FOR IMMEDIATE RELEASE

DOMO Capital First Half 2019 Update

Germantown, WI – July 31, 2019

DOMO Capital expects dedication to investment philosophy, discipline, and process will lead to a strong recovery in performance during the second half of 2019.

Summary

The Concentrated All Cap Value composite significantly underperformed the S&P 500 during the first half of 2019, for two reasons. The catalysts we were (and are) expecting did not happen, and the continued lack of clarity was severely punished, we think due to the overall market environment. We have never faced a situation where value stocks were so much out of favor and there was a complete lack of company specific events for multiple holdings all at once. This is painful for us and we know for you too.

In the past, we have had several stocks (Nokia and Bausch Health Companies come immediately to mind) fall significantly after we purchased them. For example, we first started buying Nokia for the composite at $5.02 in March of 2012 before purchasing more at $3.74 and $2.83 in April and May of 2012. By July, Nokia had fallen below $2 a share. Were we frustrated? Absolutely! The stock would have to rise nearly 200% just to break-even from our original purchase price at $5.02. However, our purchase was based on a thorough evaluation of Nokia's assets, which included extremely valuable patents, mapping assets, and a phone division that we believed could and would be sold. By October of 2013, we finally began to sell out of our Nokia position at $7.15, nearly 50% higher than our initial purchase price and nearly 300% higher from the lows just one year earlier. It turned out to be one of our best investments due to our ability to continue to purchase shares as the price fell.

Another example is Bausch Health Companies, called Valeant when we first purchased it in January of 2017 at $14.18 (it is still a large holding for us). By April of last year, Bausch Health had fallen to $9.71 a share and we bought more. It eventually fell to $8.51 in mid-April, but, late in the year, we sold a small portion of Bausch Health shares at $26.60. Since then, several analysts have issued price targets over $40.

Our worst performing stocks (GameStop, Rite Aid, and United Natural Foods), while very different businesses, have one thing in common (as was true for Nokia and Bausch Health too). They each have extremely valuable assets that can be sold to unlock enormous shareholder value. Neither Nokia nor Bausch Health started to recover until they began selling assets. Even though market participants likely understood that asset sales would result in significant appreciation of shares, the uncertainty of the situation allowed short sellers to continue to drive the stocks lower until the actual company specific event occurred. GameStop, Rite Aid, and United Natural Foods are each being heavily shorted. If the market's concerns for Bausch Health or Nokia in prior years were playing out in the current market environment, it is likely that the price of the shares would have fallen well below $8.5 and $2, even though the actual value of Bausch's and Nokia's assets would have been unchanged.

The point is that it is extraordinarily difficult to predict market sentiment, but short-term sentiment is often unreliable as an accurate measure of a business's true worth.

Fast forward to today. We believe that Rite Aid, GameStop, and United Natural Foods will follow the same path as Nokia and Bausch Health. In a different market environment, the volatility of these investments might have been considerably less, but it doesn't change our analysis of what we believe these businesses are worth as the necessary catalysts take effect, providing the clarity the market is seeking. And, as we're about to note, we believe market sentiment towards value stocks is about to shift. The shift in overall market sentiment towards

value names combined with the company specific catalysts we expect to occur will eventually result in a significant re-pricing of these stocks similar to what happened with Nokia and Bausch.

Despite the S&P 500 hitting record highs, there is a large portion of the market that has still not recovered from 2018's sell-off. This is most apparent by looking back at the performance of the stock market since the end of August, 2018.

While the S&P 500 (500 of the largest public companies in America) is up approximately 3% from this date, the Russell 2000 (smallest 2000 public companies in America) is down over 10%. The value stocks within the Russell 2000 have performed even worse, down approximately 12%. The reason for this is because there has been a sustained concern that at any point the economy could completely collapse. A big driver of this fear has been the global uncertainties stemming from the trade policies of the current administration which we continue to believe will be resolved in 2019.

A recent article on CNBC highlighted the disparity between value stocks and the rest of the market: "Goldman Sachs recently stated that value stocks are set to come back into favor: The valuation gap between expensive and cheap stocks is now the widest in nine years, which has historically foreshadowed strong performance for value names, according to Goldman's chief U.S. equity strategist, David Kostin.

