CEDAR CREEK PARTNERS, LLC

Managing Member – Tim Eriksen Eriksen Capital Management, LLC 567 Wildrose Cir., Lynden, WA 98264

January 14, 2020

Subject: Cedar Creek Partners 2019 Results

Dear Partner:

The US market experienced a strong fourth quarter in 2019. Most indices increased between 6% to 13% in the quarter. The fund performed in line with the Russell Micro Cap, and increased by 12.9% in the quarter, net of fees and expenses. For the year, the fund increased 34.5%, net of fees and expenses, which was surpassed the performance of all the indices we track against, except for the Nasdaq, which performed slightly better.[1]

$100,000 invested in the fund at inception in January 2006 would have grown to $514,856 as of December 31, 2019, net of fees and expenses, whereas $100,000 invested in the indexes we compare against would have only grown to between $226,985 in the Russell Micro Cap and $387,244 in the NASDAQ.

	Q4 '19	2019	Inception	Ave. Annual
Cedar Creek	**12.9%**	**34.5%**	**414.9%**	**12.5%**
NASDAQ	12.2%	35.2%	287.2%	10.2%
DJIA (DIA)	6.5%	25.0%	262.6%	9.7%
S&P 500 (SPY)	9.0%	31.2%	232.0%	9.0%
Russell 2000	9.9%	25.5%	185.0%	7.8%
Russell Micro Cap	13.4%	22.4%	127.0%	6.0%

* fund inception January 15, 2006. Index Returns as reported on Yahoo! Finance, Morningstar, Dow Jones and Russell.

Cash Levels and Fund Repositioning

We started the quarter with cash levels at 6% and ended the quarter at roughly 4%. We had a lot of activity in the quarter. We added nine new positions and closed out five positions. In addition, we had one short term purchase and sales during the quarter, **Schmitt Industries** (SMIT), where we made a quick gain of approximately 10%.

We closed out very tiny positions in **Orbit International** (ORBT), **Enterprise Diversified** (SYTE), **SunLink Health** (SSY) and **Seven Aces** (ACES.V). The one larger position that we closed out was **Liberated Syndication** (LSYN). Recent shareholder activism had resulted in a nice increase in the share price, and we determined that we had more attractive uses.

[1] While, no single index is directly comparable to Cedar Creek Partners, we believe that it is important to compare our performance to a passively managed approach. At the core of our investment philosophy is the belief that we can generate superior risk-adjusted returns by holding a more concentrated portfolio of under-valued securities, than an index holding a far greater number of securities. Index returns are calculated from information reported on Yahoo! Finance, Dow Jones, and Russell (see DISCLAIMER for more information).

Most of the proceeds from sales were used to increase our positions in existing holdings. We did find some attractive prices in community banks, which had not been the case for a number of years. In the quarter we purchased shares of **First National Nebraska** (FINN), **Alpine Bank** (ALPIB), and **Truxton Corp** (TRUX). None of the banks are large positions.

First National Nebraska is the largest position of our community banks at just over 2.5% of the fund. Its share price was $11,200 per share at the end of 2019. Earnings over the trailing twelve months were $1,164 per share. We have followed the bank for more than fifteen years, and occasionally owned it in the past. Alpine Bank, based in Colorado, closed the year at $4,950 per share. Trailing twelve month earnings for Alpine were $557 per share. Return on assets (ROA) was 1.6% and return on equity (ROE) was 18.8%, both excellent. Truxton is based in Nashville, Tennessee, is much smaller, with just over $500 million in assets. It generates significant non-interest income from its wealth management division. ROA is near 2%, while ROE is approximately 16%. Trailing earnings for the past year was $3.34, so it trades at a valuation of near 15 times earnings. Our position in Truxton is small and we are hoping for a price decline which would allow us to buy at a more attractive valuation.

