CEDAR CREEK PARTNERS, LLC

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

April 15, 2020

Subject: Cedar Creek Partners First Quarter 2020 Results

Dear Partner:

First and foremost, we hope you, your families, and your friends are well, particularly our partners and friends in the New York City area. While we should care about our investments, they are never more important than people. What we, as a nation, and world, are currently going through is unlike anything most of us have ever experienced. If any had experienced it before, we are sure they prayed to never experience it again. Yet as bad as this has been, when we stop and reflect, we still have much to be thankful for.[1]

As we are all aware, world markets and economies were pummeled in the first quarter due to the spread of the coronavirus. Major US market indices fell between 14 and 30% during the quarter. The fund was not immune from the selloff, and declined by 17.6% in the quarter, net of fees and expenses.[2]

In order to combat the virus, most state governments enacted stay-at-home orders and mandated the closure of non-essential businesses. In hopes of reducing the economic damage of the closures, the federal government has responded aggressively with interest rate cuts by the Fed and massive stimulus packages. So far, markets have stabilized, and more importantly, it seems progress is being made towards “flattening the curve” which hopefully will lead to stopping the spread of, and ultimately stamping out the virus, resulting in a return to normalcy.

	Q1 ‘20	Inception	Ave. Annual
Cedar Creek	**-17.6%**	**324.0%**	**10.7%**
NASDAQ	-14.2%	232.3%	8.8%
DJIA (DIA)	-22.6%	180.6%	7.5%
S&P 500 (SPY)	-19.4%	167.5%	7.2%
Russell 2000	-30.6%	97.8%	4.9%
Russell Micro Cap	-32.0%	54.4%	3.1%

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

$100,000 invested in the fund at inception in January 2006 would have grown to $424,049 as of March 31, 2020, net of fees and expenses, whereas $100,000 invested in the indexes we compare against would have only grown to between $154,380 in the Russell Micro Cap and $332,325 in the NASDAQ.

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[1] While the World War 2 generation is often called the greatest generation, recent events have caused us to reflect on the prior generation that endured World War 1 and the Spanish flu simultaneously.

[2] 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).

Fund Holdings are at Incredibly Attractive Prices

On the whole, the fund's holdings are trading at 4.3 times earnings net of cash at the respective businesses. At the start of the year, the ratio was 6.3. The level as of March 31, 2020 was the lowest level we can remember, other than possibly in December 2008. Weighted price to book is 0.8.

Cash Levels and Fund Repositioning

We started the quarter with cash levels at 4% and ended the quarter at nearly 6%. We had a lot of activity in the quarter. As events worsened, we sold what was cheap in order to buy what was cheaper. We sold bank stocks that we felt were at risk of loan issues significantly damaging their balance sheets and earnings power. We also sold a few of our net-net stocks that had held up well and moved the proceeds to stocks that we believed had been excessively punished. At the same time, it allowed the fund to capture some short-term capital gains losses which is beneficial for tax purposes. Surprisingly, the market roared back, posting some of its best gains ever, while at the same time unemployment numbers were posting some of the biggest increases ever. If you had ever doubted that the stock market was forwarding looking, recent price action should have eliminated that doubt.

We added five new positions – **Alloy Steel** (AYSI), **Big Lots** (BIG), **Propel Media** (PROM), **Saker Aviation** (SKAS), and **Schmitt Industries** (SMIT). Other than Big Lots, the others are sub $50 million market caps. All were less than 2% in size at quarter end. The most interesting new addition is Propel Media. The stock trades over the counter. It deregistered with the SEC in the fall of 2018. The company does not report quarterly results. Annual results are posted at https://www.propelmedia.com/company/investor/. The share price bounces between $0.08 and $0.12 per share. Not the range we usually look at. Earnings in 2018, that last available year, were $23 million, or $0.09 per share based on 250 million shares outstanding. Thus, the company is trading for roughly one times earnings.

in 000's	2016	2017	2018
Revenues	61,226	88,667	82,019
Cost of Revenues	21,710	32,800	21,484
Gross Profit	39,516	55,867	60,535
Operating Expenses	22,849	25,975	31,063
Operating Income	16,667	29,892	29,472
Interest Expense	(12,311)	(12,216)	(8,027)
Gain on Debt Ext	106	-	6,861
Other Income	16	106	83
Total Other	(12,189)	(12,110)	(1,083)
Income Before Tax	4,478	17,782	28,389
Taxes	(3,897)	(18,145)	(5,170)
Net Income	581	(363)	23,219

2017 results include non-cash tax charges

Propel could generate a nice return for the fund if it sustains operating income close to the $29 million earned in 2017 and 2018. The company has used earnings to pay down debt from $72 million at the end of 2016 to $46 million at the end of 2018. If 2019 earnings were close to 2018 levels, Propel could have reduced 2018 year end debt by almost half. That would also reduce interest expense significantly, helping future earnings. If it traded at, or was sold for, ten times earnings it would be a nearly 10x gain for the fund. Of course, the business could have weakened and could enter into rapid decline. Surprisingly, one of the large shareholders is Jon Ledecky, who is the majority owner of the NHL New York Islanders. I know little about him, but most major sports franchise owners do not get caught up in overly shady business companies. We have currently sized the position at 1.5% of the fund.

