May 31, 2017

Value Investor INSIGHT

The Leading Authority on Value Investing

One For All, All For One

In a field where firms are often reliant on superstar decision-makers, DGHM & Co. takes a more decentralized approach – with consistently impressive results.

While his firm prides itself on the autonomy given its industry experts to buy and sell, Donald Porter of DGHM & Co. remembers being first given the final say as a "sector specialist" in 2007 as no walk in the park: "It's very different, and very hard, when you actually have to make the decision," he says.

Porter and his colleagues at $1.8 billion (assets) DGHM have more than met the challenge, generating multi-decade track records of outperformance across the firm's strategies. The MicroCap Value strategy Porter now leads, for example, has earned a net annualized 13.4% since its 1990 inception, vs. 11.3% for the Russell 2000 Value index. Among keen areas of interest today: office furniture, movie theaters, building materials and testing services.

INVESTOR INSIGHT

Donald Porter
DGHM & Co.

Investment Focus: Seeks companies that often due to neglect or impatience have far brighter prospects than what is currently being priced into their shares.

Inside this Issue

FEATURES

Investor Insight: Donald Porter
Taking a team approach to unearth neglected opportunities such as HNI, Marcus, Hutting Building Products and Transcat.

Investor Insight: Bill Nygren
Looking for mispriced value, often in plain sight, and finding it in General Electric, Harley-Davidson, Alphabet and CBRE.

Uncovering Value: Yatra Online
A second chance for investors who missed the boat on to-the-moon U.S. Internet stocks?

A Fresh Look: Scripps
Reassessing one of the standout performers in a high-profile and under-disruption industry.

Editor's Letter
What Oaktree's Howard Marks means when he says to "move forward, but with caution."

INVESTMENT HIGHLIGHTS

INVESTMENT SNAPSHOTS	PAGE
Alphabet	6
CBRE Group	9
General Electric	7
Harley-Davidson	8
HNI Corp.	13
Huttig Building Products	15
Marcus	14
Scripps	19
Transcat	16
Yatra Online	18

Other companies in this issue:
Apache, Apple, Baxter International, Chesapeake Energy, Ctrip.com, GrubHub, HCA Holdings, ICF International, Liberty Interactive QVC, MakeMyTrip, Medtronic, MGM Resorts, On Assignment, Sterling Construction

DGHM MICROCAP VALUE

DGHM has managed its microcap strategy for 27 years, making the firm one of the first practitioners in the asset class. Through careful security selection and fundamental due diligence, the portfolio has achieved an annualized return of 14.6% since its inception in 1990. DGHM MicroCap Value is a high conviction, high active share strategy that seeks long-term capital appreciation reached through a diversified portfolio of microcap US-listed equity securities.

ANNUALIZED COMPOSITE PERFORMANCE, as of March 31, 2017

	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*
DGHM MicroCap Value	**2.6%**	**31.5%**	**12.6%**	**17.1%**	**8.4%**	**14.6%**
Russell Microcap Value	-1.0%	33.3%	7.0%	13.6%	5.0%	--
Russell 2000 Value	-0.1%	29.4%	7.6%	12.5%	6.1%	11.3%

Alpha Generation: 4.6% *Upside Capture: 106%* *Downside Capture: 82%*

*Performance statistics shown above are since the product's inception (*February 1, 1990) versus the Russell 2000 Value. See last page for additional disclosures.*

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Investor Insight: Donald Porter

Donald Porter of DGHM & Co. explains why his firm thinks nine heads are better than one in managing its portfolios, how they pay close heed to portfolio benchmarks without mimicking them, how as an investor he's processing the goings-on in Washington, and why he sees mispriced value in HNI Corp., Marcus, Huttig Building Products and Transcat.

Start out by describing how DGHM's investment team is structured, which appears relatively unique.

