeed suffer earnings hiccups as they always have. But most major companies will be setting new profit records 5, 10, and 20 years from now.

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

> Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month – or a year – from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. **So if you wait for the robins, spring will be over**."

Importantly, here is what Buffett *didn't* do as the market declined precipitously in 2008 and 2009. He *didn't* go to all cash. He *didn't* wait for an "all clear" signal before wading into the market. He *didn't* try to time the market by picking a bottom. And he *didn't* make investment decisions based on point-in-time valuations, but instead assessed companies based on their future, long-term earnings potential. While the market went on to decline another 25% after he penned his Op-ed, he bought all the way down and was rewarded handsomely when stocks embarked on the longest bull market in history. I sought to conduct myself accordingly as the S&P 500 fell 34% between February 19th and March 23rd and significantly increased the Partnership's long exposure when compared to year-end 2019.

While the Partnership has participated in the market's rebound as of late, I continue to believe the portfolio comprises a collection of attractively valued companies that should generate very strong returns in the years to come. Steel City Capital is open for new investment. 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.

As is customary with the Partnership's quarterly updates, the balance of this letter details a number of our positions and the thesis underpinning these investments. I believe it is vitally important for partners and prospective partners to understand my thought process and rationale for making investments.

EBAY (Long)

The Partnership's investment in EBAY has never been predicated on the notion that it is "Amazon-like" and thus deserves an "Amazon-like" valuation. Quite the contrary – a key component of the mainstream equity "story" surrounding EBAY is the exact opposite: EBAY is *not* Amazon. Never has been and never will be. The result is that its shares are relatively unfavored and shunned from many investor portfolios, especially in the traditionally high-growth technology sector.

In the market, even the worst companies can represent an attractive investment opportunity at the right price. Conversely, even the best companies can represent a bad investment opportunity at the wrong price. While EBAY is perhaps a middling e-commerce operator, I believe the price continues to fully justify an investment.

Aside from valuation, the operative pillars of my investment thesis can be distilled as follows: 1) Despite the melting ice-cube nature of EBAY's core marketplace, the reports of its death have been greatly exaggerated; 2) the business is capital light and generates a copious amount of excess cash that is being returned to shareholders; and 3) there is significantly underappreciated value in its collection of businesses, specifically StubHub (recently sold with impeccable timing) and its global portfolio of Classifieds.

Coming out of the fourth quarter print, bears felt emboldened as the trend in Gross Merchandise Value (the total value of all goods transacted on EBAY's platform) continued to decline. What's lost in the focus on GMV is that organic FX-neutral revenue growth has decoupled from this statistic. In FY'19, GMV declined 5% but organic revenue was *up* 2%. That's because EBAY is tapping into additional revenue streams including paid advertising and managed payments. While GMV will remain under pressure in FY'20 for a variety of reasons, the company guided to organic revenue growth of 1-3% supported by double-digit growth in paid advertising revenue and its platform-wide launch of managed payments in the second half.

In FY'19 EBAY generated $2.5 billion of free cash flow. Its guidance for $2.1-$2.3 billion in FY'20 marks the company's 5th consecutive year of generating free cash flow in excess of $2.0 billion. After returning $5.5 billion to shareholders last year, the company committed to repurchasing an additional $4.5 billion of shares in FY'20. Looking ahead, consolidated free cash flow should be considerably higher in 2021+ as the company fully ramps its managed payments offering (~$500 million of operating income) and delivers on its efforts to drive ~200 bps of margin expansion.

This brings me back to my original point – even the worst companies can represent an attractive investment opportunity *at the right price*. With the puts and takes highlighted above (GMV declines, managed payments, paid advertising, cost savings, share repurchases), I estimate EBAY is trading at ~8.0x 2021 FCF per diluted per share (excluding excess cash). This implies a 12.5% free cash flow yield on a large-cap investment grade rated company that priced 10-year bonds at 2.70% in early March. The equity is orders of magnitude cheaper than the company's bonds and continues to represent an attractive bargain.

