



Dear Fellow Investors,

The fund returned 14.9% for 2023 (net of fees), which was behind the S&P 500’s full year return of 26.2%. The biggest divergence in performance came in the last couple months of the year as the broader market rallied on interest rate cut predictions for 2024. In the meantime, many of our relatively sleepy holdings barely budged. This is not surprising as more efficient, liquid areas of the market tend to react to macro news more quickly than our less followed, less liquid names. It’s also important to note that some bank holdings that contributed to our outperformance in 2022 were the biggest detractors for performance in 2023. Overall, it was still a good year, even if it wasn’t quite on par with the S&P 500 or some of our prior annual returns. More importantly, I feel confident that prospective returns for our holdings will likely be better than the overall market, especially when compared to the highly valued “Magnificent 7” as discussed in my mid-year letter.

FitLife, Xpel, and Citizens Bancshares were the strongest performers of our portfolio during 2023. Citizens Bancshares was up 20% in 2023 despite all the headwinds/worries surrounding banks during the year. As previously discussed, I’m happy to continue to hold Citizens as a core position as their funding advantages, large valuation discount on earnings and adjusted TBV, and excellent capital allocation all remain. We exited Xpel in August due to valuation concerns as well as wanting capital for other attractive opportunities. In retrospect, we were quite lucky with our timing. Not long after, a couple short seller reports came out on Xpel driving investor sentiment and the stock price down based on what we believe are faulty assumptions. This gave us another welcome opportunity to pick up Xpel shares under \$50. FitLife also had a strong year, with the stock up around 20%. However, I’m much more excited about the implications of their two acquisitions made during 2023 and what that means for the future, which I’ll discuss later.

In my prior letter I mentioned finding a number of good businesses trading at less than 10 times earnings. I continually find more of these opportunities and dig through them individually to determine which are the most attractive from a risk/reward perspective. I’ll discuss two additions to the portfolio I’m excited about later in the letter. I continue to believe the fund’s biggest competitive advantage is our relatively small amount of capital and limited constraints, allowing us to venture into more underfollowed and obscure opportunities.

The fund’s 14.9% net return for 2023 brings cumulative annualized returns to 43.9% since inception vs. 12.6% for the S&P 500 over the same time frame. \$100,000 invested in Smoak Capital since inception (June 2018) has now grown to \$740,395. While I’ve said the fund is open to adding aligned investors in the past, I will be more selective in adding new partners in the future. Given the increase in capital and my focus on generating strong returns, I will only add new investors when it makes sense to do so.

Year	Net Return	S&P 500	Alpha
2H 2018	11.5%	-6.9%	18.4%
2019	108.3%	31.5%	76.8%
2020	38.7%	18.4%	20.3%
2021	69.1%	27.9%	41.2%
2022	18.2%	-18.1%	36.3%
2023	14.9%	26.2%	-11.3%
CAGR	43.9%	12.6%	31.3%



I sincerely thank you for entrusting me with your hard-earned resources. With patience, focus, and a process-oriented mindset, I'm confident our portfolio returns will continue to exceed the broader market over the long-term. As always, feel free to reach out anytime with questions or concerns.

Best Regards,

Please keep reading below for a more in-depth discussion on a few of our investments:

FitLife Brands (Nasdaq:FTLF)

2023 was a year of significant change for FitLife, they completed their uplisting to the Nasdaq and they were able to capitalize on two very attractive acquisitions; one distressed and near bankruptcy and the other just emerging from it. Their \$20M purchase of Mimi's Rock closed in February 2023, and considerable progress has already been made with annualized EBITDA of that business already approaching \$6-8M. Legacy FitLife experienced some headwinds in Q3 as there was some weakness in the GNC retail channel, which was also compounded by the usual lumpiness of wholesale orders. Legacy FitLife online sales growth also slowed some in 2023 but has since shown signs of growth improvement in recent months. While some weakness in legacy FitLife is not ideal, I think it's important to remember the relative importance of legacy FitLife vs. both new acquisitions going forward. I expect Mimi's and MusclePharm to contribute a majority of earnings in the future and there is simply more to improve upon and grow related to their businesses vs. legacy FitLife, where much of the heavy lifting and improvements are now complete.

Speaking of potential improvements and growth, Musclepharm is ripe with plenty. FitLife paid \$18.5M for MusclePharm out of bankruptcy and based on my own estimates from MusclePharm's bankruptcy filings, it was likely generating around \$16-18M in annual revenue and \$3-4M in annualized operating income when adjusting for legal fees. That would put the initial acquisition multiple around 5x EBIT and perhaps a little closer to 6 when you consider additional working capital needed. This is already a relatively attractive multiple, especially given the past reach of the brand and prior success at least on a total revenue basis. But the next steps to improve these figures are clear and have been discussed openly by FitLife: sell products directly on Amazon rather than through resellers (thereby significantly increasing gross margins on those sales), relaunch historically successful MusclePharm products and introduce new products, e.g., Combat Crunch Protein Bar, multivitamins and other pills, etc., and restore wholesale distribution. FitLife has mostly completed the first step, letting resellers deplete inventory in the 4th quarter of 2023 and is now the primary seller on most products on Amazon. They've also announced they're in the process of relaunching products and engaging several previous customers to restore distribution. Importantly, I've noticed MusclePharm products have recently been relisted on the website of one of their largest prior customers so progress has already been made on that front as well.

