January 1, 2019

2018 Annual Shareholder Letter

Wiedower Capital is focused on high-quality companies and CEOs that have industry tailwinds behind them and long runways for growth ahead of them. Research is focused on how an industry may evolve over the next 5-10+ years and if a company's competitive advantage can expand within that evolution. Qualitative factors are emphasized over quantitative, and the portfolio is concentrated with long holding periods. See Appendix 1 for a summary of Wiedower Capital's investment philosophy.

Referencing the above paragraph, I think the phrase "high-quality companies" isn't completely clear. Most investors probably have a decent idea of what this refers to, but I want to clarify what I mean when I say I focus on high-quality companies.

Part of how I define a high-quality business is how safe I think it is—starting with the balance sheet. Of the seven companies we currently own, six have more cash on their balance sheet than debt. Moving onto the income and cash flow statements, six of the seven companies we own are profitable. The one exception has a profitable core business, but its international expansion is currently costing them money. Nonetheless, they have a clear path to profitability over the next couple years. In addition, every company we own is growing revenue, has a long runway for growth, and is one of the leaders in their respective industries.

A couple other factors I consider when thinking about riskiness of an investment are customer concentration and economic sensitivity. I have witnessed firsthand how a business can crumble literally overnight when losing a large customer. Because of this, none of our portfolio companies have any significant customer concentration. There isn't one customer in the entire portfolio that accounts for 10% or more of a company's revenue.

While the vast majority of businesses are at least somewhat dependent on how the economy is doing, I believe our holdings are relatively recession resistant. If I knew a downturn was coming in 2019, I would be happy to own all of our companies throughout it. As I say in Appendix 1, "When I invest in a new company, I go in with the mindset that I will own it forever (while recognizing that won't come to fruition very often)." And if I plan to own companies for many years, it's inevitable I will own them through downturns. Thus, I am looking for companies that can survive and thrive during bad periods.

Downturns tend to exacerbate a company's competitive position. Strong companies get stronger and weak companies get weaker. Companies that are losing money and/or have a lot of debt are not able to take advantage of opportunities during periods of struggle. Profitable companies with lots of cash and little debt maintain their nimbleness during downturns. They are able to expand to take more market share or even acquire their weak competitors on the cheap. As a whole, our portfolio companies are profitable, have very safe balance sheets, and they are all market leaders in their respective niches. I believe they are more likely than not to expand their competitive positions during the next downturn.

Now, none of the above says anything about our holdings' stock prices. If another financial collapse happens, I expect the stock prices of our holdings to decrease along with the broad market. But more important than short-term stock

price volatility is the long-term durability of these businesses. If the businesses we own are getting stronger, the underlying stock movement really doesn't matter. Prices will catch up eventually.

When valuing companies, I generally see that around 70-80% of intrinsic value comes after year five. On the other hand, free cash flow generated over the next twelve months generally accounts for less than 5% of a company's total intrinsic value. Thus, the most important factor to determining a company's worth is their ability to generate economic value in the distant future. This is the core of why I am so focused on the long-term.

I've used the phrase "durable competitive advantage" quite a bit in my writings. What I talked about above is part of how durable I think a company is (profitable, lots of cash, little debt, no customer concentration, recession resistant), but every company's competitive advantage is different. What I'm looking for is a company that has a structural advantage that should allow them to earn high returns on invested capital for many years.

In November, I spoke at an MBA investing class at the University of Texas. The title of my presentation was "Finding Durable Moats is the Key to Finding Good Investments." In that presentation, I analyzed the competitive advantages of Amazon, Facebook, and Tesla, and then gave my opinion on how durable I think each moat is. Now, I want to do a similar, but much deeper, dive into one of our holdings, Trupanion.

Trupanion

Trupanion is the most shorted company we own with around 40% of the float sold short as of late. If you follow our holdings closely, you're lucky to go a couple weeks without seeing negative headlines about Trupanion. Given how shorted the company is by Wall Street, I want to explain why we own it. I believe Trupanion has a very strong competitive advantage that a) is getting stronger as the company gets bigger (the best kind of competitive advantage), and b) isn't fully understood or appreciated by the market.