The other way to look at valuation is on a Sum of the Parts basis. Following the successful sale of StubHub, all signs point to the company moving towards the sale of its Classifieds business later this year. In late February, the WSJ reported an indicative valuation of ~$10 billion for the business. If this is the case, the company's year-end 2020 enterprise value would be somewhere around $21.6 billion. I estimate EBAY's core marketplace currently generates ~$2.9 billion of EBITDA (after corporate expense allocation) and is on track to add another $500 million next year with the global rollout of managed payments. All in all, this implies a valuation of 6.3x EV/EBITDA for EBAY's core marketplace which is hardly demanding.

NEW FORTRESS ENERGY (Long)

NFE is in the critical stages of its transition from a development company to an operating company. Having achieved run-rate delivery volumes at each of its Montego Bay, Old Harbor, and Jalamco CHP facilities, the most significant milestone the company is marching towards is the commissioning of its San Juan Puerto Rico regasification terminal and the full conversion of PREPA's San Juan units 5 and 6 to support natural gas-powered generation.

NFE's agreement with PREPA, which is its largest, has caused me significant heartburn as of late. I have always been wary of the possibility that PREPA's ongoing restructuring negotiations could result in some sort of alteration of the contract, with this fear being punctuated by recent earthquakes that resulted in island-wide blackouts ("Never let a

good crisis go to waste.”). While management recently communicated that they expected the facility to achieve full utilization by late March, my guard will remain up until the gas starts flowing.

In the meantime, the company announced that it entered into a long-term LNG supply agreement for 27.5 million MMBtu of LNG at a price indexed to Henry Hub. LNG prices remain significantly depressed and the company is continuing to seek opportunities to lock in additional committed volumes at favorable prices. As it stands today, NFE has only locked in purchase commitments representing ~1/3 of its needs during the next 10 years, positioning it to take advantage of low prices in the future. At NFE’s current price, shares are trading at a sub-10x P/FCF multiple of run-rate free cash flow beginning in 2022. **Skate to where the puck is going, not where it has been.**

WESTLAKE CHEMICAL PARTNERS (Long) & TC PIPELINES, LP (Long)

I have long been wary of investments in master limited partnerships, or MLPs. I never understood the logic associated with issuing equity to support growth projects when there exists ample internally generated cash (why dilute existing owners if you don’t need to?), questioned the veracity of reported “maintenance capex” used to determine dividends, and have long believed their attractive dividend payments to be supported by Ponzi-like financing schemes. That said, there are often “exceptions to the rules” and the Partnership established positions in Westlake Chemical Partners (WLKP) and TC Pipelines (TCP) during the first quarter.

WLKP owns a 22.8% interest in three ethylene production facilities with a combined production capacity of 3.7 billion pounds per year. Ethylene is a building block used in the manufacture of plastic and vinyl. The production facilities have entered into a 12-year Ethylene Sales Agreement (running through 2026) with the company’s corporate parent (Westlake Chemical), pursuant to which the parent has agreed to purchase 95% of the facilities’ planned ethylene production each year. Purchases subject to the agreement occur on a cost-plus basis such that WLKP earns a fixed margin of $0.10 per pound.

In addition to a contract mechanism that provides for a highly visible bond-like cash flow stream, WLKP’s approach to calculating distributable cash flow is among the most robust and intellectually honest I have seen. Specifically, the company reserves ~$30 million each year to finance maintenance turnaround activities that occur every five years. In practical terms, the reserve is akin to a sinking fund that ensures WLKP has adequate resources to finance maintenance turnaround activities without having to raise additional capital and/or reduce its dividend. A less conservative management team – of which there are many in the MLP world – would be apt to distribute excess cash today, potentially to the detriment of the company’s balance sheet or dividend in the future.

WLKP’s shares took a nosedive in early March alongside the rest of the market. While on my radar, I remained on the sideline as I was unsure whether or not the macroeconomic backdrop would cause the company’s parent to alter the Ethylene Sales Agreement as competitive ethylene feedstocks became cheaper (namely naphtha, an oil derivative) and the certainty of a recession pointed to destruction of downstream demand. Any change in the sales agreement would have almost certainly resulted in the dividend being reduced. However, my concerns abated as I watched management and members of the board step into the open market beginning in mid-March to make a number of purchases at prices ranging from $11.68 to $17.45. Why would insiders be purchasing shares if they were entertaining

the prospect of a dividend reduction? The Partnership built its position at an average price of $11.50, representing a dividend yield of 16.4% and a P/E ratio of 6.6x.

