



River Oaks Capital H1 2024 Report

Investing with an owner, long-term mindset in a select number of underfollowed micro cap & small cap companies.

www.riveroaks-capital.com

TABLE 1: River Oaks Capital Performance (%) since inception January 1, 2020- June 30, 2024

Benchmarks	YTD	1 Year	3 Year	Since Inception
Russell 2000 TR*	1.7%	10.1%	-8.0%	30.4%
Russell Microcap TR	-0.8%	6.0%	-21.7%	22.1%
River Oaks Capital**	5.1%	3.8%	3.2%	49.4%
<i>*TR = Total Return (dividends reinvested)</i>		<i>**Before Management fees</i>		
S&P 500 TR	15.3%	24.6%	33.2%	81.7%

Our Companies

Name	Market Cap	Strategy
Citizens Bank (CZBS)	\$80m	Excessive Discount
Medical Facilities (DR.TO)	\$225m	Wonderful Business
Boston Omaha (BOC)	\$410m	Wonderful Business
R&R REIT (RRR.UN)	\$28m	Excessive Discount
Fitlife (FTLF)	\$140m	Wonderful Business
Nicholas Financial (NICK)	\$45m	Excessive Discount
Logan Ridge Financial (LRFC)	\$60m	Excessive Discount
Galaxy Gaming (GLXZ)*	\$45m	Wonderful Business
Bankfirst (BFCC)	\$175m	Excessive Discount
America's Car Mart (CRMT)	\$400m	Wonderful Business
Truxton Bank (TRUX)	\$180m	Wonderful Business
Bebe Stores (BEBE)	\$32m	Excessive Discount
Greenfirst Forest Products (GFP)	\$50m	Excessive Discount
M&F Bank (MFBP)	\$30m	Excessive Discount
Haypp Group (HAYPP)	\$220m	Wonderful Business
Legacy Housing (LEGH)	\$535m	Wonderful Business
Parks! America (PRKA)	\$30m	Excessive Discount

**acquired July 2024*

H1 2024 Letter

Here is the link to three previous letters: [Past Letters](#)

River Oaks Capital is open for new investors, if you or anyone you know is interested in learning more about our fund, please visit [our website](#) or e-mail me at whuguley@riveroaks-capital.com

Thank you to all who have expressed your interest in River Oaks letters. They tend to be long and in-depth, much like the research River Oaks does on a company before we buy ownership. To that end, I have started a table of contents , to make them more navigable

- I. Investment Philosophy & Thoughts
 - II. Companies added in H1 2024
 - III. Updates from H2 2023 Letter
 - IV. Mistakes
-

I. Investment Philosophy & Overview

"The underlying principles of sound investment should not alter from decade to decade, but the application of these principles must be adapted to significant changes in the financial mechanisms and climate"- Ben Graham

It's 1994 and Jeff Bezos has just decided to leave his investment banking job and move to Seattle, Washington to start Amazon.

To get his business off the ground, he raises \$250-300k from family and friends, alongside using his own money to start building Amazon from his garage.

By mid-1995, Amazon is already on pace to make \$1m in sales per year.

By 1996, Amazon had grown too big for family and friends financing – with ~\$15m in sales– so Jeff raised \$8m from a venture capital firm.

By 1997, Amazon's growth was so astronomical – approaching \$150m+ in sales – that the money they needed to keep scaling was more than most venture capital firms could provide.

So, in May of 1997, Amazon raised \$54m by going public on the NASDAQ stock exchange at a valuation of ~\$450m.

Now, let's fast forward to 2012.

Apoorva Mehta leaves Amazon to move to San Francisco.

After a few failed start-ups, Apoorva uses his own money to build Instacart – a phone and computer app that orders groceries to your house – which immediately caught the attention of venture capitalists.

In 2012, he was invited to join the famous start-up accelerator Y-Combinator and raised \$2.3m.

Similar to Amazon, Instacart had rapid success right away.

By 2013, they had \$10m in revenue and raised \$8.5m+ from a Venture Capital firm.

By 2014, they had \$75m in revenue and raised an additional \$45m from a venture capital firm.

However, unlike Amazon, Instacart was not forced to go public three years into starting their wildly successful business in order raise a large sum of capital.

By 2015, Venture Capital firms alongside Private Equity funds had grown exponentially in size compared to when Amazon was first starting.

In total, Instacart was able to raise over \$2 billion from Venture Capital and Private Equity firms – growing to \$2.5+ billion in sales while remaining a private company!

After over a decade of staying private, Instacart finally went public on the NASDAQ in 2023, raising \$660m at a \$10 billion valuation.

Despite somewhat similar business models, the ability to raise money through private capital completely transformed from the time Amazon was founded to the time Instacart was founded.

There are even more extreme examples of how long stellar companies now wait to go public: Uber went public at ~\$70 billion valuation and Facebook went public at ~\$100 billion valuation.

“Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can’t buy what is popular and do well.” - Warren Buffett

An entire paper could be written on the reasons for companies going public much later in their life. However, it all seemed to start with the accounting frauds in the early 2000’s – Enron, WorldCom, etc. – followed by the 2008-2009 financial crisis.

Both events increased the filings and regulations required by public companies and thus made it more costly to be publicly listed in the U.S.

Around the same time, more pension funds and other large pools of capital started getting comfortable with the idea of investing in private companies. This in turn created numerous larger venture capital and private equity funds.

The increased costs of being a public company have disproportionately affected micro cap and small cap companies as they often need to spend \$1-\$2m+ of incremental capital per year to become a public company on a major US stock exchange versus staying private.

This is not an insignificant amount of capital for a company with a market cap of \$300m or less.

There are ways for small companies to get around some of these costs by going public on lesser-known public exchanges, but there are other downsides to this approach.

So, often it makes more economic sense to remain private as long as you can (sometimes years or decades) as your small business grows into a mature, multi-billion-dollar company – if Venture Capital and Private Equity firms are willing to continue to provide you capital.

Jamie Dimon – CEO of JPMorgan Chase – discussed the many reasons companies are getting driven away from going public in this year’s annual letter, and higher costs is just one of the many increasing headaches he mentions:

“Intensified reporting requirements, higher litigation expenses, costly regulations, cook-cutter board governance, shareholder activism.....heightened public scrutiny and the relentless pressure of quarterly earnings.” – Jamie Dimon

In turn, this movement of fewer small companies going public creates a snowball effect: a rapid decline in the number of small investment banks to take smaller companies public, fewer analysts covering smaller companies, fewer investors looking at smaller companies, and fewer shares of smaller companies being traded each day.

This has caused pessimism and a lack of attention around U.S. publicly listed micro cap and small cap companies to be at an all-time high!

Many investors have decided to sell the entirety of their positions and just permanently write off small, underfollowed U.S. publicly listed companies altogether.

Now, let’s rewind back to 2005.

Fitlife, a nutritional supplement company River Oaks has owned since 2021, was started in California by Scott Landow and his team.

In 2005, they raised a couple hundred thousand dollars to create and buy a few nutritional brands.

By 2007, they were generating ~\$1m in sales per year but are still a small, unknown company that couldn’t attract money from any Venture Capital firm.

So, they decide to go public on the Over the Counter (OTC) market exchange in 2007 – instead of the New York Stock Exchange or NASDAQ – to minimize the increasing costs of being a public company while also being able to raise money to fund their growth and planned acquisitions.

Over the years, Fitlife acquired additional nutritional brands – through raising debt and equity – and eventually grew their sales to ~\$20m per year by 2013 – with their market cap also increasing to \$20m.

However, none of these acquisitions were accretive for shareholders as Fitlife always remained right around breakeven.

From 2013-2018, Fitlife’s sales began to steadily decline and they were on the verge of bankruptcy from the debt they had raised to fund prior acquisitions.

At this point, even the few remaining investors still paying attention to small, underfollowed companies had written off Fitlife and their market cap fell below \$3m.

Then in 2018, Dayton Judd – a top-notch capital allocator – entered and bought over 50% of Fitlife’s shares and became CEO.

He immediately cut costs, reduced the debt, completed a few outstanding acquisitions and as a result, transformed the business.

By 2023, Fitlife’s revenue was growing towards \$60m and they had gone from breakeven to

over \$10+m in free cash flow per year - while achieving a 20+% return on invested capital.

Yet, given investors had completely written off paying attention to this small, underfollowed public company years ago, there were no analysts covering Fitlife and no large funds even considering investing.

So, Dayton's business transformation of turning an unprofitable, small, underfollowed company – that was being pushed aside by not only public investors but also Venture Capital and Private Equity firms for over a decade – into a wonderful business was almost completely ignored.

Only those investors willing to do the tedious hard work of in-depth research and getting to know Dayton could see a turnaround was underway. Fitlife was being valued at a massive discount to future earnings – ~ 5 P/E ratio – if one understood the dynamics of Dayton's turnaround plan.

Then in 2023, Dayton made yet another incredible acquisition – MusclePharm – and uplisted Fitlife's shares onto the NASDAQ stock exchange.

By the beginning of 2024, investors finally started to pay attention to the success of Fitlife and the market capitalization almost immediately increased from \$65m to \$150m – yet Fitlife is still only being valued at a reasonable 10 P/E ratio.

“Buy a stock the way you would buy a house. Understand and like it such that you'd be content to own it in the absence of any market.” -Warren Buffett

Before we go over what Fitlife teaches us about the adaptation needed to invest in small, underfollowed companies, let's recall that River Oaks Capital is looking to invest in a 10-15 wonderful companies that check off the six bullet point list below ([Owner's Manual](#)).

- Sells a wonderful product that will generate substantial cash for years to come
- Treats their customers, employees, and community admirably
- Is run by honest and able people that also have ownership in the business
- Does not take excessive risk
- Has a long-term plan for the business
- Is selling ownership at a significant discount to fair value

Although it is more difficult to find a small, underfollowed public company that checks all six bullet points compared to two decades ago – as more wonderful businesses like Instacart remain private until they are large multi-billion-dollar companies – we see this as a terrific opportunity for River Oaks Capital and here is why:

1. At River Oaks Capital we invest with an owner, long term mindset in a select – 10-15 – number of underfollowed micro-cap & small cap public companies.