Fund Holdings are at Attractive Prices

On the whole, the fund's holdings are trading at just over six times earnings net of cash at the respective businesses. At the start of the year, the ratio was only 4.7 which was the lowest level we can remember, other than possibly in March of 2009. Due to the fund's 35% increase year to date, and minor portfolio changes, the ratio is now about 6.3 which is still incredibly low. The current dividend yield is 4.9%.

Deep Value Holdings

A few of the fund's holdings we would classify as deep value. By that we mean selling below intrinsic value based more on the balance sheet than the current income. Of our top ten holdings, at least three would fit that definition. **Alimco Financial** (ALMC) ended the year with a bid price of $8.05 per share. We have signed an NDA with the company so we can only discuss what was public prior to that time. As of late 2018, Alimco had a book value of approximately $12.67 per share, consisting of mostly cash and investments. Alimco filed a Form D in late 2019 noting that they issued $20 million of equity. We assumed it was at a price near market, thus on a proforma basis we assume the company had about $60 million of equity (plus or minus any gains over the last year) and just over 5.5 million shares, or about $10.75 per share, plus or minus (which should be plus based on the market's increase). The company said they were going to be using the capital in a new business venture.

The controlling group at Alimco are seasoned value investors, led by Neil Subin, who are managing funds for the estate of the late Lloyd Miller III. Mr. Miller was an under the radar legend in small and unlisted companies. The board has a broad range of experience, so we are comfortable with them managing funds for the benefit of shareholders. While current earnings are minimal, we view an opportunity to be invested at approximately 25% below book value as attractive.

A second deep value holding is **HC2 Holdings** (HCHC) a company that is run by former hedge fund manager Philip Falcone. HC2 owns some attractive companies, including 91% of **DBM Global** (DBMG), which the fund also owns (discussed later in this letter). Unfortunately, Mr. Falcone is excessively paid, and has over levered the company. Shareholders are unhappy and seem ready to push for changes. In late September a shareholder survey was done, which revealed how strongly many shareholders want change.

When highly leveraged companies unlock value, the increase to shareholders can be substantial. In HC2's case, the market cap is just over $100 million, while total debt is over $800 million. Enterprise value (excluding cash, which is mostly restricted) is thus approximately $900 million. Therefore a 10% increase in value, or $90 million would nearly double the value of the common equity, and a 20% increase would nearly triple the value of the equity. Book value of equity is over $400 million, so it is certainly possible. Of course, leverage can work against the investor in a powerful way, but at just <u>30% of book value</u> we are willing to take that risk.

The third deep value holding is **Western Capital Resources** (WCRS). Western Capital is a holding company with some profitable businesses. It finished the year with a bid price of $4.17 per share (up from $3.42 per share at the end of 2018, plus we received $0.20 per share in dividends). As of its most recent report the Company had $3.95 per share in cash and no debt, and was scheduled to receive another $0.35 per share in cash near the end of 2019 from escrow proceeds related to the sale of its Alpha Graphics business a few years ago. Book value per share of $6.76 was significantly higher than the share price. The company owns Cricket wireless franchises, direct to consumer seeds and plants (Park Seed, Jackson & Perkins, and Wayside Gardens), and a few consumer finance stores (i.e., pawn shops). The dividend yield is just under 5%.

Another stock that could fit under deep value, would be **JG Boswell** (BWEL). We profiled Boswell in our third quarter letter. Boswell engages in the production, processing and marketing of agricultural commodities, primarily cotton, cotton seed, tomatoes, alfalfa, grains, and more recently orchards in the Central Valley of California and Australia. The stock trades for just over $600 per share, with about one million shares outstanding. Total land holdings are estimated at 285,000 acres between Australia and California. Book value is $527 per share, but we believe intrinsic value is far greater. The Company recently agreed to sell part of its Australian operations, Auscott Midkin, for what is believed to be around $200 million. The sale is believed to be for just 42,000 of their acres and 2 or 3 of their 11 cotton gins in Australia. The remaining Australian operations are believed to be of similar quality. Their California land and water rights are also exceptional. In addition, they own 46% of a joint venture with Corteva (CTVA), Boswell's share is probably worth more than $100 million. We do not expect any liquidation of the company but do believe they will do a better job of showing that intrinsic value is increasing. Boswell pays a modest dividend of $15 per share, equating to a yield of 2.5%. Eventually we expect Boswell to be able to monetize some of its massive water rights in California. Since the demand for water and the value of water rights continues to grow we are in no hurry.