Headquartered in Canada, TC Pipelines, LP owns interests in eight interstate natural gas pipeline systems with a combined transportation capacity of 10.9 bcf/d. Approximately 90% of the company's cash flows last year were generated subject to take-or-pay contracts, and 70% of TCP's customer base carries an investment grade rating. A meaningful portion of its customer base comprises gas utilities and power generators who are somewhat "captive" to the system and thus highly likely to continually extend their contracts as they expire.

Like WLKP, TCP has always operated with a degree of conservatism that was unmatched by some of its American-led pipeline peers. For much of the MLP boomlet that characterized the middle of the prior decade, it was in vogue for companies to target mid-to-high teens dividend growth through a combination of acquisitions and "dropdowns" from their corporate parents. While TCP's corporate parent, TransCanada Corporation, has a significant inventory of qualifying natural gas and oil pipelines that could have served as the basis for competitive dividend growth, management never really "played the game." At its peak, dividend growth reached 7.5% in 2017.

In mid-March, the Partnership was able to acquire a moderately sized position in TCP at an average price of $22.15, representing a dividend yield of 11.7% and a 6.0x multiple of both earnings and distributable cash flow. Going forward, the company is executing several high-return growth projects that it should be able to finance internally without placing undue stress on the balance sheet. While shares have run up significantly since the Partnership established its position (+45%), I wouldn't be surprised to see them increase further in the future. Immediately prior to the market's dislocation, TCP's shares yielded 6.0% vs. today's 8.0%. As markets eventually stabilize and investors resume their hunt for yield, I expect TCP's yield to compress further.

ANTERIX (Long)

Anterix is the largest holder of "low band" 900 MHz spectrum in the United States. Since acquiring its spectrum holdings in 2014, ATEX has been petitioning the FCC to reallocate the band's spectrum to enable broadband service. The company appears to be on the cusp of closing an important chapter in its efforts. On April 21st, FCC Chairman Ajit Pai announced that a final Rule & Order will be voted on at the commission's upcoming May meeting.

Despite having increased ~30% above the Partnership's average entry price, I continue to believe that ATEX's best days are ahead of it. Over the next several years, the company will transition from a spectrum holding company to an asset-light operating company whose cash flows are supported by long-term agreements with investment grade utilities. Investor awareness should increase and risk premiums should compress, providing the basis for a much higher valuation. **You have to visualize the situation 18 months from now, and whatever that is, that's where the price will be, not where it is today.**

GILDAN (Long) & FIVE BELOW (Long)

The Partnership initiated new positions in Gildan (GIL) and Five Below (FIVE) during the quarter. From a qualitative perspective, the investments have no descriptive overlap. From a quantitative perspective, I was drawn to both by their attractive financial characteristics and bargain basement valuations.

FIVE is a rapidly growing brick-and-mortar retailer that – as its name suggests – sells a variety of merchandise priced at $5 and below. It largely targets the teen/tween demographic and sells products across a wide variety of categories including toys and games, technology, beauty and style, candy and snacks, as well as seasonal/holiday centric merchandise. The company has boasted an attractive financial profile: annual sales growth of 20%, a five-year EPS CAGR of 25%, returns on equity north of 20% with no debt, and robust free cash flow generation. The company has a meaningful growth runway ahead of it as it expands its footprint westward and infills existing markets. There also remains levers to improve same store sales growth through remodels, the introduction of a rewards program (enabling customer data collection), increased marketing and brand awareness, and the eventual rollout of a "Ten Below" concept within existing stores (boosting average ticket). The near-term outlook has been clouded by a combination of increasing tariffs on imported goods, and more significantly, fallout from the coronavirus. All of FIVE's stores are currently closed.