Donald Porter: We are structured a bit differently, in that we have nine sector specialists – covering 17 total sectors – who are basically portfolio managers over their sectors for each strategy we have across the cap-size spectrum. These nine people are responsible for sourcing ideas, building investment cases and defending their recommendations to the full group, but in the end it's their call whether to buy or sell any stock in their sector. There are obviously other ways to do it, but we believe it's better to specialize and know a few areas really well, and combine that with a great deal of autonomy. We consider that a cultural advantage that attracts the right kind of people who want to make decisions and be on the line and be compensated for how their ideas perform.

I joined the firm in 2005 and am responsible for Consumer Services, Business Services, Transportation and Aerospace and Defense. I'm also the team leader for the micro-cap strategy. In that strategy I'm not picking the stocks outside of my sectors, but I do monitor the overall portfolio construction and performance and handle a lot of the client communications.

How do portfolio weightings get set with such a structure?

DP: We run mostly fully invested portfolios and each sector allocation has to remain within a 75% to 125% band of the sector weightings in the benchmark, which for micro-cap is the Russell 2000 Value index. That gives all the sector specialists a sleeve of the portfolio to invest and it's up to them whether they overweight or underweight within the band. Initial position sizes are typically 1% to 2% and we don't let individual positions exceed 4%.

What happens if everyone wants to be overweight their sector? That has almost never happened, but we do usually keep 3-5% of the portfolio in cash so there is some leeway if everyone has a lot of good ideas. Right now we actually have the opposite problem, with cash above 5% in the micro-cap strategy. One of my jobs as team leader is try to brainstorm ideas to help add new names or increase weightings. It's up to the sector heads, but they're paid on how well they do relative to their benchmark, so there's no reason to hoard capital.

ON BENCHMARKS:

Being naked or heavily overweight in a sector creates risk in your portfolio unless you're good at sector timing.

Why operate within sector bands tied to the benchmark?

DP: When we look over time at our performance, almost all of the alpha generated has been from individual stock selection, not from allocation calls on being in the market or any individual sector. Being naked or being heavily overweight in a sector creates risk in your portfolio unless you're really good at sector timing. We don't believe we are, so we focus primarily on what we do think we're good at, which is picking individual stocks.

It's important to point out that we're not hugging the benchmark. The active shares of our portfolios are high, 90% and up, across the board. One big reason for that is that we own relatively concentrated portfolios – micro-cap as of March 31 had 62 names – which by definition means our portfolios look very different than a benchmark with hundreds of names.

Focusing for the moment on micro-caps, describe how you winnow down the universe of available ideas.

DP: We define the micro-cap universe as stocks listed on a U.S. exchange with market capitalizations between $30 million and $1 billion, which is roughly 2,200 securities. We then eliminate stocks that don't meet our liquidity requirements, which reduces the universe to roughly 1,600 investable stocks. From there the process starts with multi-factor quantitative screening based roughly 50% on valuation, 30% on capital efficiency and 20% on profitability. The screening ranks all the stocks in the universe and we can only own those ranking in the top quartile. We don't source ideas solely through screening, but we find it to be an excellent resource to help enhance the probability that we're looking in the right place.

What's a prototypical type of situation that attracts you?

DP: It's hard to generalize, but I've probably gravitated toward companies that despite their stocks being cheap have a decent end-market backdrop that will allow them to grow at an above-market rate. They're also often doing something internally, like launching a new product, restructuring a sales force or streamlining a production process, that can further enhance growth and profitability.

Sterling Construction [STRL], a civil-construction company that we added to the micro-cap portfolio in the fourth quarter of last year, would be a good example. New management has brought discipline and selectivity to its bidding on new projects, which is translating into higher margins at the same time the four primary

states in which the company operates – Utah, Texas, California and Arizona – are stepping up spending on infrastructure. Management has also defined and is starting to execute on what we think is a reasonable plan to move into adjacent, higher-margin markets like airport- and railroad-related construction.

In companies like this coming out of a tough period – especially when they're small and off the radar – the market can be slow to recognize positive change. That's often an opportunity for us.