There are still well more than a select number of wonderful small, underfollowed public

companies. One has to be patient, do extensive in-depth research, personally get to know each management team (to understand the often peculiar circumstances that have created this wonderful business), and then buy ownership when they are undervalued.

2. As investors have completely ignored small, underfollowed public companies, they have indiscriminately sold almost all micro cap and small cap companies – causing valuations to completely fall off a cliff, especially when compared to companies in the S&P 500.

Investors are sometimes “throwing the baby out with the bath water” by ignoring wonderful, underfollowed companies – such as Fitlife.

Undoubtedly, low valuations on many micro cap and small cap companies makes sense as many businesses that now go public in the micro cap and small cap space have often been passed on by venture capital and private equity firms for a reason.

This means the micro cap and small cap space contains an increasing number of highly speculative, risky or zero path towards profitability companies – a good reason not to passively invest in a basket of small, underfollowed public companies.

River Oaks Capital puts in the necessary ‘time requirement’ to find the few undiscovered gems in a forest left for dead.

There are a few small, underfollowed companies where their low valuation makes no sense at all – they are simply undervalued solely because they are undiscovered.

Furthermore, almost all wonderful micro cap and small cap public companies are undiscovered and undervalued due to a unique, obscure dynamic that cannot be picked up by a stock screener or algorithmic investing.

To fully appreciate a wonderful micro cap or small cap public company – such as the turnaround at Fitlife – and the reason behind its extreme undervaluation – requires active, hands-on investing such as getting on a plane to visit Dayton Judd of Fitlife to grasp the business turnaround he had in process.

In total, there are virtually zero eyeballs on any of these wonderful small, underfollowed public companies so you must roll up your sleeves and go find these companies yourself – something a computer simply cannot do.

Part of that 'time requirement' over the past six months included traveling to:



Omaha, NE
Las Vegas, NV
New York City
Atlanta, Georgia
Spokane,
Washington
San Francisco, CA
Rogers, Arkansas
Durham, NC
Nashville, TN
New Orleans, LA Conference

As well as Zoom and conference calls with a countless number of companies from as far as Sweden to as close as Rogers, Arkansas.

Quick Recap

As outlined in the River Oaks Capital ['Owner's Manual'](#), our ultimate goal is to have our fund invested in 10-15 small, underfollowed wonderful businesses that check all six bullet points listed above.

However, small, underfollowed wonderful businesses are not always selling at a significant discount to fair value, so along the way we will also buy excessive discount companies which are so deeply undervalued – \$0.50 or less on the dollar – that almost none of the first five bullet points are needed as virtually any long-term outcome will generate an acceptable return.

II. Companies added in H1 2024

Truxton Bank (TRUX)

Truxton Bank is our tenth largest position. The company has a market cap of \$180m and is a community bank located in Nashville, Tennessee.

When I was travelling throughout the southeastern U.S. a few years ago for due diligence on the community banks River Oaks Capital was buying ownership in (Citizens Bank, BankFirst, and M&F Bank), I kept hearing from experts in the community banking industry about the outstanding reputation of Truxton Bank.

Although I was sure their reputation was indeed stellar, I kept brushing it aside as I couldn't get over the fact that Truxton was being valued at ~2x book value when the community banks we were buying ownership in were valued at ~0.5x book value.

Then earlier this year, I decided to finally reach out to Truxton's management team to figure out why this bank had such an incredible reputation.

After a quick zoom call with their CFO – Austin Branstetter – it started to click why they were so exceptional and I quickly got on a plane and headed to Nashville to meet the whole team.

As I sat down with CEO Tom Stumb, CFO Austin Branstetter and Vice Chairman Andy May, I realized what I had been missing about Truxton each time I glanced at their financials and filings over the years.

Truxton isn't a bank – Truxton is a wealth management firm for high-net-worth individuals with a bank attached to it.

Truxton provides a one stop shop for wealthy business owners – with a net worth between \$25-\$50m – and their families who are looking for: strategic wealth and tax planning, investment management, fiduciary assistance, as well as banking and capital advisory services.

Their CEO Tom Stumb put it best to me "we operate essentially as a multi-family office for 250+ families."

Tom explained to me in detail how Truxton was started in 2004 when the late Don Thurmond alongside Tom, Andy, and a few other veteran wealth advisors – who are still on the board today – left the major US banks to start their own bank and wealth management firm.

Their goal was to run their company very differently than the banks from which they had come.

Tom explained to me that when the founding members worked as high-net-worth wealth advisors they recognized numerous glaring customer needs that were going unaddressed. In the chart below, Tom and his team illustrate the problem that was occurring for high-net-worth individuals and the simplified solution Truxton Bank provides for their customers.

At the major banks, each white circled service (tax strategy, trust, estate & legacy planning, personal banking, etc.) is individually “siloesd” within various departments.

Which means at a major bank you can have one advisor for each of the white circled services – potentially up to 8+ advisors – that often do not even talk to each other.

Outside of their numerous advisors at major banks, high-net-worth individuals also often have to pay an accountant, lawyer, insurance agent and broker.

To make matters even worse, at the major banks the turnover rate of wealth advisors is extremely high.

So, by the time the high-net-worth individual has gotten to know one of their wealth advisors, they have often left for another job.

These are all the direct issues that Truxton has addressed.

Truxton hires extremely qualified and well-rounded wealth advisors alongside in-house CPAs and trust experts so that every white circle in the chart above can be handled for their clients by only one person.

Furthermore, many of the wealth advisors hired by Truxton in 2004 are still with them today, allowing them to develop a personalized relationship with each of their clients.

However, Truxton’s basic niche is simplifying the financial lives of business owners who are worth in the \$25m-\$50m range – especially those with estate and tax planning needs (Tennessee is an advantageous state to have a trust as there are a lot of structuring levers you can pull for tax advantages).

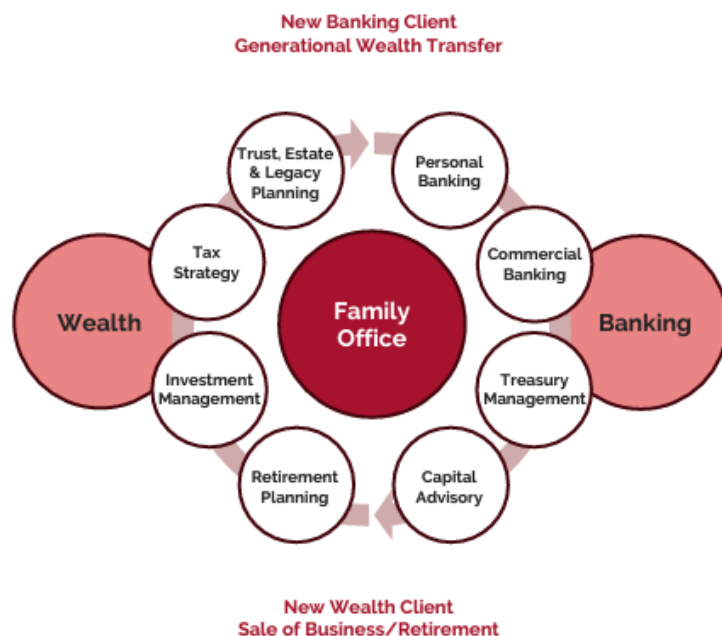
As Tom summed up for me, “We don’t compete in the high volume, low margin side of wealth management, we partner with families that are serious about their money and appreciate a personalized relationship with an experienced person who will give them good advice”

In total, the clients who come to Truxton’s wealth management are simply tired of the headaches of high turnover at major US banks, the countless advisors needed to manage their money and the additional accountants, lawyers, insurance agents and brokers they pay an hourly rate to.

As Truxton’s tag line to a prospective client goes “why is it that you are the only person worried about your money?”

For their all-encompassing wealth management services, Truxton charges their clients a ~1% fee on their assets under management (“AUM”).

They currently have ~\$2 billion in AUM amongst ~250 families – mostly business owners



located either close to Nashville or with some connection to Nashville

It's evident their new approach to wealth management is working as very few customers have left Truxton's wealth management once they have started using their services.

In fact, the original founder – Don Thurmond – and any other Truxton employees who use Truxton's wealth management services pay the same fee as any of their other clients.

As Tom said to me " If we aren't willing to pay our rates, then why would anyone else be willing to pay our rates?"

Although the wealth management side of the Truxton business is the "wonderful" part of their "wonderful business," their bank in itself is quite impressive.

Most notable, since starting the bank 20 years ago, they have never written off a single loan!

This partially may be because they lend to high-net-worth individuals in Nashville – a city that has been rapidly growing for the past 10-15 years with real estate values doubling in the past 6-7 years – but nonetheless it is a testament to how conservative their underwriting is (especially considering those 20 years include the 08-09 financial crisis).

Truxton Bank is exceptionally unique in that it only has one branch with a massive \$800+m in deposits – some community banks only have \$30m-\$50m per branch.

This keeps their fixed costs on the banking side very low which is demonstrated by their impressive ~50% efficiency ratio – which measures a bank's ability to generate revenue above their operating expenses (50% of their net interest income and non-interest income becomes profit).

A vast majority of their banking loans are distinct types of real estate loans throughout the Nashville area. They predominately underwrite unique, conservative loans to high-net-worth individuals – ~40% residential real estate, ~30% commercial real estate, and ~30% consumer/other loans.

To better understand how conservatively Tom and his team lend out money I will paraphrase what they told me, 'a typical banking lender would look at the current situation – alluding to the growth in the Nashville real estate market – and go out and raise another \$20m of equity to do \$30-\$40+m in loans but we aren't going to change the way we operate. We know a correction is coming at some point. We don't know when but it will happen and we don't feel comfortable lending out a ton right now.'