GIL manufactures everyday basic apparel including activewear (t-shirts and sweatshirts), as well as underwear, socks, and hosiery. The company's bread-and-butter is the activewear business, where GIL primarily sells blank, undecorated shirts to screen printers (via wholesalers) who decorate the product with designs and logos, and in turn sell the decorated product to educational institutions, athletic dealers, promotional product distributors, charitable organizations, and various other retailers. GIL's activewear business constituted ~$2.2 billion, or 80%, of the company's FY'19 sales. The balance of sales are generated from the sale of underwear, socks, and hosiery. Here the company has increasingly abandoned the sale of its own branded products in favor of manufacturing private label products on behalf of third-parties. For example, GIL provides contract manufacturing services to Wal-Mart for its George brand as well as Costco's Kirkland branded underwear.

GIL's P&L has faced some headwinds in recent years as management closed higher cost manufacturing operations, consolidated production in lower cost markets, and took write-downs of its slower moving inventory. Looking through these items, GIL has enjoyed a relatively stable earnings profile with mid-teens returns on equity. I anticipate that such charges will begin to recede in the coming years, improving the company's return profile and free cash flow generation. Over the longer term, earnings could benefit from the company's planned international expansion (it is currently expanding its manufacturing facilities in Bangladesh) as well as targeted cost savings which are expected to materialize as a result of the aforementioned manufacturing facility consolidation.

What ties the two opportunities together is the Partnership's entrance at valuations significantly below long-term averages. In the case of FIVE, shares quickly traded to 15x earnings, approximately half the company's five-year average of 31x. Similarly, GIL traded as low as 5.5x earnings, approximately one-third of the company's five-year average of 16x. In neither case did I catch the exact bottom, but that shouldn't distract from the fact that the purchases represent a veritable steal. In both cases, we were able to establish a position at valuations *more than two standard*

deviations below their five-year averages. **Be fearful when others are greedy, and be greedy when others are fearful.** Of course, it's a near certainty that neither FIVE nor GIL will generate earnings in 2020 anywhere close to what was expected in a pre-coronavirus world, but that's no matter to me. **If you invest in the present, you're going to get run over.**

FIVE P/E Ratio (NTM)

GIL P/E Ratio (NTM)

SCORPIO TANKERS (Long)

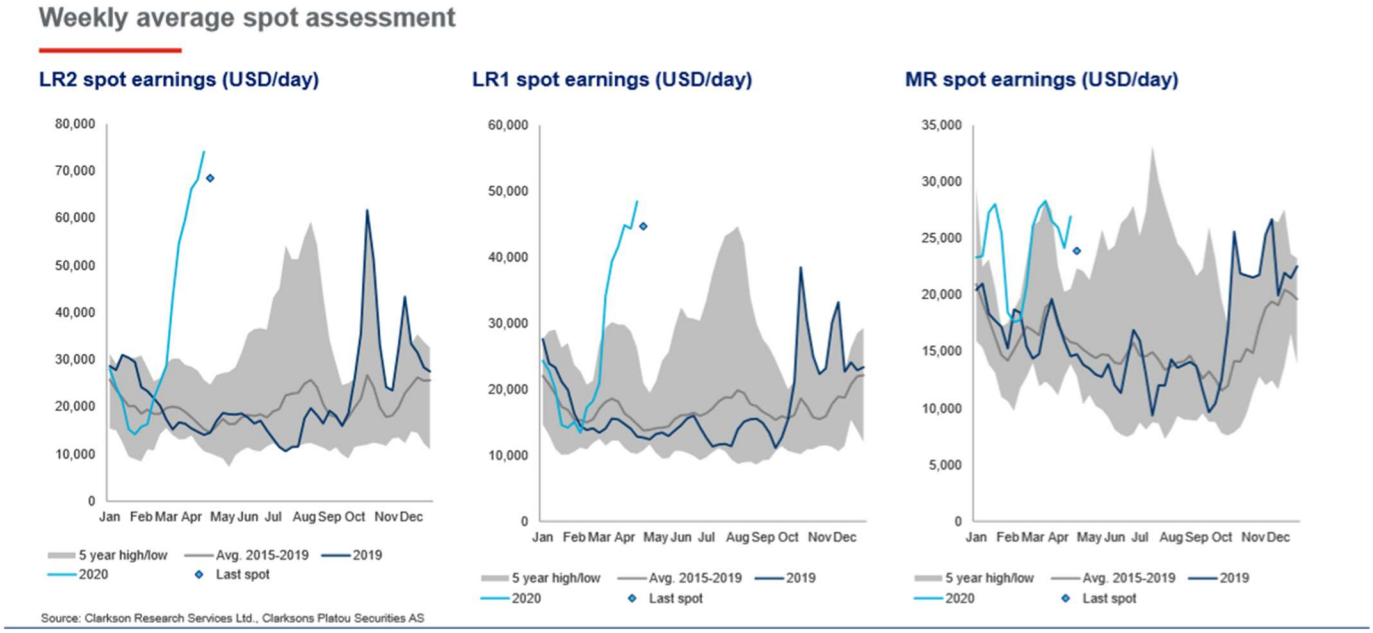
STNG provides seaborne transportation of refined petroleum products (gasoline, jet fuel, etc.). The company operates one of the largest and most modern fleets in the public markets. It is the world's largest owner of Long Range, or LR2 vessels (the largest product vessels), and with its recent purchase of 19 vessels from commodity trader Trafigura, is also the largest Medium Range (MR) player. Its 124-vessel fleet has an average age of 4.0 years, notably younger than the next three largest product tanker companies.