One of the best investments we've made, which is still in the small-cap and mid-cap portfolios, is Old Dominion Freight [ODFL]. The company provides less-than-truckload freight transportation, typically to industrial customers, through a hub-and-spoke system covering the continental U.S. This can certainly be a cyclical business, but we thought the company because it had lower costs and better service than unionized carriers like YRC Freight and ABS Freight had the potential to increase its market share over time. We also believed incremental margins on that growth would be strong because of Old Dominion's pricing power and the relatively fixed-cost nature of its network. We try to take advantage of cyclical swings, but even better when you see the potential for strong growth through the cycle. [*Note*: Old Dominion shares, between $10 and $11 coming out of the 2008 recession, recently closed above $89.]

How would you characterize the opportunity set today in the areas with which you're most familiar?

DP: Ultimately our fundamental work on ideas we've identified as interesting is focused on understanding the normalized earnings power of the company. Can we see past the noise and figure out if the issues affecting the share price are secular or cyclical? While that's always been a challenge, it's certainly more so today given the amount of secular change being driven by technology in so many areas. In many cases it's just harder to assume a company's past reliably informs its future.

The dynamic today makes it more important than ever to assess and understand a company's competitive advantages. One company I follow in the consumer-services space is GrubHub [GRUB], the takeout-food delivery company. It's built a nice business and isn't so threatened by new technology coming along to blow it out of the water, but Yelp wants to do food delivery. Uber wants to do food delivery. I see a lot of companies like that with weak barriers to entry and where despite big and growing markets, you have to be very concerned about market-share shifts that can be pretty dramatic.

ON PRICE MOMENTUM:

We acknowledge the market might be right, and that in our experience underperforming stocks tend to underperform.

Are any investable themes capturing your attention?

DP: In the sectors I follow it's usually something specific to an individual company, but in the truck-freight business there is one theme I would say has people fairly engaged. The business has generally been weak over the past year, and regulations going into effect at the end of 2017 will require all freight trucks to be equipped with electronic logging devices that automatically record driving times to insure that drivers aren't exceeding government-mandated maximums. There are 10,000 trucking companies in the U.S., many of which are private, and many of which cheat when it comes to driving times. The bull case for the public carriers, which generally don't cheat, is that better adherence to the rules will reduce industry capacity, which will have a positive impact on pricing. I agree that this is probably a positive, but there's a risk in some instances that the market has gotten a bit over-excited about it.

How generally do you handle valuation?

DP: Different sector specialists may approach it differently, but for a non-financial company we're typically forecasting EBITDA two to three years out, making assumptions about the free cash generated and how it is used, and applying the multiple of EBITDA on an enterprise value basis we believe is appropriate. There are no real hurdle rates, but generally we'd want to see a ratio of upside to downside of at least 2:1 and return potential of at least 12-15% annually.

I mentioned having to have a sufficient fundamental score from our model, but another requirement before we'll buy is that the stock can't be in the lowest quartile of relative performance in its sector over the past six months. This gives credence to the fact that the market might be right and reflects our statistical experience that underperforming stocks tend to underperform. We'll miss some things if there's a sharp rebound, but overall our trying to make sure a name has done all the bad things it's going to do has helped us.

Does your quantitative model come into play in the selling process as well?

DP: As with buying, the sector head has considerable discretion on selling, but when a name because of changes in its fundamentals or stock price – good or bad – ranks poorly in the model, we feel pressure to sell. You don't want to own something constantly being flagged as expensive or that is lagging in terms of profitability or capital allocation.

The model also comes into play if a stock while we own it falls into the bottom quartile in terms of relative share-price performance in its sector over the past six months. In such a case the analyst has a choice, to sell right away, which they often do, or to defend the name in a formal meeting with all sector specialists. That's the only time when there's a vote by the team on whether the stock stays in the portfolio or not. That's to make sure we keep the portfolio fresh and people don't fall in love with their ideas.

Turning to some specific ideas, describe your investment case for office-furniture company HNI Corp. [HNI].

DP: HNI is in two main businesses: office furniture, which is roughly 75% of sales, and hearth products, mostly fireplaces, which account for the balance. In office furniture they offer a range of brands and price points and cater to large and small businesses alike. On the hearth side they also sell a number of brands, sold for new construction and at retail.