As our discussion furthered on, I realized Tom and his team are the type of people you would want to see in the cockpit as you're boarding an airplane. They are conservative, cautious, practical, and able to navigate tough climates.

When trying to ascribe a fair value to Truxton the first detail that needs to be mentioned is Truxton went public in 2004 where they raised \$20m from mostly employees and Nashville natives – they have not raised any equity since.

Since 2004, Truxton has returned over \$15+m in dividends to their investors while growing earnings to \$19-\$20m per year.

Most of the current investors in Truxton are people who invested in 2004. It is a very stable, long-term minded shareholder base.

Of Truxton's \$19-\$20m per year in free cash flow to equity, 50% comes from the wealth management side of the business and 50% comes from the bank.

The banking side of the business has a book value of ~\$90m and generates \$9-10m of free cash flow to equity – a respectable 10% return on equity.

However, you can see why investors ignore Truxton when they view it as a bank with a \$90m book value trading at \$180m market cap – 2x book value appears to be very high for a community bank.

Even if you look at Truxton's market cap of \$180m, \$19-\$20m of free cash flow to equity – a 10-11% free cash flow yield (9-10 P/E ratio) – doesn't look overly exciting until you dig a bit further.

Once you meet Tom and his team, you realize that not only is there a wonderful business hidden within a bank but it is quite undervalued as well!

First off, if you look at Truxton's return on equity, it has grown from ~10% a decade ago to ~20% today.

This is largely due to the growth in their wealth management business – from well under \$500m AUM to \$2 billion AUM – which generates 30+% returns on equity.

After getting to know management, the upside of Truxton becomes very apparent as they are laser focused on growing their high return on investment wealth management business.

Additionally, very little capital is required to grow the wealth management business, there are no regulations on how much you can grow (as there is in banking), and the revenue generated is stickier – very few customers have left Truxton's wealth management once they have started.

The only growth constraint they are facing right now on the wealth management side is recruiting the rare wealth advisor that fits into their low turnover culture while also having an expertise in a variety of wealth management advisory roles.

Of course, the wealth management revenue to a certain degree fluctuates depending on how the stock market is doing but even if they are only able to grow free cash flow from increasing AUM by 10% per year (solely through bringing on new customers not via a change in the market value of existing AUM), Truxton will reach \$30+m of free cash flow in 3-5 years – a 16+% free cash flow yield (6-7 P/E ratio).

However, as you talk with management they make it quite clear that the wealth management side of the company has the potential for growth well beyond 10% per year.

They have even recently upgraded their Nashville office to accommodate for their anticipated growth.

Additionally, their wealth management business started by just managing business owners and their family's money within the Nashville area and has since grown by word of mouth – their high-net-worth clients go out to dinner with other high-net-worth individuals and recommend Truxton Bank.

Now, word of mouth is starting to rapidly spread to other states as they have had to open a small advisory office in Georgia and may need to open ones in Florida and Texas in the future.

Remember not only does the growing wealth management side of the business require very little capital, but it also generates 30+% returns on equity.

In 2023, Truxton returned slightly less than 50% of their free cash flow to equity to shareholders via dividends and share buybacks.

However, with Truxton Bank being so well capitalized and the bank's lending continuing to slow down – ~5% year over year lending growth in 2023– a scenario where they distribute all of their free cash flow to equity to shareholders each year via dividends and share buybacks – 10+% yield – while continuing to consistently grow assets under management is achievable.

The future scalability of the wealth management business without any required capital is what is unappreciated about Truxton's story!

We are very lucky to have Tom and his team – who own 33% of the bank– allocating and protecting our capital for us. River Oaks Capital plans on being owners of Truxton Bank for years to come.

BEBE's (BEBE)

I will refer to the company as BEBE's to differentiate it from the bebe's brand they own (apologies if it's confusing!)

BEBE's is our eleventh largest position. The company has a market cap of \$32m and owns 50% of the bebe's apparel brand, 28.5% of the Brookstone electronic brand and 64 Buddy's rent to own furniture stores.

If you go back to the days when people would spend their weekends walking around shopping malls, perhaps you remember seeing bebe's clothing stores (as seen here).



The bebe's brand was started by Manny Mashouf in 1976 and became a well-known women's apparel brand by the early 2000s – when they had over 300 stores in malls across the United States.

With the rapid decline of the popularity of malls over the past decade, bebe's stores started to quickly struggle – having to close down numerous stores every year.

In 2016-2017, the bebe's brand made a pivotal decision and decided to close all of their remaining 175 retail stores throughout the United States.

With the help of B. Riley investment bank, the bebe's brand shifted their business strategy and decided to license out their brand to various physical and e-commerce apparel manufacturers.

For example, if you are a generic sunglasses manufacturer, you will buy the licensing rights to the bebe's brand – which is especially popular for women's sunglasses – so you can now put the bebe's brand on your unbranded sunglasses.

Brand licensing can be a challenging endeavor. You must pick the right apparel manufacturer to

license your brand to or the brand name can quickly tarnish if the material and presentation is not of high quality.

So, to address this, with the help of their largest shareholder, B. Riley, after closing their physical stores, BEBE's entered into a 50/50 Joint Venture with Bluestar Alliance.

Bluestar Alliance is a best-in-class company for managing licensed brands. They are well versed in which apparel manufacturers to partner with in order to maintain and grow the reputation of the brand.

Most Notably, Bluestar has done an incredible job of licensing the Hurley brand name.

The bebe's brand licensing agreements are structured with the apparel manufacturers so that bebe's receives 7% of gross sales of all bebe's branded products – with a minimum guaranteed payment each year – with is split 50/50 within the BEBE's and Bluestar Joint Venture. These contracts are typically 2-3 years long.

The minimum guaranteed payment from the apparel manufacturers gives us downside protection as they are typically 60-70% of what the bebe's brand was projecting the manufacturer to pay them during a normal year.

BEBE's partnership with Bluestar was so successful that they decided to create another Joint Venture in 2018 to acquire the Brookstone Brand.

This time BEBE's only bought a 28.5% ownership in the Joint Venture – the percentage of gross sales, minimum guaranteed payments and contract length are all the same as the bebe's licensing brand agreement.

The Brookstone brand was started in 1965 by Pierre de Beaumont and their story is very similar to the bebe's brand.

Brookstone became famous for their retail stores – mostly located in malls – which sold various types of electronics – headphones, massage chairs, lamps, etc.

If you recall, it was the store people would often venture into during their mall visits to try out the new massage chairs and innovative new electronics (as seen here).



After the same struggle as the bebe's brand (the decline in mall traffic), in 2018 Brookstone decided to close their 100+ retail stores to also focus on brand licensing – the rights were sold to the BEBE's and Bluestar Joint Venture.

By 2019, the BEBE's strategy of becoming a licensing brand company – with now two brands (bebe's and Brookstone) – was working wonderfully.

Between their 50% ownership of the bebe's brand and their 28.5% ownership of the Brookstone brand, BEBE's was generating \$7-\$8m of free cash flow to equity each year.

Then came the mistake.

In 2020-2022 BEBE's decided to make a hard left turn on their business plans and acquire 64

Buddy's stores – rent-to-own furniture stores.

BEBE's wanted to acquire an operating business that was highly cash flow generative – as they have \$300m of Net Operating Losses "NOLS" to shield their free cash flow from getting taxed.

Additionally, if they acquired another Joint Venture or partial ownership investment they could be subject to the restrictive '[40 act](#).'

Of course, they also could have just made no acquisitions and continued to pay out the \$7-\$8m of free cash to equity as dividends.

Nonetheless, the Buddy's acquisition was pushed through by BEBE's largest shareholder – B. Riley – who has experience in the rent-to-own furniture store space.

I have visited Buddy's stores (pictured here) and they are almost an identical set up to their competitors such as Rent-A-Center, Aaron's, and Conn's.

BEBE's hired a solid operator – Martin Fontela – to run their stores and everything was off to a great start in 2020 as they made ~\$6+m of free cash flow to equity at their Buddy's stores alone.



Historically, rent-to-own furniture stores have stable, recession proof cash flows – the main reason B. Riley was so attracted to BEBE's acquiring 64 Buddy's stores.

However, in 2022, all rent-to-own stores throughout the U.S – including Buddy's – hit a wall.

This was mostly due to the unforeseen spike in inflation alongside increased interest rates which caused their lower-income customers to completely halt renting furniture.

As a result, their 64 Buddy's stores started losing money and BEBE's had to temporarily decrease their dividend from ~\$0.60 per year to ~\$0.08 to protect against their increased interest rate and covenants on the debt they used to acquire the Buddy's stores.

This caused many investors to rapidly sell their ownership in BEBE's.

I have spent time with the CEO of BEBE's – Nick Capuano – and he is an honest, straightforward guy who is in charge of the high-level capital allocation decisions at BEBE's. He will readily admit that in hindsight the Buddy's acquisition wasn't the best idea for a few reasons:

- It added \$1.5-\$2.0m in overhead costs per year to BEBE's
- Rent-to-own furniture businesses have very few cost cutting levers they can pull if demand falls – a lot of operating leverage
- It added variable debt to the business

But there is good news.

All of the negative developments at the Buddy's stores has allowed River Oaks to buy ownership in Bebe's at an "excessive discount" market cap of \$32m.

In the meantime, Nick Capuano and his team are actively working on turning around their 64 Buddy's stores.

They have been very hands on at their Buddy's stores over the past year by reducing any expenses they can, negotiating to decrease lease rates, and increasing prices to adjust for inflation.

Early indicators are showing that the Buddy's turnaround is slowly happening – generating ~\$1m in free cash flow to equity in 2023 . Once Buddy's gets back to anywhere near a normalized free cash flow level – \$4-\$5m – BEBE's will almost certainly sell all 64 stores.

However, the turnaround of the Buddy's stores doesn't even need to occur for us to generate an adequate return.

Even if BEBE's sells their 64 Buddy's stores for a \$15m liquidation value – less than the inventory on the balance sheet – it would be enough to make BEBE's a debt-free company.