As a quick reminder, Trupanion is the #2 pet insurer in North America with around 18% market share. Trupanion differentiates themselves via their marketing strategy. They are the only North American pet insurer with a nationwide salesforce. These territory partners have built relationships with around 9,000 veterinarians who then educate their pet owner clients about Trupanion and pet insurance in general.

Customer-first

The ultimate goal of a territory partner is to get a veterinarian to sign up for Trupanion Express, which is cloud-based software that manages the veterinarian's insurance policies. The purpose of Express is to get rid of the traditional reimbursement model that all pet insurers operate on. Today, if a pet owner has insurance through a company not named Trupanion, they have to pay all vet invoices upfront, personally submit claims to their insurance company, and wait a few weeks to (hopefully) receive a check in the mail. This is not a customer friendly process, but it's the industry norm. Instead of accepting that industry norm, Trupanion has worked backwards from the customer to come up with a better experience.

Through Trupanion Express, a veterinarian submits claims directly to Trupanion as soon as the pet's visit is over. Within a couple of minutes Trupanion makes a decision and, if approved, transfers the claim amount directly into the vet's bank account. The pet owner pays their 10% deductible and that's it—they no longer have to pay the entire invoice upfront and wait weeks for a claim check in the mail. Objectively, Trupanion Express is a better customer experience than the traditional reimbursement model.

Another way that Trupanion Express improves the customer experience is that pet owners can now give their pets better care. If a pet owner doesn't have to worry as much about the amount of the bill, they can bring their pets in to the vet more often. For the same reason, pet owners can more confidently choose expensive treatments for their pets, which are often the best treatments. This results in better pet care and healthier pets that live longer. And Trupanion

sees this in their data. When a vet signs up for Trupanion Express, those insured pets start coming into the vet more often.

Wait, that can't be good for Trupanion can it? Customers making more visits to the vet means more claims to Trupanion. What kind of stupid insurance company encourages their customers to make more claims? In the short run, increased Express installs has had a marginal negative effect on loss ratios. The good news is this should be temporary. Trupanion adjusts their insurance rates each year, so as the growth rate of Express slows, the increased claims will be reflected in the rates and the loss ratio will normalize. Just the fact that Trupanion is sacrificing short-term financials in the hope of improving the long-term customer experience gets me excited. Very few companies are willing to do that.

Scaled economies shared

One of the oft-cited potential issues with Trupanion is adverse pet selection. The theory is that pet owners are more likely to sign up for pet insurance if they own a breed known for health issues. And even though no pet insurer covers pre-existing conditions, it's inevitable that some slip through. Trupanion Express should decrease this. With Express being directly tied into vets, Trupanion has the ability to know more of a pet's history than any of their competitors ever have a chance of. This should lead to a more efficient business over time.

What will also lead to more efficiency is Trupanion's artificial intelligence that automatically processes Express claims within minutes. Express has only become a sizable part of their business in 2018, but over time this artificial intelligence should get smarter, resulting in more claims being auto-paid and fewer humans having to be involved.

The vast majority of companies would take these increased efficiencies and let them drop to the bottom line. Not Trupanion. Their goal when the business is more mature in a few years is to have an adjusted operating margin of 15% (which equates to a net margin of around 5%). Once they achieve maturity, they want to then share all savings above that with their customers, basically capping their net margin at around 5%. Trupanion's current loss ratio is ~70%, but their longer-term goal is to increase that to 80% (essentially giving 10% more value back to their customers).

"Once we achieve our goal of a 15% adjusted operating margin at operational scale, we intend to return any additional cost savings back to the pet owner by the way of an even better value proposition." – Darryl Rawlings, CEO

This competitive advantage is what's known as scaled economies shared. When most companies grow, they are able to benefit from economies of scale that allow them to increase pricing and/or lower operating expenses. A small minority of these companies actually share those economies of scale with their customers via reduced pricing. Costco is probably the most famous example of this competitive advantage. Their founder, Jim Sinegal, set the company culture in stone long ago that all savings they generate are shared with their customers. Trupanion wants to do something similar.