Big Lots

Big Lots (BIG) is a discount retailer in the United States. It sells a wide variety of merchandise from food to furniture targeting middle and lower income consumers. They currently operate 1,400 stores. Like most retailers, the majority of their earnings are in the Christmas quarter; yet, historically Big Lots has been profitable in the other quarters as well. Revenue and earnings (adjusted for unusual items) have been fairly flat in the last few years. With 39 million shares outstanding, the market cap based on the current $18.20 share price is just over $700 million. At the end of March the share price was $14.22. Our average cost was $14 per share. In early April, Big Lots announced the sale and leaseback of four distribution centers for $725 million. Net of taxes the company expects proceeds of $550 million. Half of the proceeds will be used to pay off Big Lots debt, leaving roughly $270 million, or almost $7 per share of cash.

Prior to the outbreak of the coronavirus, Big Lots was projecting earnings of $3.20 to $3.40 per share. The sale and leaseback will reduce that by roughly $0.40 per share due to increased lease costs, partially offset by lower depreciation. In March, the previous guidance was withdrawn due to the virus. Big Lots did announce that sales were up single digits versus the prior year, but costs were also higher due to higher wages and store cleaning costs. That sales are up in this environment is encouraging.

Big Lots pays a $0.30 quarterly dividend, resulting in a nice yield over 6.5%. The yield was 8.5% of our original purchase price. There is an activist campaign led by Ancora Advisors and Marcellum Advisors that pushed for the sale and leaseback. Combined they own 11.5% of Big Lots and are seeking to replace the Board in the belief that the company can do much better than it has in recent years. According to the activists, Big Lots has over $425 million of other real estate that could be similarly monetized. If so, combined with the cash from the distribution center sale and lease back, it would nearly equal the current share price.

Diamond Hill Investment Group

We significantly increased our position in **Diamond Hill Investment Group** (DHIL) in March. It has been in and out of the portfolio since our inception in 2006. We do not recall it ever being this cheap. In the early years it was trading at a modest price to earnings multiple in relation to its high growth rate. Today growth has stalled as value-based active asset managers are out of favor on every aspect – meaning asset management is out of favor as an industry, active management is out of favor versus passive as an approach, and value is out of favor versus growth as a strategy. The end result is that the stock declined sharply starting in late February. For most of the past year the stock had been range bound between $130 and $150 per share. Even then it was cheap in relation to earnings, net of cash. DHIL had been earning around $16 per share annually, had $60 per share in net cash, and in December paid a $9 dividend (6-7% yield). The fund owned a modest amount.

During the selloff the stock declined to as low as $85 per share. We added at an average price of $90 per share. With the market decline, DHIL's assets under management (AUM) declined from $23.4 billion at the end of 2019 to $17.5 billion on March 31, 2020. This is not surprising based on the S&P 500 declining approximately 20% in the quarter. Diamond Hill still has around $60 per share in net cash, and at $17.5 billion of AUM would still be expected to have annual earnings of roughly $12 per share. The fund was essentially buying at just over two times earnings net of cash. The cash provided good downside protection. Projected dividend yield was 10%. Insiders were buying shares. The Company was buying back shares. While the March quarter will be rough due to mark to market losses on some of its investments, we were thrilled to buy shares at a such a cheap valuation. Other than lack of revenue growth it checks most all of the boxes we look for.

In gross dollar terms, which some investors prefer, Diamond Hill was valued at just under $300 million by the market. Cash and Securities were roughly $200 million once adjustments for deferred compensation are made. We estimate annualized pre-tax operating earnings based on current AUM levels to be just under $45 million. That is absurdly cheap. If we had a billion dollars, we would gladly buy the whole business if we could.

DBM Global and HC2 Holdings

DBM Global (DBMG) is one of the fund's largest holdings. It is extremely illiquid. In other words, it doesn't trade often. There has only been one trade since February 10. It was on March 9 for $70 per share. We know who most of the shareholders are, and they are very long-term oriented. As you may recall, the fund values unlisted stocks at the most recent bid price, not the last trade. The bid prices at each month end were: December 31, 2019 = $58.00. January 31, 2020 = $64.25. February 29, 2020 = $75.00. March 31, 2020 = $48.50. Marking the position to the most recent bid had a large impact on results for the month of March and the quarter.

DBM Global is 92% owned by HC2 Holdings (another holding in the fund). 2019 earnings were around $8 per share. In 2019, we received $7.31 per share in dividends. Due to HC2's high leverage they need DBM to pay dividends, so we expect irregular dividends to continue. Book value for DBM is roughly $50 per share. As we noted in our 2019 yearend letter, "A class action was filed against DBM (and HC2) 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 (2020) once the class action suit is settled." We would have to add once the virus impact is lessened as well.