Recall, that BEBE's paid \$43m for their 64 Buddy's stores making a sale of \$15m even beyond a worst-case scenario.

If BEBE's then uses the \$15m from the sale of their Buddy's stores to become debt-free, we are back to the same BEBE's company of 2019 – a 50% ownership in the bebe's brand and a 28.5% ownership in the Brookstone brand.

The free cash flow from their ownership in these two brands – after overhead expenses– has been ~\$8m – a 25% free cash flow to equity yield on the current market cap (4 P/E ratio).

In 2019, BEBE's was paying a ~0.60 per share dividend before the Buddy's acquisition – which would be a ~25% dividend yield on the current market cap.

In the meantime, BEBE's is currently paying a ~7% dividend yield while they sort through the Buddy's turnaround.

Although I prefer to value companies on free cash flow, it is clearer to see the downside protection and "excessive discount" we have in buying BEBE's ownership by seeing the historical prices they paid for each asset:

- BEBE's acquired 50% of the bebe's brand in their Joint Venture for \$35m
- BEBE's acquired 28.5% of their Brookstone brand in their Joint Venture for \$20m
- BEBE's acquired their 64 Buddy's stores for \$43m
- (-) \$15m of net debt

This is equal to an equity value of \$83m while ownership in BEBE's is currently being valued at \$32m.

The reason this huge discount to fair value exists is because:

1. B. Riley owns 75+% of the company. If you include Manny Mashouf's ownership as well, over 80+% of the company is owned by insiders – meaning very few shares trade per day
 - *Note: There is no real risk of B. Riley taking the company private as they would lose the ~\$300m of NOLs*
2. Now that B. Riley owns over 75+% of BEBE's – as of the start of 2024 – they are consolidating BEBE's into the B. Riley financial statements – this will save BEBE's \$300k

or more per year in costs (audit, filings, etc.) but BEBE's will only release their financials once per year going forward.

3. B. Riley's reputation has taken a hit recently with their involvement with The Franchise Group [scandal](#). The Buddy's franchise is owned by The Franchise Group and this could lead to them being sold to another company.

Despite the negative developments around B. Riley, buying ownership in BEBE's still feels like a phrase I love "heads we win, tails we don't lose much."

Even if the 64 Buddy's stores are sold for just the inventory on the balance sheet, we can still generate a 25+% free cash flow yield.

If the Buddy's stores are sold anywhere near their \$43m purchase price or the stores return to a \$4-\$5m free cash flow run rate the value of our ownership in BEBE's is worth significantly more than the current \$32m market cap.

III. Updates from H2 2023 Letter

Citizens Bank (CZBS)

Citizens Bank is a community bank located in Atlanta, Georgia. It is the largest position in our fund and now has a \$80m market cap.

In May, I went to the Citizens Bank shareholder meeting and was able to catch back up with CEO Cynthia Day, CFO Sam Cox, Chairman of the board Ray Robinson, and the rest of the Citizens team.

What Cynthia and her team have accomplished over the past few years since receiving \$122m of ECIP funding (the ECIP Program was described in the past [few letters](#)) and other favorable financing has been incredible to watch.

Over the past 18 months, they have bought back over 10% of their shares (and are trying to opportunistically buy back more), paid \$3+m in dividends, lowered their efficiency ratio to below 50% and started releasing a quarterly press release that informs potential investors of the outstanding performance and over capitalization of the bank.

Not only have Cynthia and her team built an excellent bank but they have been extremely receptive to suggestions made by us shareholders. It has just all around been a pleasure to be an owner of Citizens Bank.

Now, the next stage of the Citizens Bank story starts.

With \$90+m of cash – over 100% of the current market cap! – still at the holding company, the Citizens Bank team is very interested in growing their bank through a strategic acquisition of another minority owned ECIP bank.

If one ECIP bank acquires another ECIP bank, the acquiree is permitted to keep the ECIP capital of the acquired bank. Part of the strategy of the U.S treasury's ECIP program is to incentivize sub-scale low income and minority community banks to consolidate to become more

efficient and competitive with the major banks.

Recall that ECIP capital is an extremely favorable 2% interest rate, perpetual preferred equity loan from the government.

In an acquisition, Citizens would be able to add this extremely favorable capital to their balance sheet, grow deposits, gain a new area of the country to lend to and take redundant costs out of the acquired bank to increase their earnings.

With a market cap of \$80m and free cash flow to equity of \$16+m, Citizens Bank offers investors a ~20% free cash flow to equity yield (5 P/E ratio).

At these valuations, buying back shares is still the most favorable way to allocate capital but with \$90+m in cash at the holding company alongside an illiquid stock, Citizens is limited in how much stock they can buy back.

Thus, the reason the Citizen's bank team is looking at acquisitions.

They simply have too much cash at the holding company to use on buybacks, dividends, and organically growing loans – what a nice problem to have!

Even if Citizens only uses ~50% of their cash at the holding company – \$45+m – to acquire a minority ECIP bank, they can easily increase the assets of Citizens to well over \$1b. This alongside continuing to strategically buyback shares and paying a modest dividend means Citizens should be able to generate \$20+m of free cash to equity in near term– a 25% free cash flow to equity yield (4 P/E ratio).

However, even if an acquisition never unfolds, Citizens is around 100% undervalued still trading at ~50% of ECIP-adjusted book value.

Cynthia and her team have done an exceptional job and it has been wonderful to be an investor on this journey of continuing to grow their bank to be one of the best and largest minority owned banks in the U.S.

Medical Facilities (DR.TO)

Medical Facilities is our second largest position. The company now has a market cap of \$225m and has majority ownership in four surgical hospitals in South Dakota, Oklahoma and Arkansas, as well as one surgical center in California.

I recently caught up with Michael Rapps, who is one of the leaders of Converium Capital, and he re-iterated how his team alongside CEO Jason Redman remain committed to their step-by-step plan laid out when they went activist in 2022: no more acquisitions, sell non-core assets, pay down debt, cut costs at the corporate level and return all excess cash to shareholders.

By the end of this year, management is on pace to buy back another \$15+m of shares – a total of 35+% of the outstanding shares since 2022 – alongside paying a \$6+m yearly dividend and becoming corporate debt free.

When I wrote a full summary on Medical Facilities in the [last letter](#), they had bought back an

impressive 25+% of shares from 2022 to the end of 2023, but the board continued to limit Jason and his team on the price they could buy back shares at – even though the share price has never traded near my estimated fair value of \$18+ CAD per share.

I know one of the agenda items at this year's annual board meeting was to allow Jason and his team more autonomy over the share buyback price. It appears that has been approved as Medical Facilities has recently bought back shares up to \$13.50 CAD per share – the cap was around \$10 CAD per share last year.

Management has now achieved all of their goals since the activist takeover in 2022 with non-core assets divested, corporate costs down to ~\$8m, free cash flow at \$25+m, and a net cash position at the corporate level.

With revenue growth of ~5% year over year alongside margins returning to pre-covid historical norms (as employees and other inflated costs start to come down), it seems that the highest probable next step – of the four scenarios laid out in the last letter [here](#) – is for the Medical Facilities team to sell their ownership in the Arkansas and Oklahoma facilities in the near term (12-18 months).

Their ownership in these two hospitals should sell for \$35+m each – a very conservative estimate for the Arkansas hospital.

Jason and his team would then most likely use the \$70+m of proceeds to execute a tender offer to buy back another ~30% of their shares.

They would then be left with their two facilities in South Dakota which are their cash cows.

They each have 20-30% operating margins and generate a ~40% return on invest capital – most notably Sioux Falls.

They are best in class surgical hospitals – receiving top tier national ratings – that will demand a significant premium once they are eventually sold over the next few years.

Another scenario outlined in the previous letter, is Jason and his team sell all four hospitals at once for \$300+m.

Regardless, the more shares management can buy below fair value between now and the eventual sale of their four hospitals means the greater the return will be for River Oaks.

Medical Facilities currently generates \$25m+ of free cash flow to equity per year – a ~11% free cash flow to equity yield (9 P/E ratio) – which should continue to grow at or above inflation.

Although the market cap has increased ~40% to \$225m since we bought ownership last year, it still provides us with significant downside protection as management continues to aggressively buy back shares at well below fair value – \$300+m.

Meanwhile the four surgical hospitals are in total worth well over \$300m to a strategic acquirer regardless of if they are sold individually or together.

In a hypothetical situation where the acquirer bought all four hospitals, the acquirer – such as Surgery Partners – could immediately eliminate \$8m of redundant corporate overhead costs

which would free up the four hospitals to generate ~\$33+m of free cash flow – not including other potential synergies.

Boston Omaha (BOC)

Boston Omaha is a holding company that divides itself into four main segments: Billboard, Insurance, Broadband, and Asset Management. It is our third largest position in the fund and now has a market cap of \$410m.

When River Oaks invested in Boston Omaha in 2021, I expected it to be a quiet, uneventful investment that would slowly compound capital at above average returns for years and decades to come.

So far, it has been anything but that!

This May, Co-CEO Alex Rozek stepped down from Boston Omaha and immediately sold all his shares. It is hard to say what exactly led to Alex stepping down – press release attached [here](#) – but it was apparent a few months before that something wasn't right within the company.

Abruptly, in April, Boston Omaha announced they were winding down their asset management business – which they had raised over \$125m for – and temporarily changed their annual meeting to a virtual meeting.

Boston Omaha has had a co-CEO structure since starting in 2015, but it was becoming apparent through my conversations with companies owned by Boston Omaha that over the past year or two co-CEO Adam Peterson was becoming the leader and key decision maker.

Alex leaving didn't change my investment thesis on Boston Omaha much at all.

However, the way Alex exited the company was a situation that gave me pause in whether my investment thesis was still intact.

Alex owned 49% of the super voting shares – Adam owns the other 51% . Since the super voting shares are not actively traded on a stock exchange, it was deemed through legal action that a valuation firm needed to determine fair value of Alex's super voting shares plus regular shares.