When I initially established a position in STNG, my biggest fear was a global recession. In a recession, it's not hard to envision how the dominoes would fall. A global recession would reduce refined product demand; lower refined product demand would sap utilization of the global tanker fleet; reduced utilization would result in declining rates and cash flow; and declining rates and cash flow would strain STNG's less-than-pristine balance sheet.

Right now, we're seeing a highly unusual set of circumstances. Despite being in a global recession, *seaborne product tanker rates are currently reaching record levels.* While refinery runs have been curtailed, the rapid and steep decline in product demand has resulted in significant oversupply. Tankers are increasingly being utilized for floating storage. In another positive for STNG, a significant number of the market's largest product vessels have moved into the so-called "dirty" trade (storing crude oil), further exacerbating the supply-demand mismatch.

Despite the market offering historic rates, shares recently traded as low as ~0.50x P/NAV and as of today, STNG still only garners a valuation of ~0.8x P/NAV. The last time rates were anywhere near current levels (2015), shares traded well north of 1.0x NAV, leading me to believe there remains additional upside. What's more, NAV itself should increase going forward on the heels of strengthening vessel values and strong cash generation, each being a function of the current rate backdrop.

Product Tanker Rates are At or Above Five-Year Highs



IAC (Long) and MATCH GROUP (Short)

IAC is a media and advertising conglomerate whose portfolio includes Vimeo, Dotdash, Care.com as well as majority ownership interests in both Match Group (which includes Tinder, Match, Plenty of Fish, and OkCupid) and ANGI Homeservices (which includes HomeAdvisor and Angie's List). For several decades, IAC has operated as a successful asset incubator. Previously owned companies that have been separated include Ticketmaster, Hotels.com, Expedia.com, LendingTree, Hotwire, and TripAdvisor.

The opportunity at hand is a special situation and represents the next chapter in the company's long history of creating shareholder value. In the coming months, IAC will fully separate Match Group by distributing its remaining holdings to existing IAC shareholders. The pertinent components of the separation plan are as follows: IAC shareholders will receive ~2.37 shares of "New Match" for each share of IAC that they currently own; IAC will transfer $1.7 billion of

existing debt to New Match; and New Match will pay a dividend of $3/share of cash consideration to IAC, resulting in the "New IAC" holding ~$2.3 billion of cash.

When all is said and done, IAC's remaining ownership interest in ANGI and its net cash position alone will equal $4.7 billion of net asset value, or $55.3 per share. This is without ascribing any value to Care.com, which IAC acquired earlier this year for ~$500 million, the $250 million investment it made in Turo (a peer-to-peer care sharing marketplace), or IAC's portfolio of other assets that, pre-coronavirus, were expected to generate $80 million of EBITDA in FY'20.