"A wide distribution of price-to-earnings multiples has historically presaged strong value returns," Kostin said, "However, a rotation into value stocks would require a sustained improvement in investor economic growth expectations, potentially driven by global monetary policy easing."

The comments made by Goldman Sach's chief U.S. equity strategist came just one week after CNBC also wrote an article covering J.P. Morgan's U.S. head U.S. equity strategist: "Additionally, Dubravko Lakos, head of U.S. equity strategy at J.P. Morgan recently told CNBC, "We're seeing a pretty massive gap that opened up between growth, low vol, high momentum stocks relative to value."

But the tide could start to turn slowly for value stocks as easier monetary policy from the Federal Reserve would give a boost to growth expectations. The central bank signaled at its last policy meeting that a rate cut is on the horizon.

"The two most recent episodes of value stock outperformance were during the 'reflationary' period of 2H 2016 and ahead of the passage of the corporate tax reform law during late 2017. Both of these periods were characterized by a surge in investor economic growth expectations," Kostin said.

JP Morgan tracks value through a basket of 100 stocks picked for their low price-to-book value, price-to-earnings ratio, and price-to-sales ratio, among other indicators. ***According to Lakos, this collection of stocks is trading at their cheapest valuations ever and at their largest discount to the market in decades.***

"Value is now trading at about seven times discount versus the market. Last time we saw it was basically year 2000 at the peak of the technology growth bubble," he said. "You're seeing a lot of these correlations also between value stocks and the flipside, momentum, hitting extreme negatives. So, you have basically a situation that we think is ripe for potential rotation."

Before an even bigger rotation rally into value occurs, Lakos needs to see two things. “One potential catalyst is … the Fed that basically embarks on some potential rate cuts which is part of our house view going into the second [half of the] year,” said Lakos."

Any resolution in ongoing trade talks that have rattled markets this year would also give rise to the value trade, he added. In a separate phone call with CNBC’s “Trading Nation,” Lakos said those two catalysts could give his value basket an average 20% to 30% spike within three months.”

We are confident in each company and our portfolio as a whole, and are confident that it will fully recover.

About DOMO Capital Management, LLC

DOMO Capital Management, LLC (“DOMO”) is a Wisconsin-registered investment advisor, founded in 2007 by Justin Dopierala and headquartered in Germantown, Wisconsin. DOMO is the portfolio manager of the DOMO Concentrated All Cap Value composite – a composite of separately managed accounts utilizing the DOMO Concentrated All Cap Value strategy with an inception date of October 8, 2008. DOMO firmly believes that investing in a concentrated portfolio of securities through a bottom-up methodology, focused on undervalued and out of favor stocks with solid fundamentals, leads to a repeatable process to provide superior, risk-adjusted returns over the long-term.

Disclaimer

Additional information about DOMO is disclosed in our Form ADV, which is available upon request. All information contained herein is for general informational purposes only and does not constitute a solicitation or an offer to provide investment advisory services in any jurisdiction. The investment strategy discussed herein may not be suitable for everyone. Investors need to review an investment strategy for their own particular situation before making any investment decision. We believe any information obtained from any third-party resources to be reliable, but we do not guarantee its accuracy, timeliness or completeness. Any opinions, estimates, projections, comments on financial market trends and other information contained herein constitute our judgment and are as of the date of the material, are subject to change without notice at any time in reaction to shifting market conditions and other factors and should not be construed as personalized investment advice. DOMO has no obligation to provide any updates or changes to such information. Past performance is not indicative of future results. It should not be assumed that investments made in the future will be profitable or will equal any performance represented herein. The benchmark index reflected herein, the S&P 500 Total Return Index, is a capitalization-weighted index of 500 stocks from a broad range of industries. The benchmark index is shown for comparative purposes only. Investors cannot invest directly in an index. Any references to specific securities is intended to illustrate our investment style, should not be viewed as representative of an entire portfolio, and does not constitute, and should not be construed as, a recommendation to buy or sell specific securities.

###