Both businesses have gone through relatively weak periods that we believe are improving, making this year's comps easier. The office-furniture market has shown limited growth and there has been concern that leaner and more-open office layouts are dampening demand, but the environment is improving as business confidence rises. In hearth, lower home-heating prices have negatively impacted fireplace sales, but the business is started to benefit from an increase in new single-family home construction. HNI has good incremental margins, about 25% on the office side and 35% on the hearth side, so increased revenues drive margins and profits.

We also like that management is very cost conscious and continuously pushes to improve operational efficiency by standardizing parts, simplifying processes and improving product flow through their facilities. By next year, for example, they expect to take out $35 to $40 million dollars in cost by closing three plants and reconfiguring headquarters office space, using excess capacity elsewhere to pick up the slack. They're also modernizing IT systems with a goal of further improving operational efficiency starting next year.

How vulnerable is the office-furniture business to low-cost foreign competition?

DP: Unlike in the residential market, you don't see a great deal of foreign competition. The market is mostly split between Knoll, Herman Miller, Steelcase and HNI. HNI has an assembly-based model with many inputs sourced from low-cost Asian suppliers and assembly mostly done in Iowa, where labor and land are fairly cheap and the company uses a significant amount of automation. As a result, total costs for HNI and for emerging-market manufacturers are not drastically different, especially for larger types of furniture where transportation costs play a big role.

You're counting on the cycles for each business turning up. What if that doesn't happen as quickly as you might hope?

DP: The furniture segment is tied to business confidence and employment, and the hearth segment depends a lot on new residential construction. We believe we're in an extended cycle for each, as the economic recovery so far has more slowly than usual translated into upside. And while we don't manage the portfolio to a recession, if one did happen, the company's operational acumen would likely allow it to whether any storm very well and come out the other side in a stronger position.

What upside do you see in the shares from today's $42.70 price?

DP: Management has said that, given reasonable growth rates and their abil-

INVESTMENT SNAPSHOT

HNI Corp.
(NYSE: HNI)

Business: Design, manufacture and marketing of a wide range of metal and wood office furniture as well as hearth products, including gas, electric and wood-burning fireplaces.

Share Information (@5/30/17):

Price	**42.70**
52-Week Range	37.24 – 56.96
Dividend Yield	2.7%
Market Cap	$1.89 billion

Financials (TTM):

Revenue	$2.18 billion
Operating Profit Margin	8.3%
Net Profit Margin	3.6%

Valuation Metrics
(@5/30/17):

	HNI	S&P 500
P/E (TTM)	24.7	23.9
Forward P/E (Est.)	12.7	19.1

Largest Institutional Owners
(@3/31/17):

Company	% Owned
State Farm Inv Mgmt	16.7%
BlackRock	9.4%
Vanguard Group	8.8%
State Street	3.1%
Dimensional Fund Adv	2.4%

Short Interest (as of 5/15/17):

Shares Short/Float	3.5%

HNI PRICE HISTORY

THE BOTTOM LINE

Combining strong operating discipline with an improving industry backdrop in each of its two main lines of business, Donald Porter believes the company can increase earnings at a low- to mid-teens rate over at least the next few years. At the 8.5x EV/EBITDA multiple he considers reasonable on his 2018 estimates, the shares would trade at around $57.

Sources: Company reports, other publicly available information

ity to take cost out of the business, they believe the company can double earnings every three to five years. We're not counting on that, but believe the office business can grow its top-line at a better-than-GDP rate due to market-share gains, and that the hearth business can do even better than that as residential construction accelerates. Overall, we're expecting annual EBITDA growth over the medium term of 9-10%, with net earnings growing at a closer to 13% rate given operating leverage and some stock buybacks.

Using an 8.5x EV/EBITDA multiple on my $300 million 2018 EBITDA estimate, adding back cash, our price target on the shares is around $57. With the dividend, that would give us 35% upside from today's price.

From office furniture to movie theaters, explain what attracted you to Marcus Corp. [MCS]?

DP: Marcus has a theater business and a hotel business. It is the fourth-largest movie exhibitor in the U.S., with close to 900 screens in theaters located in eight states in the upper Midwest. The company also manages 17 hotels, eight of them company owned and many also in the Midwest, with a total of about 4,700 rooms.