The third-party valuation firm decided Alex's super voting shares plus regular shares were worth just over \$25 per share – while regular shares were trading just below \$16 per share at the time.

So, Boston Omaha was forced to buy back \$19 million worth of shares from Alex Rozek – 4-5% of the market cap – at a 60+% premium to the share price at the time.

This, on top of other activities mentioned in previous letters that were poorly communicated to shareholders, made many investors run for the door – the share price temporarily fell to ~\$12.

After taking a few weeks to digest the information, talking to Boston Omaha team members

and reading Adam's [letter](#) to shareholders, I started to realize that – despite the frustration of having to pay an inappropriately large premium for Alex's shares – a much needed second chapter of Boston Omaha had begun.

It was the time for Adam Peterson to become the sole CEO of Boston Omaha.

Adam is one of the most driven, talented, and reasonable businessmen I have invested alongside and him becoming sole CEO is a necessary development for long-term Boston Omaha shareholders.

As mentioned in previous letters, each CEO of companies that Boston Omaha owns that I have spoken with has said how impressed they are with Adam and how hands off he is – allowing them to run their own company.

Adam has made it clear the next chapter of Boston Omaha will not stray away from their core competencies as they did with their asset management program.

They will solely focus on growing their broadband internet, billboard and insurance business alongside their investments in Sky Harbour, Crescent Bank and a few other smaller investments.

The Boston Omaha team plans to enhance shareholders relationships by providing quarterly supplemental slides, perhaps doing a call with shareholders 1-2 times a year, and a more straightforward bonus plan.

On top of that, Adam and his team are buying a significant amount of shares themselves and a \$20m share buyback program has been announced.

All this turmoil has forced Adam and his team to become hyper focused on growing their current businesses and soon entering the significant free cash flow period of their life cycle that I have referred to numerous times in the past.

Looking forward, over the past six months I have caught up with various CEOs of Boston Omaha owned companies as well as other industry experts and have gained a much deeper appreciation of how valuable the core assets Boston Omaha owns are:

1. *Billboards*: Link Media – run by Scott Lafoy – is the sixth largest billboard company in the U.S with 7,600 billboards. A billboard company of this size is incredibly valuable. Due to the governmental restrictions on building new billboards, organically growing a large billboard company in the U.S is impossible.

Another large billboard owner made it clear to me that Link Media's appraised value is probably \$325+m value – \$300m equity value (\$25m of debt).

A strategic buyer such as Lamar, OutFront, or Clearchannel would pay a significant premium to the \$325m appraisal value as not only does Link Media own billboards in more rural areas of the country – an area that the major players haven't penetrated – but Link Media is one of the last of-size acquisition targets left.

Link Media is currently generating ~\$20+m of free cash flow to equity with the ability to

significantly grow their free cash flow as they convert some of their traditional billboards into digital billboards and reduce existing land lease costs.

2. *Rural Broadband Internet*: Boston Omaha has invested ~\$175+m in rural broadband internet by acquiring and growing InfoWest, Airebeam, Utah Broadband and Fiber Fast Homes (for a more in-depth discussion of rural fiber internet see the last [letter](#)).

All of their rural broadband businesses are still in the growth phase as they build out their fiber internet network – which requires a lot of upfront capital.

However, once their fiber internet network is fully built they will transition from breakeven free cash flow to equity now to potentially over \$20+m of free cash to equity.

I have spoken with a few of the CEOs of Boston Omaha’s fiber businesses and they are both impressive operators and excited for what the future holds in rural fiber.

I talked about this in length in a previous letter but this is a once in a lifetime opportunity to build fiber to rural U.S locations – often coming with government grants – and if done correctly it will eventually generate low maintenance, durable free cash flow for decades.

Equally as exciting, all four of Boston Omaha’s broadband internet companies are starting to work together – under the coordination of Adam and Frank DeJoy – to not only share ideas and avoid prior mistakes but also to reduce costs.

3. *Sky Harbour (SKYH)*: Sky Harbour is a publicly traded company with 13 private aircraft hangars campus locations across the U.S and adding more locations almost every month.

The current market cap of Sky Harbour is ~\$675m valuing Boston Omaha’s ownership at ~\$135m.

I wrote a full detailed explanation of Sky Harbour’s business in the H2 2022 letter – attached [here](#) – but suffice it to say that CEO Tal Keinan, CFO Francisco Gonzalez and their team have far exceeded my expectations in the first five years of the company.

It now looks as if they will achieve their short-term goal of getting into 20 airports within the next year, which is a truly incredible accomplishment! (their longer-term goal is 50 airports)

I have gotten to know Tal and Francisco well and their ability to execute the growth of Sky Harbour has been jaw dropping to watch. They have fulfilled a need that high-net - worth aircraft owners have wanted for years.

More importantly, they have been able to negotiate – at an astounding speed – airport land contracts that were thought to be impossible to get (as private airports are often run by slow, bureaucratic municipal governments).

Their private aircraft hangar campuses are receiving rave reviews from customers and they are selecting high quality airports.

For example, they recently agreed on a contract to build a hangar campus at the San Jose, CA airport which is considered an A+, top-tier airport.

Once Sky Harbour reaches 20+ airports they should have the ability to generate \$50-\$70m+ of free cash flow to equity per year. However, it will certainly be re-invested into the business as their long-term goal is to reach 50+ airports.

If Sky Harbour reaches their long-term goal they will be worth multiples of their market cap today. Adam and his team buying ~20% ownership in Sky Harbour in 2021 is turning into an exceptional investment.

If you simply add the conservative value of Boston Omaha's billboard company – \$300m – plus the value of their Sky Harbour ownership – \$135m, you already get well more than Boston Omaha's current market cap of \$410m

This means that investors are essentially ascribing zero value to:

- \$175+m of invested capital in their rural broadband internet businesses
- \$35m Insurance Business
- 15.6% ownership of CB&T Bank – \$25-30+m value
- \$20+m in real estate and other investments
- \$25+m of cash on the balance sheet

Using conservative estimates this gets you to a \$720m market cap – which is 70+% above the current market cap.

From a free cash flow standpoint, Boston Omaha is generating a ~11-14% free cash flow to equity yield (7-9 P/E ratio) which doesn't include the \$20+m of free cash flow potential from their fiber businesses in the future.

Not only does Boston Omaha provide us with an unusually high downside protection for a company with so many valuable assets that have growth potential but the downside protection is now further backed by the announced \$20m share buyback program.

Their annual meeting is now in person this September in Omaha. I will be attending and will make sure to send you all an updated report after catching up with the Boston Omaha team.

R&R REIT (RRR.UN)

R&R REIT is a REIT (Real Estate Investment Trust) that owns 17 budget hotels - Red Roof Inns and Hometowne Studios - throughout the eastern half of the U.S. It is our fourth largest position in the fund and now has a \$28m market cap.

In May, R&R appointed a new CEO – Irfan Lakha. I got to catch up with Irfan a few months ago and came away very excited about the plans he has for growing the R&R REIT.

After speaking with R&R's CFO – Bob Choo – last year, it was already apparent that R&R planned on increasing the size of their REIT by acquiring 1-2 hotels with the \$10+m of cash on the balance sheet.

However, it seems Irfan has been brought on board to not only just acquire 1-2 hotels but rather to go out and raise enough capital to potentially double the size of the REIT over the next few years.

This is exciting for two reasons:

1. Irfan is surrounded by an excellent team led by chairman of the board – Majid Mangalji (a billionaire real estate entrepreneur) – looking to acquire U.S hotels that are undergoing distress from the rise in interest rates at an attractive 9-10 cap rate (~10-11 P/E ratio).

This combined with a modest use of leverage could provide an attractive growth opportunity – ~12-15%+ return on equity – for R&R shareholders.

2. In order for R&R to grow from 17 hotels to ~34 hotels they will have to raise \$40+m of equity – more than their entire current market cap.

Irfan and his team are currently traveling throughout the eastern U.S. to line up hotels they plan on acquiring before they raise equity.

Then, they will reach out to investment banks and other larger investors to market the R&R growth strategy to them. The reason this is so exciting for us twofold:

- The story of R&R will be told to more investors and the undervaluation will become immediately apparent – thus increasing the stock price.
- The R&R management team – who owns 90+% of the shares – acquired all of their shares at \$0.20 CAD per share (explained in this [letter](#)). Therefore, when raising equity it is highly unlikely they will raise it at below \$0.20 CAD per share which will be accretive to us as we have bought ownership in the company at an average of \$0.12 CAD per share.

The time frame for when the R&R team will raise equity is not certain, as raising equity in the REIT market has been challenging in this changing interest rate environment.

However, Irfan and his team seem intent on making acquisitions in the near future even if it means the first few hotels are acquired in a non-traditional fashion (Joint Venture partnership,

etc.)

In reality, none of these growth plans are necessary for us to achieve above average returns as we already have such a significant margin of safety .

As stated, we have bought ownership in R&R at an average price of \$0.12 CAD per share, whereas the price that R&R management has bought their ownership is \$0.20 per share, and their 2019 appraisal valued the R&R REIT at \$0.33 per share.

R&R's current share price is ~\$0.13-\$0.15 CAD per share and they are generating a 15-20+% free cash flow to equity yield (5-7 P/E ratio).

Even the R&R team members will indirectly tell you that their current valuation makes no sense, mainly due to the illiquidity of the stock.

Having Irfan on board as CEO to pay full attention to growing the R&R REIT is a very positive development for us shareholders and a big step in the right direction.

It seems that either the R&R team will create a catalyst for the fair value of the R&R REIT to be recognized or they will continue to re-invest capital at above market returns which adequately compensates their owners until the market realizes how inefficiently R&R's stock is priced.

Fitlife Brands (FTLF)

Fitlife Brands (FTLF) develops and markets nutritional supplements - protein powders, pre-workout, amino acids, weight loss products, fish oils etc. - under 13 different brand names. It is our fifth largest position in the fund and now has a market cap of \$140m.