To be clear, even if Trupanion does succeed with the scaled economies shared flywheel, it will not be as effective as Costco's has been. An insurance company increasing loss ratios is a much less tangible benefit to the consumer vs a retailer decreasing prices. This is because retail prices can easily be compared at Costco vs Walmart or Amazon, whereas insurance policy prices are generally harder to compare apples-to-apples. However, I still believe this will make life harder on other pet insurers if Trupanion is slowly increasing their loss ratios on a yearly basis. That is tough to compete with. Very few companies are willing to pass up higher short-term profits every single year in the hopes that decreasing their prices will increase long-term customer loyalty.

Data, data, data

Trupanion Express, like most software programs, should result in high retention rates. Once installed, the entire staff of a veterinarian's office is trained how to use Express and then it is implemented into the normal daily workflow of that vet practice. I believe vets with Express installed will be less likely to recommend other pet insurance companies

because they already use the Express software on a daily basis. It's much easier for them to plug another client into Express as opposed to dealing with a different insurer and the traditional reimbursement process.

When installed, Express is tied directly into the vet's software that runs their business. This allows Trupanion to see the data on all the pets in that vet hospital, not just the ones covered by Trupanion. On the other hand, Trupanion's competitors can only see data on the pets that they insure. And given their competitors mostly sell online or through corporate benefit programs, that is unlikely to change anytime soon. If Trupanion insures 5% of the dogs in an Express vet, they get to see data on 20x as many dogs as one of their competitors would see insuring that same group of dogs. I believe this increased data results in a couple benefits to Trupanion.

First, an insurance company that gets more data than their peers should (at least in theory) be able to analyze that data better and price their policies better. Second, this data allows Trupanion to give insights back to vets on things like breed-specific health trends. This is one more thing that should increase the likelihood that vets sign up for and stay with Express.

Customer acquisition

Finally, I believe Trupanion has a more defensible customer acquisition model than their competitors. Any pet insurer can dedicate marketing dollars to online ads and drive up the prices of pet insurance ads on Facebook and Google (which they all do). However, it's much more difficult to directly harm Trupanion's customer acquisition model because no other company has the nationwide salesforce that Trupanion has—even though several of their competitors have tried and failed to build large salesforces.

I spent a day riding along with one of the Trupanion territory partners and witnessed firsthand how hard it is to get past the receptionist at vet hospitals. At some of the vets we visited, it took the territory partner 2-3 years just to get a meeting with the head veterinarian. I believe the difficulty and slowness of Trupanion's business model, as opposed to the ease and speed of buying online ads, makes Trupanion's customer acquisition strategy more defensible and durable over the long-term. In business, sometimes the sheer difficulty of doing something can be a competitive advantage.

For Healthy Paws (the #3 pet insurer, but the competitor I worry about the most) to have a meaningful effect on Trupanion's customer acquisition strategy, they would have to hire and train a hundred salespeople all over the country and those people would have to spend years getting inroads into vets. And vets that already have Trupanion Express installed will have an even higher barrier to entry. Over 10% of vets in North America already have Express installed and that number is growing quickly (install growth was 42% in 2017 and over 50% in 2018).

Unit economics

It's easy to look at Trupanion's financials and conclude that they are barely profitable, but that doesn't tell the entire story. Because of their customer acquisition cost, Trupanion loses money in the first year of all new pets they sign up. However, the average pet stays with Trupanion for over eight years, so that initial loss is made up over time. But because Trupanion is growing so fast, the cost of those new pets every year make the reported financials look worse than the progress of the underlying business. If customer acquisition costs are amortized over the life of a pet, the financials look much better.

Nonetheless, the best way to analyze the underlying business of a company like Trupanion is to look at their unit economics—what incremental cash flow is earned over the life of each individual pet. This factors in the initial loss in year one, but also the high cash flow in future years.

The past few years the incremental operating margin from a new pet has been 8-10% (again, their goal when the business is more mature is to get this to 15%). If I make the bearish assumption that the incremental operating margin from a new pet never rises above 8%, I estimate their IRR per pet is around 20%. If I make what I believe are more

realistic assumptions (incremental operating margins increase to the mid-teens over time and average revenue per pet continues to increase by around 5% every year), the IRR per pet easily jumps to the 30-40% range.