Some investors think the theater business is facing secular headwinds because it's now so easy for customers to watch movies on their big-screen TVs at home or even on their smartphones. Supporting this view, annual U.S. admissions at movie theaters have been stuck in the 1.2 to 1.5 billion range for three decades. We look at it a bit differently. Annual box-office revenues, now around $11 billion in the U.S., have been growing at a 3.4% annual rate due to ticket-price increases, with Marcus's theater revenues growing even faster. We also don't see the experience of going out to see a movie going out of style. It's still a relatively low-cost way to get out of the house and have fun with friends and family, and studios continue to focus more on big tent-pole movies with recurring fan bases that want to see movies on a large-theater screen.

To capitalize on that, Marcus has been investing in its theaters to improve the customer experience. They are upgrading to more large-format screens like IMAX, installing premium reclining chairs and adding better food options as well as beer and wine. These investments are showing good returns and we think will continue to do so.

Is talk of narrowing – or eliminating – the box-office release window a big concern?

DP: That is a risk to the exhibitors' business. We generally don't believe whatever studios may do will be done in a way that significantly jeopardizes that $11 billion in box-office revenues. They may offer premium subscription services to customers wanting to watch new movies at home, but we don't see that significantly cannibalizing the exhibitors' business.

What is your view on the hotel business?

DP: Marcus isn't as committed to owning hotels as it is theaters. They've been working to sell hotel assets and just keep the management contracts, which we believe is a sound way to unlock value and free up

INVESTMENT SNAPSHOT

Marcus Corp.
(NYSE: MCS)

Business: Owner and operator of movie theaters and hotels located primarily in the U.S. Midwest; also operates Funset Boulevard family-entertainment center in Appleton, WI.

Share Information (@5/30/17):

Price	**33.20**
52-Week Range	19.22 – 34.90
Dividend Yield	1.5%
Market Cap	$922.0 million

Financials (TTM):

Revenue	$576.4 million
Operating Profit Margin	13.6%
Net Profit Margin	7.3%

Valuation Metrics
(@5/30/17):

	MCS	S&P 500
P/E (TTM)	22.3	23.9
Forward P/E (Est.)	18.4	19.1

Largest Institutional Owners
(@3/31/17):

Company	% Owned
BlackRock	12.2%
Dimensional Fund Adv	8.4%
GAMCO Asset Mgmt	5.5%
Vanguard Group	5.1%
Northern Trust	4.9%

Short Interest (as of 5/15/17):

Shares Short/Float	0.8%

MCS PRICE HISTORY

THE BOTTOM LINE

Donald Porter believes the company can continue to unlock shareholder value by selling off hotel assets – keeping the management contracts – and reinvesting a good portion of the freed capital in its movie-theater business. Applying a 9.2x EV/EBITDA multiple to his estimate of 2018 EBITDA, his one-year price target for the stock is around $38.

Sources: Company reports, other publicly available information

capital for reinvestment, such as the recent purchase of Wehrenberg Theatres, which expanded the number of screens by nearly 30%. Given that the U.S. theater business is still relatively fragmented, there's continued opportunity to expand there.

With the stock up more than 70% in the past year, the story doesn't seem lost on the market. How attractive are the shares at today's price of around $33?

DP: Assuming top-line annual growth in the theater business of 4-5% and in the hotel business of 2-3%, we believe earnings can grow around 8% per year. Applying a 9.2x EV/EBITDA multiple to my estimate of $150 million in EBITDA for 2018, plus cash, we value the shares at around $38. The stock isn't as attractive as it was six months ago, but that would still provide a 16% one-year return, including the dividend.

What we ultimately expect is for Marcus to be acquired by one of the bigger theater companies such as AMC Entertainment. Mario Gabelli is a big Marcus shareholder and he often invests in companies with high takeout potential, especially where there's a chance to unlock real-estate value.

Explain why you're bullish on the future prospects for micro-cap Huttig Building Products [HBP]?

