

20.07.22

Dear Investor,

Due to the relatively concentrated nature of the portfolio and length of participation with WCM, some managed accounts will not include investments that occurred before the account was opened. Consequently, account performance will vary.

WCM takes all precautions necessary to ensure that all accounts are treated fairly, and no single account is prioritised over another, fully in line with the FCA Principles (PRIN 2.1.1).

I begin with a brief overview of some of our existing holdings holding. You will find additional detail in the previous quarterly letters.

Rimini Street "RMNI"

04 May 2022 Rimini Street released its Q1 22 earnings. The overall results were good, revenues increased 11.4% y-o-y and management slightly increased its full years revenue guidance. Readers can view my previous letters for further insight.

Franklin Covey "FC"

FC released its Q3 22 earnings, and the results were excellent. Sales increased by 13% this includes the China & Japan sales that decreased 66% due to lockdowns. Excluding China/Japan sales would have increased 19%. Sum of Billed and Unbilled Deferred Subscription Revenue Increased 21% to \$116.5M compared with May 31, 2021. Cash on its balance sheet totaled C.\$50 Million that's after repurchasing \$20.3 Million of its own shares. The company increased earnings guidance again, from the previously increased guidance of \$38.5M to £40.75M.

	Past Targets (as of Q1FY22)	Recent Shared Targets (as of Q2FY22)	New Targets (as of Q3FY22)
General Revenue Outlook	High single digits	Low double digits	Low teens
FY22 Adjusted EBITDA Guidance	Mid-point of \$35M	Mid-point of \$38.5M	Mid-point of \$40.75M
FY23 - FY25 Outlook for Adjusted EBITDA Growth	FY23: \$45M FY24: \$55M	FY23: \$45M FY24: \$55M	FY23: \$47-48.5M FY24: \$57M FY25: \$67M

Note how targets have been revised upwards through to year 2025. Not many companies have the visibility and pricing power to achieve results such as these.

KASPI "KSPI"

I mentioned in the previous update that management confirmed on 25th of April a \$100M share repurchase program to be completed no later than 22nd July 22. According to public filings they have only managed to repurchase \$44.5M worth of shares as of today (15.07.22) & I expect management to extend the repurchase program. Earnings for the first half of 2022 are due to be published on 25th July. I expect positive results, though the stock price has languished mainly due to the current unstable activity within its region (Russia etc..) the results on the 25th of July should help to give a better understanding of the current events in the region.

Berkshire Hathaway "BRK"

We sold out of Berkshire to free up cash

North Media "NORTHM"

Not much has changed since the last quarter, the cash still flows in. I spoke in length with management and suggested multiple levers to pull to enhance shareholders return. The discussion did not end as I had hoped. The founder who is currently Vice chairman & largest shareholder will not allow for a share repurchase program for the time being. This is an issue for me, and I am deciding how to proceed with this holding.

JDC Group AG "JDC"

The business continues to build on itself quarter on quarter. In the first quarter of 2022, JDC signed a contract with the subsidiary of R+V Insurance Group the second largest insurance group in Germany. Furthermore, an agreement was signed with Gothaer Insurance Group on an extensive long-term collaboration to establish 360-degree portfolio view for customers of the company's own business. JDC is providing the platform and the interface needed to offer customers an overview of their entire insurance portfolio. The benefits for Gothaer cover the entire value chain, from contract administration system and commission accounting to the service center. In addition, on the 14th of June, management authorized to repurchase 200,000 shares of the company for a total of EUR 5Million from 15th June - 22 July at the latest. Current Market-Cap EUR 254 Million

AIMIA

Following on from my comments in my previous letter, on the 8th of Feb, that Aimia entered a binding letter of intent to divest its stake in PLM loyalty program for net proceeds of up to \$517MCAD or \$5.58Cad per share. Shares currently trade at c.\$5.

On the 15th of July, the transaction completed and Aimia received \$537M. Aimia will report its second quarter earnings on August 12th and expect to learn more about the target companies to buy to enhance shareholder value.

New Position - Crexendo "CXDO"

Crexendo is a relatively unknown UCaaS (Unified Communications as a Service) provider based in the USA.

Crexendo offers a complete telecommunication offering systems via the cloud. The existing mode of telephony is conducted via cable. UCaaS is conducted via internet/cloud. There are many advantages to using internet-based communications. In addition to talking via phone you can now communicate via video conference, instant messaging & more. Users could even control their phone calls from their mobile device. Another advantage is no more requiring large hardware units on site.