Comparatively, the market is currently valuing the New IAC "stub" at ~$31.6 per share, nearly half of conservatively calculated net asset value. *The proverbial dollar selling for fifty cents*. I synthetically created this "stub" buy purchasing IAC and selling short the pro-rata shares of New Match that the Partnership will receive when the separation is completed later this quarter. While I don't expect the price/value gap to close immediately or fully, the two should converge over time, providing the Partnership with a solid return.

	$MM
ANGI[1]	2,385.4
+ Cash[2]	2,300.0
+ Care.com	-
+ Turo Investment	-
+ IAC OpCos	-
- Debt	-
Implied Net Asset Value	**4,685.4**
IAC Shares Out	*84.8*
$/Share	*$55.28*
Current IAC Share Price	$221.24
- Implied New MTCH[3]	$189.67
Implied New IAC Stub	**$31.57**
Value Gap	**1.8x**

Source: Company filings and Steel City Capital estimates. Share prices as of April 22, 2020.
1. Reflects IAC's 84.1% ownership interest in ANGI.
2. Pro forma for the proposed separation of MTCH. Assumes all public MTCH shareholders elect to receive $3/share consideration in cash.
3. Assumes an exchange ratio of 2.37 shares of "New Match" per IAC share.

CARVANA (Short)

CVNA is a rapidly growing e-commerce platform for buying and selling used cars. The company is seeking to disrupt and improve the traditional used car buying experience by moving the entire process – trade in, vehicle selection, financing, purchase, and delivery – online. While the narrative is attractive and has garnered significant investor interest, a peek "beneath the hood" reveals a clunker that has destroyed a significant amount of capital and will likely struggle against the current macroeconomic backdrop.

Perhaps the best way to highlight the absurdity of CVNA's valuation is to compare it to CarMax (KMX), which is the largest used car retailer in the country. KMX is also one of the three largest participants in the highly concentrated wholesale auto auction market. Last year, KMX sold 832,640 used vehicles at retail, generating gross profit per retail vehicle of $2,724. Inclusive of wholesale operations and contributions from its financing portfolio, KMX generated gross profit per vehicle of $2,670. Deducting cash operating expenses of $1,251 per vehicle yields a cash profit of $1,419 per vehicle. Consolidated EBITDA was approximately $1.45 billion.

On a comparable basis, CVNA sold 177,549 vehicles at retail, a small fraction of KMX's volume. Gross profit per used retail vehicle – excluding financing – was $1,796. Inclusive of contributions from vehicles sold on a wholesale basis and financing, CVNA generated gross profit per vehicle of $2,329. Because of CVNA's significantly lower volume/lack of scale, cash operating expense was $3,276 per vehicle. CVNA *lost* $947 for each vehicle it sold last year. Consolidated EBITDA was *negative* $229 million.

Notwithstanding the massive divergence in unit economics and CVNA's persistently negative EBITDA, investors have bid up its equity to ~$13.7 billion, about 30% *more* than KMX.

	CVNA	KMX	Better / (Worse)
Retail Vehicles Sold	177,549	832,640	(655,091)
Total Vehicles Sold (incl. Wholesale units)	217,444	1,298,817	(1,081,373)
Gross Profit/Retail Vehicle[1]	$1,796	$2,724	($928)
Gross Profit/Total Vehicles	$2,329	$2,670	($341)
Cash OpEx/Total Vehicle[2]	$3,276	$1,251	($2,025)
Cash Profit/Total Vehicle	($947)	$1,419	($2,366)
EBITDA	($229) million	$1,454 million	($1,684) million
Enterprise Value[3]	$15.1 billion	$12.1 billion	$3.0 billion

Source: Company filings and Steel City Capital estimates. All figures reflect the most recent fiscal year.
1. Gross profit for the purpose of this calculation excludes a) gross profit contribution from wholesale vehicle sales and b) contributions from financing activities.
2. Cash OpEx excludes depreciation and amortization and stock based compensation.
3. KMX enterprise value excludes non-recourse debt instruments.