As we proceed through 2024 I believe the increased normalized earnings power of FitLife, primarily from the two acquisitions, will become evident and investors will begin to appreciate the



continued execution and phenomenal capital allocation. I believe adjusted EBITDA of \$16M is very achievable on the low end with a reasonable chance for up to \$18-20M. Given the track record since 2018 and all the other favorable characteristics I've discussed, a valuation of 5-6x EBITDA is simply too cheap, especially when considering the possibility of continued accretive acquisitions with low-hanging fruit and management's laser focus on building shareholder value.

Hammond Manufacturing (TSX:HMM.A)

Hammond Manufacturing ("HMM") is a wildly mispriced and misunderstood (or perhaps not understood at all) company that trades at an extreme discount to larger peers, despite delivering top-line and bottom-line growth on par with or better than those same peers over the last 6-7 years. Hammond Manufacturing makes electrical enclosures, racks and cabinets, power distribution products, transformers, and many related accessories for a variety of industries. These may sound like boring products but due to secular trends in cloud computing, infrastructure investment, and electrification of everything, Hammond has experienced steady, profitable growth for many years.

Despite growing Revenue and Gross Profit at a healthy double-digit CAGR (11.2% and 15% respectively) for the last 7 years, Hammond Manufacturing trades at a measly 5x earnings. This valuation seems quite cheap in an absolute sense but is even more glaring when compared to its sister company, Hammond Power Solutions, which was spun out in 2001. Hammond Power has also delivered exceptional results over the past 7 years, growing revenue and gross profit at 14% and 18% respectively.

7 year CAGR	HPS	HMM
Revenue	14.05%	11.26%
GP	18.82%	15.00%
EBIT	32.83%	45.07%
LTM GM	32.1%	35.4%
LTM Op. Margin	12.5%	11.7%
P/E	18	5.4

Understandably, Hammond Power's results have been rewarded by investors with a respectable 18x P/E. Hammond Manufacturing on the other hand trades at an **astounding 70% discount** to Hammond Power.

This is before even considering the value of their real estate: over 500,000 sq ft of manufacturing facilities located only 1-1.5hrs from the Toronto metro area. Since the company was founded over 100 years ago and most of this is carried at cost, the value of their manufacturing facilities alone likely come close to, if not exceed the current market cap of roughly \$100M CAD. I'm not betting on them doing anything in the near-term to unlock this value, but it's a great asset to have for downside protection and only adds to the large margin of safety at current prices.

While Hammond Power has stronger market share in its core dry-type transformer markets, they both serve similar end markets and are exposed to similar secular tailwinds, both of which have delivered strong results from. I think the primary reason is how each communicates their story and results to investors. HPS is very active on this front with in-depth disclosures and discussions around secular tailwinds, quarterly conference calls, and even a couple analysts covering the company. HMM, on the other hand, barely discusses end-user markets and never mentions data centers, cloud computing, or increasing infrastructure investments in its annual report or other public filings. I think this has contributed to the perception that HMM is a company that simply sells electrical boxes. The reality couldn't be further from the truth, as HMM sells nearly 15,000 different products used in a wide



variety of industries, with an entire product category, racks and cabinets, directly benefiting from the continuous growth in data center investments and cloud computing demand.

Because of this misconception, I believe a number of investors are concerned that HMM is cyclical and could be “over-earning”. While they are no doubt exposed to cyclical demand, like commercial and industrial construction, they also sell a wide array of supplies and accessories that are likely much less cyclical (screws, casters, filters, small transformers, various replacement parts, etc.) and many products exposed to the secular tailwinds discussed before. I think this viewpoint is supported by the fact that they’ve reported an operating profit every year going back to 2002.

Another important peer of Hammond Manufacturing, and industry leader, is nVent Electric. nVent management, like Hammond Power, is very clear in their view of LT growth for the industry, especially related to data solutions. nVent’s largest and best performing segment is their enclosure segment, which is probably the most comparable part of their business to Hammond Manufacturing’s overall business. nVent has also disclosed organic growth figures for their enclosure segment going back to 2016. From 2016 to 2022, nVent’s annualized organic growth for its enclosure segment was 5.78% Hammond Manufacturing’s total (not even just enclosures separately) annualized sales growth over that same period was over double that, at 11.79%. nVent trades at 15x EV/EBITDA and a 21x P/E. nVent is much larger than Hammond Manufacturing, has best-in-class operating margins, and is probably a better business in other aspects but it makes no sense to me why it should be worth 4x the valuation of a smaller, and even better historically performing competitor. I don’t think nVent is overvalued, simply that Hammond Manufacturing is extremely undervalued.