During the quarter, on February 10, HC2 announced that they had retained Jeffries & Co. to explore strategic options for DBM, including a possible sale. The virus outbreak has undoubtedly slowed the process significantly, and likely dampened enthusiasm. If the offers are not to HC2's liking, they can always wait until a future date. Our thesis is not tied to a sale. Assuming the virus is contained, we will do well either way. Of course, we prefer a sale at a high price. Who wouldn't?

As we noted, **HC2 Holdings** (HCHC), owns 92% of DBM Global. It owns other companies in construction, marine services, energy, telecommunications, insurance, broadcasting, and life sciences. The company is run by former hedge fund manager Philip Falcone. Unfortunately, Mr. Falcone is excessively paid, and has over levered the company. Shareholders are unhappy. In September 2019 we participated in commissioning a shareholder survey which revealed how strongly many shareholders want change. In January of 2020 MG Capital announced a proxy campaign to replace the Board and CEO. Due to the activist campaign and then the virus outbreak the stock was quite a ride during the quarter. It started the year at $2.20 per share, peaked on February 12 at $4.27, and closed the quarter at $1.55 per share. So far it has climbed 50% in April, to $2.29 per share currently.

When highly leveraged companies unlock value, the increase to shareholders can be substantial. In HC2's case, the market cap as of March 31 was just under $75 million, while total debt is over $700 million. Enterprise value (excluding cash, which is mostly restricted) is thus approximately $775 million. Therefore a 10% increase in value, or $78 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, which explains in part why the stock price has been so volatile.

A sale of part of the Marine Services group has already closed. A second part is supposed to close soon, but may be delayed, or cancelled due to the coronavirus. The Insurance sub is for sale and was deep in negotiations when the virus broke out. As we noted above, strategic options were being considered for DBM Global.

The activists are pushing for a different approach. They not only want to replace the Board but seem focused on retaining the Insurance sub and DBM Global, both profitable, while selling off the Broadcasting, Energy, and Life Sciences holdings, which are all currently unprofitable, in order to reduce debt. The activists believe their plan could result in a valuation of more than $9.00 per share. We think that is entirely possible if valuations return to pre-Covid levels. We think changing the Board and management would have a significantly positive impact on the share price. Even if the activists lose, management is on the hot seat and has to de-lever the balance sheet and improve shareholder returns.

Update on Portfolio Companies

Solitron Devices (SODI), where I am the CEO, declined 16% in the quarter from $2.65 per share to $2.23. There were insider purchases ranging from $2.90 to $3.20 per share in the first half of the quarter when there was an open window for insider transactions. On March 26 Solitron issued a press release reporting fiscal 2020 fourth quarter and year end revenue, bookings and cash levels. In addition, Solitron provided an update on the impact of the coronavirus and fiscal 2021 expectations. As an essential business, Solitron expects to suffer minimal impact. For fiscal 2021 Solitron noted that it expected revenue to be approximately $10.5 million, which would be an increase of 14% over fiscal 2020; net bookings of $10 million, which would be a decrease from fiscal 2020's $11.2 million; and a meaningful improvement in net income.

P10 Holdings (PIOE) is an alternative asset management firm. Private equity firms are different in that the funds are generally locked up for a long period of time. In P10's case, typically for ten years with management fees being a fixed percentage of contributed capital. Our cost basis is just over $1 per share, with most of the shares purchased in the summer of 2018. During the quarter the bid price increased from $1.33 to $1.68 per share. We have a high regard for the management team of Robert Alpert and Clark Webb. P10 owns RCP Advisors a private equity fund-of-funds and intends to acquire additional firms in the future. At the end of 2019, RCP had $6.7 billion of assets under management. On January 16 they announced the purchase of Five Points Capital. Five Points has assets under management of $1.5 billion. The deal is creatively structured and implies an intrinsic value for P10 of $3 per share. In the annual report letter, management noted one-time costs in the fourth quarter due to a $250 million proposed transaction that was not consummated. While the deal wasn't done, it shows that management is thinking big, which we like.

Due to the requirements under US accounting rules, much of the purchase price of P10's acquisitions are required to be amortized on the income statement. This results in much lower reported earnings than the true cash earnings of the business. Under GAAP, the company reported $0.13 per share in net income for 2019, with much of being non-cash tax benefit. What we focus on is free cash flow. We calculate 2019 cash flow of $0.19 per share versus $0.14 in 2018. The Five Points transaction should increase both reported earnings and cash flow in 2020. The company is willing to use heavy levels of debt in transactions, which we think is appropriate based on current interest rates and the nature of the businesses they are acquiring. They have steady revenue streams that are fairly locked into place for the next 5-10 years.

Tax Information and K-1's

Investor K-1's have not been issued as of yet. We are still waiting on K-1 information from one of our investments, Beaver Coal (BVERS). As soon as we receive that information, the fund's accountants will complete the K-1's and we will distribute them. As a reminder, due to the virus, the tax filing deadline has been extended from April 15 to July 15 this year.

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 and 2020 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.