Dayton Judd – CEO of Fitlife who owns 55% of the company– continues his phenomenal turnaround.

I re-connected with Dayton Judd a few months ago and as usual his execution of the top-notch acquisition and cost cutting strategy continues to accelerate.

First off, the Mimi's brand acquisition in 2023 has turned into a homerun investment so far.

Mimi's was doing \$1m or less of free cash flow to equity when they were acquired by Fitlife in late 2022 – details about Mimi's mentioned in the [H2 2022 letter](#).

Over the past year, Dayton and his team have almost completely cut the general and administrative costs of Mimi's– board fees, employees, etc. – as well as a significant portion of the advertising costs.

This has raised the annual free cash flow to equity of Mimi's to \$5+m –they acquired Mimi's for \$17m which turned out to be a 3.5 P/E valuation!

In late 2023, Dayton used the increased free cash from Mimi's alongside \$10m of debt to acquire the distressed MusclePharm brand for \$18.5m.

The story of MusclePharm was highlighted in the [last letter](#).

Although we are less than a year into the acquisition of MusclePharm, it appears Dayton's flawless turnaround strategy is again underway.

Recall, that if MusclePharm's 2022 sales of ~\$20m were just to remain flat that Dayton and his team would have only paid 6-7x free cash flow to equity (6-7 P/E ratio). However, his plans to revitalize the once \$100m+ in sales brand are already being implemented.

In April, Dayton and his team relaunched MusclePharm's Combat Sport Protein bar which at one point in time had sold \$25 million per year.

Additionally, Dayton and his team are already getting their core products back onto the shelves and websites of various wholesale partners that had parted ways with the brand under previous ownership.

These two developments make it seem there is little doubt that Dayton will be able to grow the MusclePharm brand well above \$20m of revenue.

MusclePharm provides Dayton and his team with a growth opportunity that hasn't existed at any of the other brands they have acquired.

As they continue to rebuild MusclePharm's reputation and optimize their Amazon and e-commerce selling methods it seems that Dayton and his team paid a similar multiple as Mimi's – 3-4x P/E ratio – for the MusclePharm acquisition.

Although the potential growth of MusclePharm is exciting, at the same time we need to monitor the legacy Fitlife brands– NDS, iSatori, PMD, etc. – as foot traffic to GNC and other nutritional stores decline.

The ability for Fitlife to migrate their legacy brands onto their own and other e-commerce platforms will be a pivotal metric to watch over the next few years.

As discussed, Fitlife uplisted to the NASDAQ late last year and has been more routinely going to conferences and other investor events.

Fitlife is no longer as undiscovered as when we bought ownership over two years ago – which has been reflected in the market cap increasing 80+%.

Despite this, Fitlife still remains attractively valued. Even if MusclePharm doesn't grow, Fitlife provides us with a ~10% free cash flow yield (10 P/E ratio).

Looking further out, Dayton has hired new talent needed for the rapid growth of Fitlife. If the turnaround of MusclePharm continues as planned, it will be interesting to see what Dayton's next step will be as he owns 55% of the company and will have turned Fitlife into a very attractive acquisition target for larger nutritional brand companies.

Nicholas Financial (NICK)

Nicholas Financial (NICK) was a sub-prime auto lender that sold their loan book and now has majority ownership in Amplex Internet alongside \$40+m of cash to invest. It is our sixth largest position in the fund and now has a market cap of \$45m.

As mentioned in the H2 2023 letter, Nicholas Financial announced the sale of their entire loan book to Westlake Financial for \$9 per share late last year.

The deal finally closed this April resulting in Nicholas Financial having ~\$65m of cash and no debt on the balance sheet.

As I outlined, we would have preferred Nicholas Financial to just return the \$9.00 per share to shareholders – recall we bought shares for an average of ~\$5.60.

However, Adam Peterson and the rest of the Nicholas Financial team – who own 40+% of the shares – decided the best route for shareholders would be to keep the \$65m of cash within Nicholas Financial and put the ~\$40m of U.S NOLs and ~\$60m of State NOLs to use by acquiring other businesses.

We could have sold our shares at \$7 per share (30% below cash on the balance sheet) – the price they were trading after the Westlake deal was announced.

However, after careful consideration and speaking with chairman of the board Jeff Royal, I thought it made the most sense to maintain our ownership and invest alongside Adam.

I have gotten to know Adam quite well and he is someone I will continue to happily invest our capital alongside. He has put together an impressive board and team at Nicholas Financial that I trust will make adequate returns on capital – despite the suboptimal size of the company.

It seems that Adam and the Nicholas Financial team already had a capital allocation plan in place well before the Westlake deal closed in April.

As of this June, Nicholas Financial acquired 56.5% of Amplex Internet. Their CEO – Mark Radabaugh – retained the other 43.5% ownership and will stay on as CEO for at least two more years.

Nicholas Financial invested ~\$21+m for their 56.5% ownership at a valuation of \$37.5m – the numbers mentioned about the acquisition may be slightly off as detailed financials haven't been released yet.

Amplex Internet is located in Luckey, Ohio and provides broadband internet to business and residential customers in rural northwest Ohio.

Amplex recently started transitioning from fixed wireless internet to building fiber internet to homes. They currently have 9,000 fiber passings and 3,500 fiber customers.

I had a long conversation with Amplex CEO, Mark Radabaugh, and he is a classic entrepreneur who bootstrapped growing Amplex into what it is today with family and friends money, free cash from the company, and small business loans and various other forms of debt – doing anything he could to not dilute his ownership.

Within five minutes of our conversation, it was clear that Mark was not only very knowledgeable about the rural internet industry but very passionate about the company he built.

He described to me how Amplex's transition from fixed wireless to fiber internet has made financing growth a challenge.

An investment in fixed wireless is inexpensive and the payback period is less than a year. Conversely, an investment in fiber is quite expensive upfront and takes years until it is paid back – but once your fiber buildout matures it provides low maintenance, durable free cash flow for years or even decades.

It has been mentioned multiple times in various of the River Oaks Capital letters how attractive rural fiber internet returns can be if you are the first one to build fiber in an uncompetitive market.

In order for Mark to continue to grow the fiber buildout in his business he needed to bring on an equity partner – it is too dangerous to grow a fiber business with a massive debt load (although some companies are doing just that) – and that is where the Nicholas deal came in.

Mark agreed to partner with Adam and the Nicholas team because he liked how Adam's team already had experience in rural fiber – through Boston Omaha – and he knows a few of the CEO's whose companies are owned by Boston Omaha and they spoke highly of working for Adam and his team.

Additionally, he liked how Adam and his team were hands off and allowed him to continue to run his company the way he wanted.

Mark said that if an equity investor had come in an overhauled Amplex Internet it would have been a total disaster as their customers love them for their personalized customer service.

Furthermore, Mark built the business from the ground up and didn't want to see any of his employees get fired – a testament to his character.

Amplex Internet is still in the early stages of their growth with a penetration rate that should continue to increase alongside growth in their fiber network from the capital provided by Nicholas Financial and a friendly \$21m USDA loan – both of which have yet to be used to build fiber.

This capital alone should be enough to more than double their fiber network.

Very basic financials were given during the Amplex Internet acquisition announcement. By using those rough estimates, Amplex is generating ~3+m of free cash flow to equity – which should increase as their penetration rate increases and as their fiber buildout continues.

This means Nicholas Financial shareholders are currently receiving ~\$1+m in free cash flow to equity per year – after deducting the fixed costs to run the holding company – from their 56.5% ownership in Amplex Internet.

Additionally, Nicholas Financial should have around \$40+m of cash on the balance sheet.

Their financials will become clearer over the next quarter but recall the market cap is only \$45m

– providing us with a significant margin of safety.

I would not be surprised if Nicholas Financial uses a large portion of the remaining \$40m of cash to expand Amplex’s rural fiber footprint.

Moreover, as part of the agreement, Nicholas Financial has the right to acquire 80% of Mark Rudabaugh’s 43.5% remaining interest in two years – which would be another ~\$15m of cash .

Logan Ridge Financial (LRFC)

Logan Ridge Financial is a BDC (Business Development Company) that provides financing to small and midsize private companies in the form of either debt or equity. This is an option of financing for those companies that outgrow their local bank but aren’t big enough for Wall Street or larger banks. It is our seventh largest position in the fund and now has a market cap of \$60m.

CEO Ted Goldthorpe and his BC Partners team continue to execute their calculated turnaround at Logan Ridge Financial since they took over in 2021.

As mentioned in previous letters, I have gotten to know Ted over the past few years and he is an excellent steward of our capital. He is straightforward with me and all Logan Ridge investors about what stage of the turnaround they are in.

The last two internal steps in the Logan Ridge turnaround – the description of the full Logan Ridge turnaround is in [this letter](#) – is lowering the portfolio’s exposure to equity investments and increasing the dividend.

As of the end of Q1 2024, Ted and his team have decreased their equity exposure to only ~15% of total investments from ~32% of total investments when they took over.

Additionally, Ted and his team starting repurchasing shares in Q1 2024 – \$0.5m worth of shares which is 1% of the market cap – and are authorized to purchase \$4.5m more – which would be 8+% of the market cap in total.

Alongside this, Logan Ridge Financial is paying a ~6% dividend yield. If we assume that Logan Ridge continues to repurchase \$0.5m of stock per quarter, they will be paying us a ~10% shareholders yield (dividend plus share buybacks).

The final step in the turnaround is for Portman Ridge – BC Partners’ main BDC – to acquire Logan Ridge at around Net Asset Value (“NAV”).

Logan Ridge has a NAV of ~\$90m but is currently trading at ~67% of NAV. A healthy BDC generates a ~10% return on NAV which means that Logan Ridge would need to generate ~\$9m of free cash flow to equity.

Currently they are on pace to generate \$4-\$5m of free cash flow in 2024 – a number that should approach \$7-\$8+m as they continue to sell down their ~\$30m of equity investments and re-invest the cash into debt securities.