This means that for every dollar spent on sales and marketing, Trupanion gets a 30-40% return on that invested capital. Very few businesses can maintain that return on capital for very long. Trupanion has been doing this for years and, given the industry penetration is just over 1%, they may be able to continue achieving this high return for many more years. Trupanion has the best unit economics of any company we own and, just as important, I believe these returns can continue because they are very defensible (for all the reasons I described above).

That all sounds nice… then why is Trupanion so heavily shorted?

I have spoken to, emailed with, and read many write-ups from investors who are short Trupanion. While these investors make many arguments against Trupanion, I believe the short thesis can mostly be drilled down to two components: valuation and regulatory risks.

Most bearish valuations of Trupanion consist of something along the lines of "Trupanion is an insurance company and insurance companies can't sell for more than 2x book, so take Trupanion's book value and multiply it by 2 and that's the fair value." As far as I know, companies are worth their future free cash flow discounted back to today. That's it. I care about how much cash Trupanion can generate over its entire life as a company, not how "cheap" or "expensive" it is relative to its near-term cash-generating ability.

While near-term multiples can sometimes be helpful (mainly for more mature, slow growing companies), valuing a high-growth company solely with near-term multiples is like drafting an NBA player based solely on height. There may be correlation to success there, but it is far from the entire story. With that being said, if one insists on valuing Trupanion with near-term multiples, a much higher multiple than most people are willing to give it is justified. Companies with the unit economics and growth runway that Trupanion has do not deserve to sell for average multiples.

When I estimate a range of future free cash flows that Trupanion could earn over its life, I believe the stock is currently in the low end of its fair value range. With that being said, my fair value range for Trupanion is the widest of any company I own or follow. The high end of my fair value range is over 200% higher than the low end. A company that is growing fast in an industry that barely has 1% penetration can have a very wide range of outcomes—and my range of possible fair values reflects that.

In addition to valuation, I believe the regulatory risks to Trupanion are overblown. The most touted regulatory risk is that many of Trupanion's territory partners are not licensed to sell insurance—even though they don't sell insurance and ideally never even interact with potential customers. There are fringe cases where this can be iffy though. For example, an unlicensed territory partner who talks to her friend about the benefits of Trupanion could potentially cross the line. Even in the scenario where regulators rule that all territory partners need to be licensed, I don't believe the risk is large to Trupanion. From talking to insurance regulators about this, I expect a modest fine at worst.

My main takeaway from my conversations with insurance professionals is that regulators are not out there trying to shut down insurers that are providing value to their customers. The regulators are much more concerned with the outright frauds and scam artists who are screwing the public. I think it's also important to note that every state regulator knows Trupanion's business very well. I've spent many hours reading through Trupanion's insurance filings and they don't hide their business model.

I also think it's a good sign that New York, which is their main regulator because that's where Trupanion's underwriter is based, lets them operate with less regulatory capital than would normally be required. In addition, New York gave their underwriter an exception to invest 10% of its capital into Trupanion's headquarters. Thus, the regulator who knows Trupanion best is actually giving them more leeway to operate their business, not less.

The regulatory risk that I think is a bigger concern, but that gets discussed less often, is if veterinarians were required to get licensed. The veterinarians are the main conduit that connect pet owners to Trupanion. If veterinarians were required to get licensed, this would kill Trupanion's current business model as very few vets would go through the effort of getting licensed. Here, it's important to note that veterinarians who work with Trupanion do not explain the insurance specifics to their pet owner clients. The vets are allowed to recommend the concept of pet insurance broadly, and then discuss their personal experience with Trupanion, but that's it. The vets do not get into insurance coverage details because that is when they would be required to get licensed.