A key component of the bull case is that increasing unit volume will help CVNA to absorb its fixed costs, leading to improved profitability over time. On this point, I must concede the company has made steady progress. Prior to the coronavirus, I estimated an improvement in the company's cash loss per vehicle to "only" $500 in FY'20. With that said, I believe there are three pertinent questions investors must ask at the current juncture:

1. What impact will the current macroeconomic backdrop have on the company?
2. At what cost will the company reach profitability?
3. Given the answers to 1 & 2 above, is CVNA worthy of its current valuation?

The current macroeconomic backdrop is unquestionably bad for CVNA. Fewer car sales will hamper the absorption of fixed costs and impede the company's ability to narrow the loss it generates on each vehicle sale. Furthermore, used vehicles are piling up on lots across the country resulting in a large decline in used vehicle pricing. Manheim's used vehicle price index tumbled 11.8% in the first half of April, easily surpassing the 5.5% drop in November 2008 as the worst month on record. Lower prices will hurt CVNA's unit economics by crimping margins and reducing finance related fees (lower car prices = smaller initial loan balances).

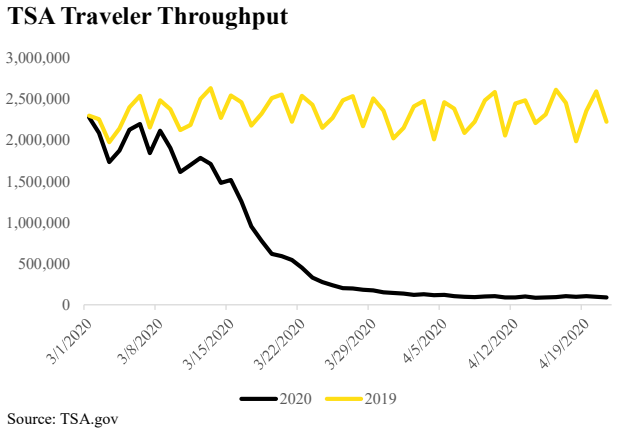
Prior to widespread stay-at-home orders, street estimates implied that CVNA would burn through $1 billion of cash from 2020 to 2022. This is *on top of* the $1.8 billion of negative free cash flow reported since the company's IPO in 2017. With the prospect of weaker than expected results at hand, logic suggests that CVNA's financing gap will exceed $1 billion over the next several years.

As for whether or not the answers to questions 1 & 2 are supportive of CVNA's current valuation, either on an absolute or relative basis, I'll be brief: No.

A final thought – while I believe CVNA is an attractive short based on the financial merits alone, questions have also been raised as to whether the company is relying on questionable related party transactions to prop up its finance revenue. On March 30th, the company disclosed the following via an 8-K filing: "*In addition, we have received a voluntary request from the SEC requesting information about our related party disclosure and accounting policies and procedures for historical loan sales and refinancings. We are providing relevant documentation in response to this request.*" This is something I am watching closely.

BOINGO WIRELESS (Short) and SP PLUS CORPORATION (Short)

With stay-at-home orders covering the vast majority of the country and most people respecting social distancing guidelines, sporting events have been cancelled, malls are closed, and airports are empty. Among the more incredible illustrations of the fallout I have seen is a year-over-year comparison of the number of travelers who have passed through TSA checkpoints since the beginning of March. *Overall traveler volumes are down a jaw-dropping 95%*! Even as stay-at-home orders are gradually lifted, it is highly likely that people will continue to avoid large, densely populated locations. This spells trouble for both Boingo Wireless (WIFI) and SP Plus Corporation (SP).



Source: TSA.gov

WIFI acquires long term wireless rights at large venues like airports, transportation hubs, stadiums, arenas, universities, convention centers, and office campuses; builds wireless networks at these venues; and monetizes them through a variety of products and services. The company is the largest operator of indoor "Distributed Antenna System" networks in the world.