Our Bread and Butter

The fund has primarily focused on finding small companies selling at a discount to our estimate of their intrinsic value. Typically, these are companies with modest growth and a low price to earnings valuation (or high free cash flow yield). Like the deep value companies noted above, they are rarely well-known companies. Most trade over the counter because they are too small or too illiquid for being listed on an exchange.

		12/31/19	12/31/18	Dividends	EPS	PE	FCF Yield
DBM Global	DBMG	$ 58.00	$ 45.00	$ 7.31	$ 8.00	7.3	13.8%
Diamond Hill	DHIL	$ 140.46	$ 149.45	$ 9.00	$ 15.75	8.9	11.2%
Beaver Coal	BVERS	$ 1,400.00	$ 1,100.00	$ 220.00	$ 225.00	6.2	16.1%

DBM Global (DBMG) finished the year with a bid price of $58 per share, up from $45 per share at the end of 2018. In addition, we received $7.31 per share in dividends. The stock is highly illiquid and 92% owned by HC2 Holdings (see above). Earnings are estimated at around $8 per share. Price to earnings ratio of just over 7, and free cash flow yield of 13%. Due to HC2's high leverage they need DBM to pay dividends, so we expect irregular dividends to continue. A class action was filed against DBM related to HC2's tender offer for DBM shares at $31.50 per share back in 2014. A number of interesting items were found during discovery, such as a third party offering $98 per share for the whole company in 2016, HC2 selling shares to insurance subsidiary at $132 per share in 2018, and numerous independent third party valuations ranging from $68 to roughly $132 per share over the last five years. We believe HC2 wants to get rid of the minority shareholders but wants to pay as little as possible to do it. Since shareholders of a Delaware corporation have appraisal rights, HC2 is probably not going to go that route since it would likely mean paying around $130 per share. Conversely, most remaining shareholders are not interested in a low ball offer. Hopefully some resolution will occur in the next year once the class action suit is settled.[2]

Diamond Hill (DHIL) has been a holding off an on for most of the fund's history. Diamond Hill is an asset manager to mutual funds. As of December 2019, the Company had assets under management of just under $23.4 billion. The share price closed the year at just over $140 per share. The company pays an annual dividend, which last year was $9 per share, which is equal to a 6.4% yield. The company is debt free, with roughly $60 per share in cash and investments. Annualized earnings are running at around $16 per share. Price to earnings ratio of under 9, and free cash flow yield over 11%. Due to the cash heavy balance sheet, the company is trading at about <u>five times earnings net of cash</u>, which is ridiculously cheap.

Beaver Coal (BVERS) is a publicly traded limited partnership. It is illiquid, and trades on the pink sheets. There are only 24,878 units outstanding and the current bid is $1,400 and the ask is $1,440. <u>Distributions in 2019 were $220 per unit, or nearly 16%</u>. It is not unusual for it to go weeks at a time without trading. Beaver Coal was founded in 1889 by Anthony Drexel (a banker who founded Drexel University), Logan Bullitt, and the legendary J.P. Morgan, when they set out to purchase 50,000 acres of land in West Virginia. Today, Beaver Coal still owns most of that land, from which it receives coal, timber and oil/gas royalties, along with rental income from property, including a storage facility. The royalty model is incredibly attractive. It is capital light, lower risk, and results in low overhead and high gross margins.

