

Far View Capital Management
225 North Mill St- Suite 110
Aspen, CO 81611
646-838-4401
info@farviewcapitalmgmt.com

July 13, 2018

Dear Partner,

Welcome to the performance update of Far View Partners L.P. for the half-year ended June 30th, 2018.

Portfolio Performance

During H1 2018, Far View Partners generated a return of -0.57% net of all fees and expenses, which was comprised of -2.49% in Q1 2018 and +1.97% in Q2 2018. Since inception on July 1st, 2011, Far View Partners has generated a cumulative net return of +167.68%.

Far View's H1 2018 returns were helped by acquisitions of two portfolio companies, Fogo de Chao, a US based chain of Brazilian steak houses that was acquired by Rhone Capital in Q2 and CommerceHub (discussed below).

Conversely, the Partnerships's H1 2018 results were hurt by Coats Group PLC (COA) where the stock's strong 2016 and 2017 performance reversed as a result of currency related concerns and problems in its very small Crafts business. I believe COA is a high-quality company that remains inexpensive due to its tortured history (pension overhang, AUS/NZ delisting and transfer to the UK). This history has left it relatively misunderstood and poorly followed (four analysts and no global investment banks for a FTSE 250 company with a ~\$2bln enterprise value). As the company continues to execute on its Connecting for Growth initiative and bolts accretive acquisitions onto its global network, cashflow should continue to grow at attractive rates and the company's valuation should eventually rerate. As the COA price declined to attractive levels in H1 2018, I added back portions of Far View's position that had been sold previously at higher prices.

The second factor that hurt Far View's H1 2018 results was the decline of Canadian telecommunications software provider Optiva (OPT, formerly known as Redknee). After strong performance in H2 2017 as a result of a successful rights offering, OPT declined in H1 2018 due to concerns about a potentially longer timeline for the company's turnaround and a 1 for 50 reverse split which severely limited trading volume in the stock. While OPT's turnaround has certainly had challenges, I remain optimistic that new majority owner ESW Capital can significantly improve the business over the long-term and believe that OPT's software continues to be vital to its telecommunications customers and valuable to potential acquirers.

In the first half of 2018, I identified multiple opportunities to put capital to work at attractive risk-rewards, refreshing the portfolio's potential returns. While the near-term performance of these new positions is difficult to predict, I believe the additions of H1 2018 should improve Far View's long-term results.

On June 30th, 2018, the Partnership's portfolio consisted of long equity investments in North America, Europe, Australia and South Africa as well as a moderate cash position.

Process: What is a Value Investment?

Many investors have a limited view about what represents a value investment, stubbornly clinging to static, backward-looking numerical metrics. These investors define value solely as statistically cheap and only buy stocks with low historical price-to-earnings or price-to-book among other ratios. However, I define a value investment as one for which I can reliably estimate the long-term value of the security and the current price is *materially lower* than my evaluation, even if it appears expensive based on current results.

Far View's investment in CommerceHub (CHUBA) is a great example of a value investment that was not statistically cheap when acquired. CHUBA was a small spin-off from Liberty Ventures (LVNTA) in July 2016. At that time, many investors viewed LVNTA as a cheaper way to own its main underlying asset, an equity stake in Charter Communications. Thus, I perceived that they may have been overlooking and mispricing LVNTA's smaller assets, including CHUBA's equity.

CHUBA provides a software solution for drop-shipping, which allows retailers to route orders to suppliers who then ship product directly to the customer with the appearance of shipping from the retailer's warehouse. This complex process requires managing relationships with thousands of suppliers and meticulously tracking all aspects of the order including inventory, shipping and customer service. Drop-shipping allows the retailer to carry a broader assortment of products without heavy inventory requirements. Thus, the retailer benefits from lower working capital and capital expenditures while offering diverse products to attract and retain customers.

Far View's research revealed that CHUBA was the dominant player in its niche, facing no real competitors of scale. Because CHUBA's software is mission-critical to its large retail customers, and the company benefitted from the network effect of connecting each retailer to thousands of supplier partners, the business enjoyed high switching costs and low customer churn. Furthermore, by selling directly to a small number of large retailers, who then forced their suppliers to join the platform, CHUBA enjoyed low customer acquisition costs. This combination generated extremely high EBITDA margins (>30%) for a software company still seeking rapid growth.

CHUBA not only had a strong competitive position and high margins, but also enjoyed an ongoing growth tailwind. Because CHUBA received per-order fees from its customers, the company acted like a toll on e-commerce and most of its revenue grew with the continued expansion of online shopping.

Through extensive due diligence with CHUBA customers, former employees and public and private competitors including drop-shipping start-ups, I became convinced that CHUBA's competitive advantage was durable and that the stock enjoyed a long growth runway. Therefore, I felt comfortable with my ability to estimate CHUBA's value and believed the stock deserved to trade at significant valuation multiples.

When CHUBA initially spun, the stock traded at high multiples of trailing results including >7x EV/Sales, >20x EV/EBITDA and >25x P/B. Clearly, these numbers do not fit the Graham-Dodd definition of "cheap". However, I believed CHUBA's price materially undervalued the long-term potential of its business as the company continued to grow revenues and expand margins.

In H1 2018, CHUBA was acquired by two private equity firms, Sycamore Partners and GTCR. While the results for Far View were satisfactory (up >70% in less than two years) and the Partnership received certainty of value, this acquisition was bittersweet as I fear the Partnership lost long-term upside from

CHUBA's future growth. The company's near-term stumbles had pressured the public share price, but I believed CHUBA still had an attractive long-term runway and was eagerly anticipating its opportunities over the next several years. The CEO appeared to share my excitement as he negotiated co-investment rights in the private equity deal as well as significant future equity compensation for himself.¹

To be clear, Far View has not abandoned its love of buying cheap assets. The portfolio contains names that are statistically cheap as well as names like CHUBA. I believe both types of positions fit my definition of value. If I find a security with a current price significantly below my estimated value, then I am indifferent as to whether it appears statistically cheap on current results.

The Partnership

Far View redesigned its website in H1 2018 and the Partnership's current investor presentations and historical letters are now available in a secure portal. I hope the new digital access will make it easier for current and prospective LPs to review Far View's historical correspondence. Please contact me if you would like the password to view these documents.

I remain the largest investor in Far View and it comprises the clear majority of my net worth. I am excited about the future of the Partnership and believe it is well positioned for continued, long-term success. I appreciate your ongoing trust and support. As always, please contact me if you have any questions or concerns.

Sincerely,



Brad Hathaway
Managing Partner

¹ <https://www.timesunion.com/business/article/CommerceHub-founder-Frank-Poore-played-hardball-12821954.php>

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