I have long been critical of WIFI's preferred financial metric – EBITDA. As a brief refresher, the company includes non-cash revenue at a 100% margin in its EBITDA calculation. While the company reported ~$80 million of EBITDA in FY'19, nearly $70 million of it was tied to project build-out and non-recurring construction costs. Even the remaining $10 million of cash EBITDA was low quality as it included a $4.8 million contribution from non-recurring contract renegotiation fees and another $1 million benefit tied to a reduction in the fair value of acquisition-related contingent consideration. Accounting for all of the adjustments, true recurring cash EBITDA was more likely in the realm of $5 million. Management had previously announced a restructuring and cost cutting initiative that it forecast would save $11 million of cash costs annually, but even giving the company the benefit of the doubt for these savings, free cash flow would be fairly de minimis after accounting for $10-$12 million of maintenance capital expenditures. WIFI's current market capitalization is ~$575 million. What is a company that doesn't generate any free cash flow worth?

Making matters worse, a significant portion of WIFI's revenue is at risk due to stay-at-home orders. The largest bucket of WIFI's at-risk revenue is the company's Wholesale offering where carriers pay *usage-based* network access fees based on utilization by customers. Wholesale revenue comprised $44 million, or 22% of the company's recurring cash revenue in FY'19. Another $24 million of recurring cash revenue, or 12%, is tied to a combination of retail access where end-users pay to connect to the company's network (for example, a business traveler might pay to access the internet while waiting in the airport lounge) and advertising driven access (for example, a company might provide travelers free internet access after they user is exposed to a splash page with an advertisement). With fewer people visiting venues served by Boingo – airports, train stations, stadiums, etc. – all three of these revenue categories will be negatively impacted, straining the company's already weak cash flow.

SP Plus manages parking facilities, ground transportation, and ancillary services for airports, hotels, cruise lines, and similar customers across the country. The company offers service through two types of contracts: Lease and Management. In a Lease type contract, SP commits to pay a mostly fixed rental stream to the owner of a parking facility and in return collects all of the revenue and shoulders all of the expenses associated with the particular facility. SP bears most of the risk in this type of arrangement. In a Management type contract, the company receives a fixed rental stream from the owner of the parking facility and manages it on their behalf. The owner bears all of utilization risk and operating expenses, thereby reducing SP's risk exposure. About 20% of SP's gross profit is from Lease type contracts, with the balance coming from Management type.

There are several prospective pain points that I believe make SP a good short. For starters, approximately one-third of the company's FY'19 gross profit was tied to aviation related services. With air travel having all but evaporated, airport parking lots are effectively empty. Second, the company's Lease type contracts place a heavy fixed cost burden on the company. SP's 10-K shows ~$230 million of lease obligations in the current year. Despite Lease type

arrangements representing only 20% of the company's gross profit, any prospective decline in parking revenue will be magnified through this fixed cost. Third, SP's Management type contracts don't afford the company as much revenue security as some believe. Specifically, SP notes that its Management type contracts "are typically for a term of one to three years, *although the contracts may be terminated by the client, without cause, on 30-days' notice or less, giving clients regular opportunities to attempt to negotiate a reduction in fees of other allocated costs*." I'm going to go out on a limb and guess there's going to be a lot of Management type contracts cancelled and renegotiated in the coming year. Finally, the collection of issues highlighted above raise the possibility that the company runs up against its leverage covenant. Leverage was 3.0x at year end 2019 while the covenant currently sits at 3.75x, implying enough cushion for a potential decline in EBITDA of no more than 20%.

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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 of course available for any questions, comments, or concerns that you may have.

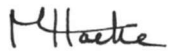
If you are an accredited investor who would like to learn more about becoming a partner, please reach out to me and we can arrange a time to have a more in-depth conversation. Please also know that even if an investment in the Partnership isn't for you, the highest compliment that you can pay me is an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

-Mike "The Situation" Sorrentino

Sincerely,



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

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Certain information contained in this document constitutes "forward-looking statements" which can be identified by use of forward-looking terminology such as "may," "will," "target," "should," "expect," "attempt," "anticipate," "project," "estimate," "intend," "seek," "continue," or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to the various risks and uncertainties, actual events or results in the actual performance of the Fund may differ materially from those reflected or contemplated in such forward-looking statements. The General Partner is the source for all graph and charts, unless otherwise noted.

Past Performance Is Not Indicative or a Guarantee of Future Results.