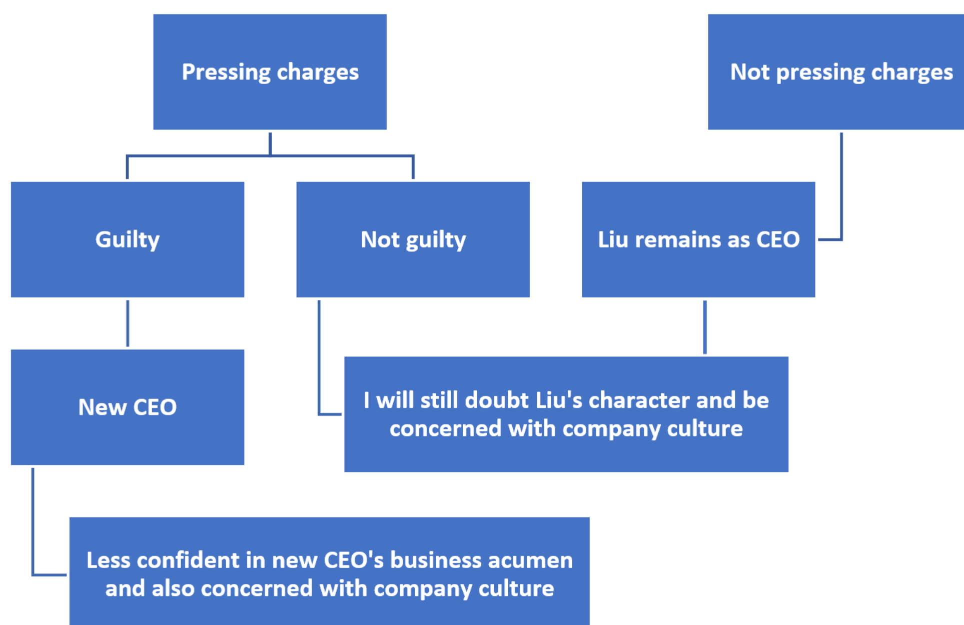
Thinking more broadly about this topic, my view is that regulatory risks are a way of life for most disruptive companies (Amazon, Facebook, Google, Airbnb, Uber/Lyft, Lime/Bird, and many others). Almost by definition a company can't disrupt an industry without pushing the boundaries in ways that incumbents are unwilling or unable to. There is a big difference between companies that push boundaries to create a better customer experience and companies that push boundaries to screw customers over. In summary, I believe Trupanion is acting in good faith and is providing value to hundreds of thousands of pet owners. I doubt regulators want to stop that.

JD.com

I mentioned earlier that I spoke at an investing class recently. After my presentation, one of the students asked why I don't do any shorting. I was not expecting that question and had to think about it for a minute, but I boiled my answer down to me being an optimist. On a day-to-day basis, I'm a pretty happy-go-lucky person and I try to avoid voluntarily depressing myself. Hell, even watching a sad movie is a very rare occurrence for me. If I spent my days researching fraudulent companies and talking to CEOs who are scamming their shareholders, I'd be depressed all the time. Years ago I did a bit of shorting and realized it didn't fit my personality.

In a roundabout way, this brings me to JD.com. As a quick reminder, JD's founder and CEO, Richard Liu, was arrested on allegations of rape when he was visiting the United States in September. Two weeks ago, the prosecutor announced it did not find enough evidence to charge Liu. Just prior to that announcement, I had already sold our entire JD position.

Before selling our position, I had spent the previous three months flip-flopping on what to do more times than I can count. On one hand, the stock price had fallen a lot and gotten incredibly cheap. On the other hand, I struggled to decide if I would ever be able to trust management again. Thinking about JD was quite literally keeping me up at night on a regular basis. One morning I decided to simplify the situation as much as possible and drew out the below decision tree:



That made my decision much easier. Though the above chart was not exhaustive of all possible outcomes, I struggled to see a result where I would be happy owning JD even if the case was resolved (which it now has been). I think assuming innocence until proven guilty is a good thing in society, but even if Liu wasn't charged, I doubted whether I could ever trust his character. We know he had sex with the accuser that night (while being married) and we know the texts the accuser sent throughout the night and in the morning, which, to say the least, do not look good. The absolute best-case scenario is that Liu and his wife have an open relationship and he genuinely believed it was consensual sex, but I don't want to hold out for that blue-sky scenario—and I'll never know his state of mind that night anyway.