Coal royalties are the largest revenue component, which we recognize carries political risk and company risk. The coal on Beaver Coal's land is primarily metallurgical coal (used for making steel) and not thermal coal (used in power generation). This means there is not an easy substitute, and that it is more profitable for the producers since met coal has typically traded at two to three times the price of thermal coal even though mining costs are only modestly higher. Beaver Coal has two mines currently producing - The Pocahontas Seam No. 3 (Beckley mine) leased by Arch Coal, and the Affinity mine leased by Metinvest, a Ukrainian company. Both mines began production in recent years. Arch Coal's filings report reserves equal to approximately twenty-five years of production for the Beckley mine. A third mine is currently inactive but may start production in the next year or so. Of course, eventually the coal will be depleted, however, by then the company will have earned substantial sums, and will still have pristine lands, with timber and real estate income, and possibly still oil and gas.

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[2] We believe there is room for a compromise that can result in a reasonable price paid by DBM/HC2, reasonable value for current DBM shareholders, and an allocation of some of the proceeds to attorneys. We don't believe the proposed offer in November 2019 by DBM is adequate.

Solitron Devices (SODI), where I am also the CEO, increased 60% in 2019, after a brutal 2018. The transformation of the company under COO Mark Matson is bearing fruit. Bookings were up 100% in the first half of fiscal 2020 (period ending August 31, 2019) versus the prior year. Sales increased only 17%, so backlog is up significantly. Fiscal third quarter results will be released in a few days. During the quarter Solitron announced that it had retained an auditor for fiscal 2019 and 2020. The fund, and myself personally, continued to buy shares during the year during open transaction windows.

Room for New Members and/or Additional Funds

We continue to have more attractive ideas than capital. Thus, there is plenty of room for existing partners to increase their investment and for others to join. Please consider referring friends of yours who may be potential new investors. The basic requirements are 1) that each invests a minimum of $100,000 and 2) that new members are accredited (high net worth) individuals. Subsequent investments must be for a minimum of $10,000.

If this letter was passed on to you and you would like to be added to our monthly distribution list, please email me at the email address below. Should you have any questions regarding the fund, please don't hesitate to call or email.

Sincerely,

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DISCLAIMERS

Fund Performance

The financial performance figures for 2019 presented in this report are un-audited estimates based on the best information available at the time of the letter, and are subject to subsequent revision by the Fund's auditors. Past performance may not be indicative of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.

Net Return reflects the experience of an investor who came into the Fund on inception and did not add to or withdraw from the Fund through the end of the most recently reported period. The reported net return figures will therefore include the impact of high water marks in the cumulative return. Individual investor returns will vary depending upon the timing of their investment, the effects of additions and withdrawals from their capital account, and each individual's high water mark figure, if any.

Index Returns

The S&P500 Index returns are reported using the S&P500 Depository Receipt Trust (SPDR) which trades under the ticker symbol SPY. Reinvested dividends are included in these figures. A spreadsheet showing the SPY performance versus the fund since inception is available upon request.

Nasdaq performance excludes dividends, which historically have been immaterial to the total return of that index. In recent years more technology stocks have begun paying dividends thus the inclusion of dividends would increase the reported figures.

Russell 2000 performance is from data reported on Russell's website, and includes reinvested dividends.

DJIA returns are reported using the SPDR Dow Jones Industrial Average which trades under the ticker symbol DIA. Reinvested dividends are included in these figures. A spreadsheet showing the DIA performance versus the fund since inception is available upon request.

While reported returns for SPY and DIA will likely be a few tenths of a percentage lower than the representative index annually, we believe they are a better reflection of what a non-institutional investor would earn following a passive investment approach.

Index returns are provided as a convenience to the reader only. The Fund's returns are likely to differ substantially from that of any index, and there can be no assurance that the Fund will achieve results that are superior to such indices.

Share Prices

Share price figures for listed stocks are from Yahoo! Finance and unless specified otherwise are the closing price as of the previous month end. Share price figures for unlisted stocks are closing bid prices as reported on otcmarkets.com.

Forward Looking Statements

This letter and the accompanying discussion include forward-looking statements. All statements that are not historical facts are forward-looking statements, including any statements that relate to future market conditions, results, operations, strategies or other future conditions or developments and any statements regarding objectives, opportunities, positioning or prospects. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements are not a promise or guaranty about future events.