The industry is very competitive as is prevalent in all industries. Competitors that come to mind are 8x8, Vonage, Ringcentral, and many more. Some may focus predominantly to the call centres industry.

The industry business model is pay per seat. Depending on the UCaaS package, each seat (phone line) would typical cost anywhere from \$20 to \$30+ per month.

The main sales route for CXDO is to partner with resellers. CXDO receive a wholesale price from the reseller for every seat that they sell. The resellers sell to the end consumer (in this instance a business). CXDO also has a small sales team that are targeting larger clientele that the resellers do not target.

In March 2021 Crexendo purchased NetSapiens. NetSapiens use their own platform and not a 3rd party such as Broadsoft (owned by Cisco) meaning they are in full control from A-Z of the infrastructure, software & features. In addition, to owning their own platform Crexendo added 1.7 Million customers of NetSapiens. NetSapiens offers their platform to other UCaaS providers as an alternative to the Broadsoft/Metaswitch offering.

Resellers are able to purchase the infrastructure from NetSapiens and they in turn can manage their business clients. Alternatively, resellers that want to have control of the platform

but not necessarily wanting to layout a significant upfront cost for the infrastructure can use the infrastructure on a SaaS type offering from Netsapiens.

Essentially, it is an additional revenue channel for resellers & UCaaS providers to partner with Netsapiens (Now owned by Crexendo)

Three routes to market:

1. Sell directly to larger businesses
2. Agent model
3. NetSapiens platform sold to other UCaaS providers

The UCaaS market is still in growth stage. It is estimated that only 40% of companies use cloud-based telephony. 8x8, RingCentral have been growing at appx 30% or higher annually since inception. There is still a long runway for growth.

CXDO's growth has been lower than its competitors (appx 15% annually & more recently growth of 20%)

Even though growth is low compared to competitors', CXDO has a road map to achieve sales of \$100M within 2-3 years. Current revenue FY21 \$28M, and FY22 is expected to achieve \$40M. (Current market-cap \$67M)

There will continue to be organic growth, but the intention is to grow via M&A. The optionality to grow via M&A is within the pool of the 200+ licensees currently reselling Crexendos services.

After selling Steven decided to repeat this playbook only this time within the UCaaS space.

Some resellers have already expressed interest to sell to CDXO. CXDO would like to complete their first acquisition before YE2022

I should note that the company has been profitable from a GAAP perspective over the previous two years. Management have shown signs that they know how to run a business conservatively & profitably, and not grow the business at any cost.

Since Jan 2022 Steven has purchased over 700,000 shares in the open market and current owns over 47% of the company.

Steven Mihaylo the founder and current CEO is a veteran in building a telephony business he built Intertel into a \$500M revenue business prior to selling it to Mitel for appx \$720M.

<http://www.stevemihaylo.com/about-steve> According to this link from 1969 when he founded Inter-Tel Steven raised \$100M in four public stock offerings and between 1998-2007 returned appx \$100M to shareholders in dividends, & also returned ~\$200M in the form of stock repurchases between 1986-2005 and then finally sold Inter-Tel for \$750M in 2007.

It would be apparent that Mr Mihaylo is a proficient capital allocator. He now plans on repeating his achievement once again.

The market is large and continues to grow at a fast pace. The world is still in transition stage from legacy telecommunications to UCaaS.

(Revenue figures LTM)

- RingCentral - \$1.6Bn
- 8x8 - \$602M
- Vonage - \$1.3Bn
- Crexendo - \$30M

The runway is long & clearly demand is there.

Some competitors have debt on the balance sheet and have diluted share count over the past years. Stock based compensation of some competitors have been large diluting the true value to shareholders.

I estimate operating margins can conservatively achieve 10% based on competitors' figures, and CXDO is focused on keeping costs under control.

Last few words

The past six months have seen events that we have not seen in decades. The market is concerned about inflation, interest rates, Ukraine, which in turn is stoking fears of a recession.

The markets sold off and now it's anyone's guess if it hit a bottom and will now begin its ascent.

We have a portfolio of exceptional companies being managed by very smart groups of people. They have a vested interest to grow and strengthen their respective businesses.

In the short term I am not at all concerned which way the market turns. I used the recent market declines as an opportunity to purchase the ideal companies at ideal prices. We have and continue to invest in a select group of companies that offer unique products & services and are run by a competent and aligned management team.

In turn the long-term outlook of our holdings is extremely positive and I look forward to deliver good news as we progress over the coming quarters and years/

For those that would like to join or know someone who is interested to learn more about WCM can contact me directly at an@wellspringcapital.co.uk

Please contact me if you have any questions.

All the best.

Avrohom Neumann

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