However, \$9+m of free cash flow would be difficult for them to achieve due to the burden of a disproportionate amount of fixed costs from their subscale BDC.

There is tangible pressure from all Logan Ridge Financial shareholders to get this merger done as it is a no-brainer for not only Logan Ridge shareholders but Portman Ridge shareholders as well – Portman Ridge also needs to grow their subscale BDC.

If Portman Ridge were to acquire Logan Ridge for NAV – \$90m – they could take out \$4m of redundant costs from Logan Ridge adding \$8-\$9m of free cash flow to equity to Portman Ridge initially and up to \$12+m as the Logan Ridge's equity portfolio is wound down.

Recall, that Portman Ridge shareholders biggest pushback for not approving a stock for stock deal with Logan Ridge was the high equity exposure alongside a lower dividend yield than Portman Ridge.

I am confident that despite these two setbacks – which both continue to improve for Logan Ridge – Ted and his team will get this merger through soon.

As mentioned, Punch & Associates – the largest Logan Ridge shareholder and eighth largest Portman Ridge shareholder – who I am in touch with, wrote a letter at the end of last year trying to push the deal forward (last two pages of letter attached [here](#)) by highlighting how beneficial it would be for Portman Ridge shareholders as well.

Portman Ridge only has a ~5% equity investment exposure versus a ~15% equity exposure for Logan Ridge. However, a merger would only increase Portman Ridges' equity exposure from ~5% to ~8%.

What often goes unmentioned is that one of Logan Ridge's equity holdings – [Nth degree](#) – represents ~50% of their equity portfolio – valued at \$15m – and is a company that Portman Ridge would have no problem owning equity in as it is a best-in-class trade show planning company.

I have full confidence that Ted and his team will get this merger through – as they have explicitly stated it is their desired result – but it needs to happen sooner than later as both BDC's need to grow in size if they want to be valued at NAV.

That being said, we are still being adequately compensated while we wait – ~10% shareholder yield – and given downside protection as we are buying a BDC at 67% of a thoroughly audited NAV.

Galaxy Gaming (GLXZ)

Galaxy Gaming licenses proprietary tables games to casinos – most notably '21+3.' It was our eighth largest position in the fund and had a market cap of \$45m.

If you recall, at the end of last year there was an unexpected, frustrating development at Galaxy Gaming as the board decided to abruptly fire the CEO – Todd Cravens.

As mentioned in the previous letter, I was going to take the first half of the year to assess the situation at Galaxy as it owns wonderful assets that have been improperly managed by the board.

To try to better grasp of what was going on I flew out to Las Vegas in May and spent time with the new CEO – Matt Reback.

Matt and I had a great conversation and I really enjoyed hearing the new plans he had for the company but it didn't seem like Galaxy was anywhere near refinancing their burdensome debt or selling their business – the two necessary steps to unlock considerable value for us shareholders.

After meeting with Matt in May, I told myself I would make the decision whether or not to sell our ownership in Galaxy Gaming when I was writing this letter.

I thought Matt had some interesting new growth ideas but I still didn't trust the board to do what is in the best interest of shareholders.

Well, sometimes it is better to be lucky than good.

As I was writing this letter, Galaxy Gaming was sold to Evolution Gaming for \$3.20 per share – over 100% premium to where the shares were trading the day before.

Even though the deal won't close for probably close to a year – it takes a while to close a deal in the gambling industry due to the regulatory approval process – we sold our entire ownership in the company and ended up essentially breaking even from when we bought Galaxy Gaming in 2021.

Having visited Las Vegas four times since 2022, it was an exhausting way to just break even!

Admittedly, I made a mistake – read my mistakes in [last letter](#) – but I am happy we got out of this mistake without losing money for the fund.

Ultimately, if the board had managed this company properly they could have eventually sold the business for \$8-\$10+ per share – there are a ton of lessons I have learned throughout this process that should shape me into a better investor in the future.

Bankfirst (BFCC)

Bankfirst is a community bank located in Columbus, Mississippi. It is our ninth largest position in the fund and now has a market cap of \$175m.

Bankfirst is run by two brilliant capital allocators Moak Griffin and Luke Yeatman.

I recently re-connected with Moak and Luke and it continues to amaze me how they are always strategically adapting to execute the most shareholder friendly approach to the current banking environment.

If you recall from previous letters, Moak and Luke used a portion of their \$175m of ECIP capital

to rapidly acquire three banks in 2022-2023.

Yet, they still have ~\$60m of cash at their holding company with the capacity to dividend another \$25m of cash from the bank to the holding company.

They are actively seeking another strategic acquisition but the banking acquisition market has come to a halt – recall their long-term goal is to grow from \$2.8b to \$5.0b in assets. They make an attempt to acquire one bank recently but couldn't come to terms on the right price.

So, Moak and Luke pivoted and instead announced a \$10m share buyback program and bought back \$7.5m of their subordinated debt on the open market for \$6.5m.

Bankfirst is on pace to generate \$26+m of free cash flow in 2024 – ~15% free cash flow to equity yield (7-8 P/E ratio).

However, recall that 80% of Bankfirst's loans are fixed – due to the preference of their rural customers.

This means the increase in interest rates over the past two years has caused their costs of deposits to increase from ~0.3% to ~1.9% while the fixed loans they underwrite are often for 5-7 years. Thus, many of their fixed loans are still at 'pre-2022 rate increase' interest rates.

Nonetheless, we are seeing an inflection point as their net interest margin has started to uptick back towards their ~3.5% historical average and thus free cash flow continues to improve as Bankfirst's old, low interest rate fixed loans mature and they are able to use the capital to lend out new fixed loans at almost twice the interest rate.

Therefore, Bankfirst's free cash flow to equity should gradually increase to over \$30m in the next year – 17+% (6 P/E ratio).

At a \$175m market cap, River Oaks is buying ownership in a bank with significant downside protection.

Bankfirst has \$85+m of cash they can use for future acquisitions - ~45+% of the market cap – while using their \$26-\$30+m of free cash flow to equity to repurchase \$10m of stock (~5% of their current market cap), pay a ~3% dividend yield and continue to organically grow their loan book.

America's Car Mart (CRMT)

America's Car Mart is a deep sub-prime auto lender and 155 location car dealership. It is our tenth largest position in the fund and now has a \$400m market cap.

Late last year, America's Car Mart brought on new CEO Doug Campbell. I had already heard remarkable things about Doug from America's Car Mart board members and other investors. I finally meet Doug just a few weeks ago and I walked away very confident that that he is ready and capable of taking America's Car Mart to the next level.

He comes from a background with a deep expertise in selling and disposing of used cars and

has brought a team along with him to help with automizing their lending process.

The first thing Doug did was hyper focus on centralizing and outsourcing all of the unnecessary activities that burden America's Car Mart's 155 dealership general managers.

Doug wants to take everything off the general manager's plate so they can solely focus on using their entrepreneurial spirit to sell cars – as they are compensated to treat their dealership as if it is their own personal business.

Worth noting, I have visited a few dealerships and it is apparent each general manager really does feel as though it is their own business.

Doug's first outsourcing move was signing a deal with Cox Automotive – the largest car auction business in the world – who will handle all of the repossessions and certain repairs of America's Car Mart vehicles.

Cox Automotive repossesses each vehicle and brings it to one of their own personal lots where they will determine if it is worth fixing up to resell at an America's Car Mart dealership or better off being sold in the wholesale market.

Not only does this take the worry of repossession away from each America's Car Mart dealership's general manager but it also clears up space on each dealership lot.

Before the Cox Automotive deal, repossessed cars would just sit on the America's Car Mart dealership lot– especially crowding the lot during times of high repossessions

It appears the Cox Automotive relationship with America's Car Mart is just beginning. They have also started to become a one stop shop repair place for some America's Car Mart's vehicles.

This could be a huge time saver as they currently have to find one company to replace windshields, one to replace brakes, one for new tires, etc.

Next, Doug further implemented the process that previous CEO – Jeff Williams – started of centralizing the purchase of their vehicles.

Before this initiative dealership general managers would purchase ~85% of the cars they sold, now they only purchase ~15%.

Additionally, the America's Car Mart team was buying from almost 1,000 vendors and are now buying only from the 100 best large scale used car vendors in the U.S.

Moreover, Doug rolled out their new loan operating system that uses various metrics to pre-approve a customer to let them know which cars they can afford.

The loan operating system also provides the dealership general manager with the proper terms on which they can lend to a specific customer – down payment, interest rate, length, etc.

Only a select number of their dealerships are using the new loan operating system but the ones who are not only love it but are seeing better lending results – shorter term lengths, higher down payments, and appropriately adjusted interest rates.

Most importantly, the loan operating system seems to be lowering net charge-offs.

As Doug mentioned during our meeting, although they have been operating for decades without a loan operating system, it was time to implement one as their losses were getting too high.

He has brought on a head of credit that previously worked at Ally bank who will implement and continuously improve the loan operating system across all dealerships.

Finally, Doug has started to correct their 'Covid sins.'

During Covid, America's Car Mart was buying 130k+ mileages cars – 11-13 years old – and lending them on 4-year terms to make it more affordable for their customers.

Before Covid their average car had 125k mileage – 10 years old – and was lent on a 3-year term.

Although the 'Covid sins' were necessary to adapt to the ~70+% increase in used car prices during Covid and not lose repeat customers, it created a host of lingering issues as older cars need more repairs and often could not be sold again on a dealership lot after their 4-year term was up – meaning they had sell them in the less valuable wholesale market.

Secondly, it created loan underwriting problems which have started to appear in the last year or so.

Doug and his team have now transitioned to selling much newer used cars than America's Car Mart has ever sold before – 8-10 years old with 110k mileage.

They are also using the new loan operating system to improve underwriting and hopefully lower the 4-year term lengths (I will continue to track this).