This all brings me back to why I don't short stocks. Reading about rape and trying to weigh how undervalued I think JD is vs my inability to ever trust management again is not what I got into investing to do. It's one thing if a company is keeping me up at night because they're facing a new competitor, or they made an acquisition I don't understand or something like that. But when I'm laying in bed on a regular basis deciding if I can trust a CEO's character, something isn't right. With that realization, I elected to sell JD.

Just to be clear, it is very possible that selling was a bad decision when thinking strictly about our future investment returns. When I sold JD, by my estimate it was the second cheapest company we owned. If my estimates end up being at all accurate, we will lose out on those significant returns. With that being said, if valuation is the main thing making me want to own a company, I probably shouldn't own it. Loving a business model and trusting a management team is first and foremost, followed by an attractive valuation.

Looking back, I wish I could say I learned a big lesson from this investment, but I don't know if I did. There's a phrase that gets thrown around a lot in poker called results-oriented thinking. Basically, it's very common for poker players to be happy after winning a hand they played poorly, or angry after losing a hand they played well. Their happiness is dependent on the outcome, no matter if the process to get there was good or bad. Alternatively, poker players who are just focused on making good decisions don't worry as much about the short-term results because they know that luck will even out in the long run.

Results-oriented thinking is very much human nature and it is just as common in investing as it is in poker. It would be easy to look at this JD investment as a huge mistake and say I shouldn't have invested in a Chinese company or a big company where I can't get to know the CEO better or a number of other things, but I don't think it's that simple.

I still believe the company has a strong competitive advantage and an enormous runway for growth. None of my research into the company led me to believe that Richard Liu may be this type of person (although anecdotes have come out after the fact). Knowing what I knew at the time, I don't regret my decision to invest. I believe a lifetime of investing in situations like JD (founder-led, strong moat, long runway for growth, safe balance sheet) will generate attractive returns.

Other portfolio updates

For more reasons than just JD, 2018 was a frustrating year. Not that one year is long investing timeframe, but I felt there was a very wide discrepancy between how much I improved as an investor and the results of our portfolio. Of the seven companies we now own, four of them were down more than 20% in 2018 (plus JD, which is no longer in the portfolio). Unfortunately, years like 2018 are inevitable with such a concentrated portfolio (and fortunately, variance goes both ways!). With that being said, I am pretty happy with how I've continued to analyze these companies independently from their stock prices. I feel I've done a good job of making add/hold/sell decisions based on the current merits of each company and not from how the stock had been performing.

In general, I want to increase our position sizing in companies that are performing well, no matter what the stock price is doing. I don't just blindly add to any position that drops significantly. In my last shareholder letter, I wrote that "I much prefer to average up as a company performs well as opposed to average down as a company struggles." Likewise, if a stock is falling, I generally only average down if the company is continuing to perform well and the stock is falling for

other reasons. For example, Where Food Comes From and Trupanion fell this year for reasons that I felt were either short-term headwinds (China tariff concerns with Where Food Comes From) or completely unrelated to the business (a concerted effort by the Trupanion shorts to bring a lot of bad publicity to the name). I don't believe the long-term thesis has changed with either company and thus, both positions were added to when their stock prices came down.

Issuer Direct is another holding that was down quite a bit in 2018. As a reminder, I did a full write-up on Issuer Direct in my 2017 annual shareholder letter. In August, Issuer Direct did a very large, unexpected secondary offering and then saw their news distribution business slow down quite a bit in their most recent quarter. Some of this was bad luck (one of their largest clients went bankrupt) and some was that the big news distributors have started to fight back on price more.

I do like how Brian, the founder/CEO, has reacted to the slowdown though. He made several decisions in the second half of 2018 that hurt his own income and net worth quite a bit. Issuer Direct did a large secondary offering to beef up their balance sheet for future acquisitions, cut the dividend (which hurts Brian more than anyone given he's the largest shareholder), and is now increasing short-term investments in the business.