Taking a step back, HMM has delivered financial performance near or better than highly-valued peers for nearly a decade, has real estate worth the entire market cap, yet still trades at 5x earnings. If Hammond traded at a still massive 50% discount to HPS, upside for the stock is 80% (but still only 9x earnings), while a 30% discount would yield upside of over 130% at 12x earnings. One can debate about what the discount should be but I don’t see a world where the current price disparity makes any sense, nor do I think the valuation is close to warranted in an absolute sense either.

Goodheart-Willcox (OTC:GWOX)

Goodheart-Willcox is the previously unnamed position I discussed in my mid-year letter. Goodheart-Willcox is an educational products provider that specializes in Career & Technical, Health, and Physical Education, notably outside of the more competitive mass market textbook subjects (Math, Language Arts, Science, etc.). They have strong customer relationships and market share across a number of CTE subjects and most recently have had success winning new customers for both their Health Education and Financial Literacy products. It has historically been a pretty good business with operating margins around 10-15% and a growing but lumpy top line. In recent years though, the business has undergone a significant transformation that I believe is greatly underappreciated. The company’s digital revenues started to gain significant traction in 2018 and have only accelerated further post-pandemic, now making up almost 40% of revenues and still growing 35%+ per year. Operating Margins are now 30% and climbing and cash is quickly piling up, despite paying a large special dividend at the end of 2021 (33% of the market cap at the time) and paying out a majority of net income as a dividend.



The underlying reason for the excellent performance of the business is very simple. The pandemic and distance learning accelerated technology usage in and out of the classroom and now nearly every middle and high school student has a school provided laptop. This creates a strong and obvious incentive to purchase digital content in and out of the classroom. The educational content providers that have adapted quickly providing high quality, relevant digital content have been big beneficiaries of this demand wave. Interestingly, this hasn't turned into much cannibalization at all on the legacy print textbook sales either, most buyers prefer to bundle and get the print textbook and digital content together. Importantly, this digital revenue is sold through all their pre-existing customer relationships and sales staff, so given digital gross margins are so high (I estimate 90%+), the incremental margins on these digital sales is extremely high and drops straight to the bottom line.

It's also important to note that there is a large divergence between reported Net Income and FCF. This is because most of their digital revenue is LT, typically 6-7 year licenses, and they receive all the cash up front with relatively minimal ongoing costs over the remainder of the contract. Because of the LT nature of the license, GAAP only recognizes revenue ratably over the 6-7 year contract term. So, the big takeaways are true economic earnings are much better than presented by GAAP, and true economic liabilities are a far cry from what is presented on the balance sheet. I estimate they have around \$85M of cash right now, well over half the market cap, and nearly all of that is excess cash given the ongoing profitability and growth of the business and their limited capital needs. This also means billings related to the digital licenses are growing even faster, albeit much lumpier, and much larger than reported revenues.

Despite this transformation, shares trade at only 3x EV/FCF and yield 6-7%, far below comps of 12x FCF or higher (most notable comp is HMHC which sold to Veritas for 12x FCF in 2021, which many holders understandably thought was criminally low), which would value the business at over \$760/sh. One of the primary reasons HMHC holders were against selling at 12x FCF was HMHC's incredible opportunity to create significant shareholder value by capitalizing on the accelerated shift towards digital learning. Goodheart-Willcox has fully taken advantage of this ongoing secular shift yet trades at a fraction of its true value.



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An investment in the Fund is speculative and involves a high degree of risk, including the risk of loss. The Fund's performance may be volatile and there is no assurance that the Fund will achieve its investment objectives or that investors will receive a return on their capital. The fees and expenses charged in connection with an investment in the Fund may be higher than those charged with other investments, and in some cases, may offset their trading profits. Investors could lose all or a substantial amount of their investment in the Fund. Investors must read and understand all the risks described in the Fund documents before making a commitment.

Smoak Capital Management launched in July 2018 and separately managed client accounts until launching the Fund in June 2021. The firm's investment strategy has remained consistent since inception, but results presented prior to June 2021 consist of qualified client SMA results net of fees.

Past performance is not indicative of future results or a guarantee of future returns. The performance returns presented herein represent the average return of the Fund's limited partners, include the reinvestment of dividends, interest, and other earnings, and are shown net of operating expenses, management fees and incentive allocations. An individual investor's actual returns will differ from the results shown herein due to factors such as the timing of capital contributions/withdrawals, different fee arrangements, and treatment of loss carryforwards. Thus, individual investor performance as well as the Fund's aggregate performance will differ from the performance presented herein.

The Fund's performance is shown compared to the S&P 500 Total Return Index. The S&P 500 Index, a widely used benchmark of US equity performance, consists of 500 large cap companies chosen for market size, liquidity, and industry group representation. Each company's weight in the S&P 500 Index is proportional to the total market value of all outstanding shares of such company. The S&P 500 Total Return Index measures the performance of the S&P 500 Index by assuming that all cash distributions are reinvested, in addition to tracking the components' price movements. Indices are unmanaged and are not subject to fees or expenses, nor can you invest directly in an Index. Due to their differences, performance of the Fund and the Indices is not comparable. Smoak Capital Management is not aware of an index that is directly comparable to the Fund's strategy.