A lot of these improvements under Doug's leadership are for a few reasons:

1. To allow dealership general managers to focus on their goal of selling 40-50 cars per month.
2. To hit their sales goal without sacrificing their strict underwriting standards.
3. To cut costs to adjust to the higher costs of borrowing – a vast majority of America's Car Mart's history has been under a previously very low-interest rate environment
4. To make the business more scalable – the ability to seamlessly acquire new dealerships

Despite the upgrades made under Doug, America's Car Mart is going through one of the toughest used car market down cycles in decades.

This is mainly due to the 'Covid sins' made by all deep subprime lenders as well as high interest rates and high inflation – which has really hurt their low-income customers.

As Doug said to me "What is happening now is within the norm. There is no reason to freak out. But many investors do. America's Car Mart is 43 years old and has been able to navigate these downturns and has always come out stronger."

Despite the current suppressed earnings and high default rate at America's Car Mart, it has

made for an attractive acquisition environment as they are by far the largest deep sub-prime auto dealer and lender and thus the lowest cost provider.

This means their competitors are currently struggling and are often eager to sell their dealership at near liquidation value.

Doug recently hired a head of acquisitions from Avis who has built out an acquisitions team – Car Mart previously did not have an acquisition team – and they plan on being very active over the next year or two.

Doug alongside the board members view acquisitions as their best use of capital – above share buyback – given the attractive price dealerships are being sold at right now.

From a valuation standpoint not much has changed since the last letter, the company is still valued at ~80% of accounting book value – which is 20+% below where the company would be sold in a fire sale scenario.

Doug and his team have America's Car Mart well positioned to return to their historical ~15% return on equity which would provide us with a 17-20% free cash flow to equity yield per year (5-6 P/E ratio) over an entire used car market cycle.

Greenfirst Forest Products (GFP)

Greenfirst Forest Products – (*numbers are in \$USD*) – owns and operates four lumber mills in the Ontario province of Canada. It is our thirteenth largest position in the fund and now has a market cap of \$50m.

River Oaks ownership in Greenfirst still remains in good hands as Paul Rivett and his team's ability to allocate capital – despite the continued decrease in market cap – has given us tremendous downside protection.

As mentioned in previous letters, since Paul and his team took over Greenfirst in 2021 the pace at which they have executed their turnaround strategy has been phenomenal.

Prior to 2024, they had sold ~\$110+m of non-core assets, reduced debt by \$60+m, refinanced their debt on more favorable terms, uplisted onto the Toronto Stock Exchange, significantly reduced corporate costs, turned around the paper mill to profitability and assembled a highly qualified lumber operating team lead by CEO Joel Fournier.

I had an in-depth conversation with Paul in May and he has by no means any thoughts of stopping his rapid capital allocation plans now.

Paul and his team's talent for continuously finding ways to unlock value for shareholders is second to none for a micro cap company.

In the first six months of 2024, Paul and his team secured an extremely friendly \$24m CAD loan for their Kapuskasing "Kap" Paper mill followed by an announcement they will be spinning off the Kap paper mill into a separate company.

Additionally, CEO Joel and his team have permanently removed ~\$6m of costs from the four lumber mills mainly by reducing head count.

Now, Paul and his team are working on monetizing the \$80m of duties (discussed in previous letters), selling their 118 acres of waterfront Kenora land (they almost sold 30 of the acres for \$8m), and getting cash out of their \$15m overfunded pension plan.

The timing of when we receive the cash back for all three of these items is still undetermined but even using very conservative assumptions it will be more than the current \$50m market cap.

This means that investors are valuing Greenfirst's four lumber mills – 510 MMfbm (million board feet) capacity – in Ontario plus \$70+m of net inventory on the balance sheet at \$0!

This may make some sense in the immediate short term as lumber prices are still in the breakeven range - \$500-\$550 Mfbm (per thousand board feet).

However, over an entire lumber commodity cycle, if prices average \$550-\$600+ Mfbm, Greenfirst's four mills should be able to generate a combined average of \$20+m of free cash flow to equity per year.

On top of that, given the historical prices of how much lumber mills are sold for, their four lumber mills in Ontario could be sold at \$200+m – they are currently being valued at \$0.

By just using basic math the downside protection we have is straightforward, but what most investors are truly missing is that Greenfirst is pretty clearly positioning itself to be sold to one of the major Canadian lumber players.

Recall that when Greenfirst bought their then six lumber mills from Rayonier, the major Canadian lumber companies bid on the Rayonier lumber mills as well – including Interfor who now owns ~16% of Greenfirst's shares and was in person at this year's Greenfirst annual meeting.

Interfor and the other major Canadian lumber companies ended up not buying the Rayonier assets because of the two lumber mills in Quebec, the 203k acres of private forest land and the Kap paper mill.

Greenfirst has since divested all of these assets and now the company only consists of the four Ontario lumber mills that Interfor and the other major Canadian lumber producers were always interested in.

Lastly, Greenfirst has ~\$120m of tax loss carryforwards to shield taxes on not only free cash from the business but capital gains in the event of a sale.

All Companies below 3% of our fund

We own four companies that are below 3% of the fund: **M&F Bank (MFBP)**, **HAYPP Group (HAYPP)**, **Legacy Housing (LEGH)** and **Parks! America (PRKA)**. As usual, if these companies' positions grow in size, I will provide a detailed write-up. If you are interested in learning more about these companies now, please feel free to give me a call or I can e-mail you a write-up.

IV. Mistakes

Instead of diving into what my biggest mistake was over the past six months, I took time over the summer to reflect on what have been the common themes amongst my investment mistakes since running the fund for over 4.5 years.

In the first year of running River Oaks Capital, I didn't always make it a point to visit management teams in person – leading to buying ownership in some companies that quantitatively looked impressive but were run by a sup-optimal team.

I quickly came to understand how important the management team is in small, underfollowed companies and it has since been a prerequisite for me to visit with them before buying ownership.

The reason I initially visited management teams was to assess their ability and trustworthiness. However, in the early days of my in-person visits, a characteristic I didn't assess as frequently was their alignment and ability to return capital to shareholders.

This led to buying ownership in a few companies – mostly 'excessive discounts' – who were unwilling to buy back shares or return shareholder capital in any form.

I do understand that small, underfollowed companies often have few shares traded each day, making buying back shares at times difficult, but if your company is being priced at 50% of fair value, the best micro cap management teams find a way to repurchase shares (or at least pay a dividend).

If not, their company often becomes the infamous "value trap" that remains undervalued for years or decades.

Many small, underfollowed company management teams have gotten upset by how undervalued their stock and micro cap stocks in general have become over recent years, but their frustration is blinding them to the incredible capital allocation opportunity this is providing their shareholders.

Instead of going out and acquiring another company or making a risky investment, why not just buy ownership in your own company (via share buybacks) at a significantly undervalued 5x P/E ratio?

Small, underfollowed company management teams can compound capital at 15+% for investors by simply buying back their own shares, there are not any other areas of the market that offer management teams that straightforward of a above market return opportunity.

Watching Medical Facilities buy back over 35+% of their stock – at a ~6-8x P/E ratio – since River Oaks bought ownership has been extremely instructive to watch.

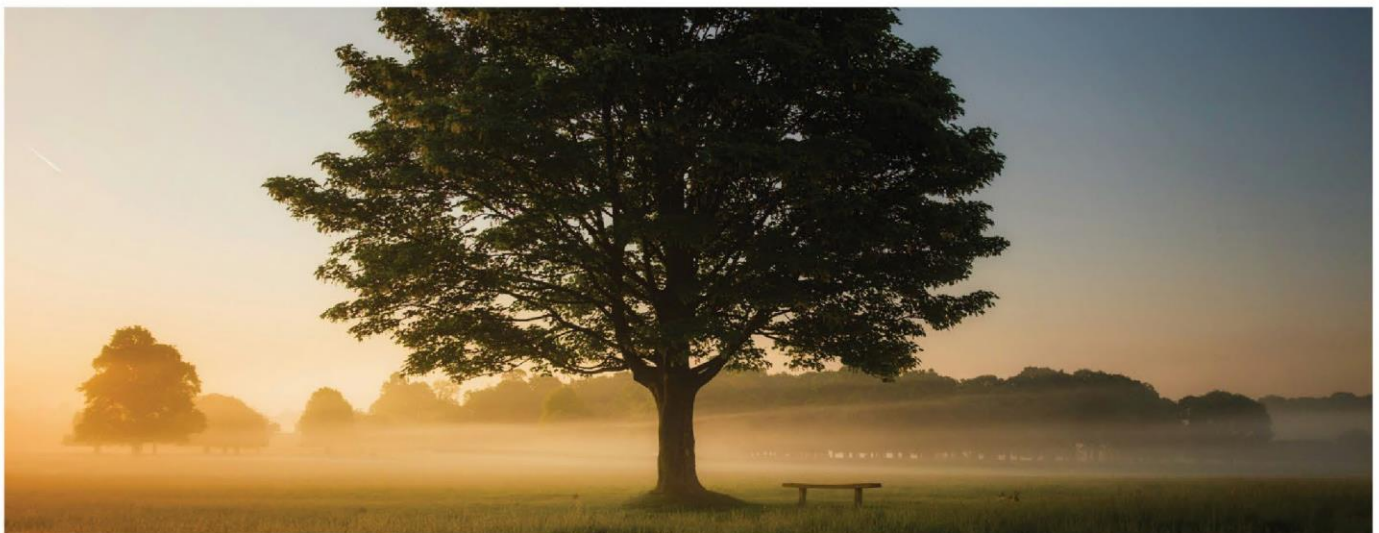
But what has been perhaps more interesting to learn is sometimes it requires myself and other investors to proactively meet with a management team to suggest buying back shares.

Surprisingly, there are small, underfollowed company management teams that haven't thought about this amazing capital allocation opportunity as they are too hyper focused on running their day-to-day business.

Through mistakes and continuous learning, I have realized that if a management team isn't already buying back their undervalued shares or says they are not interested in buying back shares once I make the suggestion in person, it is not a company worth buying ownership in.

Best,

Whit Huguley, CFA



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