The large secondary offering they did was the first thing that significantly cut the stock price. I originally assumed the secondary was for a specific acquisition, but I was wrong. As I wrote about in my 2017 annual letter, I think Issuer Direct's acquisition strategy makes a lot of sense. They have several products and services that are very sticky, so it makes sense to acquire new customers via M&A and then cross-sell those new customers on their other offerings that will lock those customers in. And their couple acquisitions over the last two years have proven this is a viable strategy.

Unfortunately, Issuer Direct missed out on several potential acquisitions in 2018 because of liquidity concerns. To solve that, Brian elected to do a large offering to put a bunch of cash on the balance sheet and increase their ability to make future acquisitions. I suspect we will see some in the near future.

There is of course no guarantee these things work out, but I always love seeing leaders who are willing to take short-term pain in hopes of long-term gain. Brian's actions perfectly demonstrate why I preach the difference between a founder's long-term mentality and a hired CEO who is generally far more worried about the short-term.

Finally, Franklin Covey continues to be by far our largest position. While the stock had an ok year, I continue to be confused as to why it's not higher. It seems like every quarter I am surprised at where the stock is after results, double check my thesis, and reconfirm how undervalued I believe it is. I continue to believe their new business model is significantly more valuable to both them and their customers than the old business model. The good news is their transition is completely behind them now, and that will start to show in the financials going forward. The amount of free cash flow Franklin Covey generates should increase substantially over the next few years. By my estimates, Franklin Covey has the least downside of any company we own. Even a lot of my bad scenario estimates value the company higher than it is today.

It's probably not surprising given most of our positions were down on the year, but I am very excited about our portfolio's potential going forward. By my estimates, all seven companies we own are significantly undervalued. When I sold JD in December, I struggled to decide where to invest that cash because I wanted to buy more of everything in our portfolio. Even more important than the valuations, the long-term viability of the businesses we own is as strong as ever. While several of our holdings are going through short-term headwinds, I believe the long-term theses remain intact.

Travis Wiedower
Managing Director

Appendix 1: Wiedower Capital's Investment Philosophy

1. Long-term focus: I look at companies through a long-term lens. When I invest in a new company, I go in with the mindset that I will own it forever (while recognizing that won't come to fruition very often).

   A company is worth its future free cash flow discounted back to today. A discounted cash flow analysis shows that the majority of a company's intrinsic value comes from the distant future, not near-term results. If how a company will perform over many years is the majority of its worth today, then the durability of their competitive advantage is of paramount importance.

   Because of this, my research is focused on how an industry may evolve over the next 5-10+ years and if a company's competitive advantage can expand within that evolution. This is only possible if the CEO is focused on, and incentivized by, the long-term success of the company. Often, the CEO traits I look for are found in passionate founders who are internally driven to see their own business succeed.

2. I'm very picky: The vast majority of companies are un-investable for me at any price. I have a small circle of competence (that is slowly expanding) and I have zero tolerance for management that isn't aligned with me.

3. Learning mindset: Even more than investing, I love learning. Investing just happens to be a perfect outlet for that—there will always be more companies, industries, and countries to learn about. Beyond that, a lot of outside disciplines indirectly help my investing. Much of what I consume on a weekly basis may not directly benefit my investment results, but I believe there is a lot of value to learning broadly and trying to understand the world better.

4. Alignment of interests: As much emphasis as I put on finding CEOs who are aligned with outside investors, I also want the same alignment between myself and my partners.

   Wiedower Capital is structured to align my own incentives and my partners around a long-term investment strategy. My performance fee is earned over multi-year periods and new partners are subject to a three-year lockup. In addition, performance fees can be clawed back, management fees scale down as assets under management increase, and assets are capped at $100 million.

Appendix 2: Historical Results*

Period	Wiedower Capital	S&P 500
2015	-11.91%	-1.37%
2016	19.19%	11.95%
2017	22.28%	21.82%
2018	-18.61%	-4.39%

Cumulative	4.49%	28.60%
Annualized	1.15%	6.75%

* Started February 24, 2015. Wiedower Capital results are net of fees and are based on a model account that has been active since inception. The model account pays fees as a non-qualified client, which is currently 2% per year. All accounts are managed the same, but individual account results may vary from the above results based on different fee structures and minor position size differences. S&P 500 results include dividends.