DP: The company distributes and fabricates residential building products like doors, millwork, decks and siding. It has 27 distribution centers across the U.S., servicing roughly 75% of the domestic housing market, both new construction and remodel and repair. The basic business is buying product in bulk at discounted prices from manufacturers and then selling at wholesale to professional dealers and retailers.

The company is well positioned to continue to benefit from a stronger residential-housing market and is also pursuing internal initiatives – including building out regional capacity in the Southeast, Northeast and Mid-Atlantic regions, shifting the product mix to more value-added products, and starting a private-label fastener business – that we believe bode well for growth and for profitability.

Describe the new fastener business, which seems to have investors concerned.

DP: The new private-label fastener business is called Huttig Grip, which will internationally source things like fasteners, nails and screws, invest in building up inventory and then try to sell through the existing distribution channels. The stock fell sharply over the past few weeks after first-quarter results showed much higher selling, general and administrative costs and an increase of $20 million or so in working capital, mostly from gearing up for the new business. In the short term such investments are definitely a performance headwind.

The fastener market in the U.S. has around $2.5 billion in annual revenues and the company believes it can capture 7-10% market share, although even 2-3% would be meaningful. We like that they're trying to grow the business in a differentiated way and are essentially giving management the benefit of the doubt that it

INVESTMENT SNAPSHOT

Huttig Building Products
(Nasdaq: HBP)

Business: U.S. wholesale distributor of millwork, building materials and wood products used primarily in new residential construction and home remodeling and repair work.

Share Information (@5/30/17):

Price	**6.61**
52-Week Range	4.51 – 9.24
Dividend Yield	0.0%
Market Cap	$171.1 million

Financials (TTM):

Revenue	$730.8 million
Operating Profit Margin	2.5%
Net Profit Margin	1.9%

Valuation Metrics
(@5/30/17):

	HBP	S&P 500
P/E (TTM)	12.1	23.9
Forward P/E (Est.)	n/a	19.1

Largest Institutional Owners
(@3/31/17):

Company	% Owned
Paradigm Capital	7.6%
Alan Weber Inv Mgmt	6.9%
Teton Adv	3.3%
Renaissance Tech	2.8%
Tocqueville Asset Mgmt	2.7%

Short Interest (as of 5/15/17):

Shares Short/Float	0.5%

HBP PRICE HISTORY

THE BOTTOM LINE

A stronger housing market combined with initiatives to expand geographically, improve the product mix and build an in-house fastener business bode well for the company's growth and profitability, says Donald Porter. At 8x his 2019 EBITDA estimate, on an enterprise-value basis, he believes the shares within the next two years can reach $10.

Sources: Company reports, other publicly available information

will succeed. The CEO, Jon Vrabely, has been with the company for a long time and has a strong track record. The CFO, Oscar Martinez, is new, energetic and aggressive, and is driving the new initiative. If it works, it could be a real game-changer for the company.

In distributing to distributors, is the risk of disintermediation higher in Huttig's basic business?

DP: That's always a concern in any distribution business, but we do believe the company plays an important role by buying in bulk at discount prices and distributing in the smaller quantities the dealers it services require. Huttig is also increasingly adding value to the products it distributes – doing some finishing and assembly, for example – and takes on warehousing and logistics costs that neither suppliers nor buyers want. Given the company's longstanding relationships, I don't think cutting it out is a move manufacturers would undertake lightly.

Now trading at $6.60, how are you valuing the shares?

DP: There is no sell-side coverage on this company. With the housing market relatively strong, I expect 7-10% annual revenue growth, with where it falls in the range dependent on how well the Huttig-Grip line does. Margins should improve as the top line grows, due to the mix shifting somewhat to higher-value-add services and working capital eventually declining. Here I'm using an 8x EV/EBITDA multiple on my $34 million EBITDA estimate for 2019, again adding back cash. This gets me to a price target of $10, more than 50% above today's price.

From a small company to a smaller one, explain your interest in Transcat [TRNS].

DP: Transcat has a lab-services business that calibrates industrial equipment for customers, and the company also sells specialized test, measurement and control equipment. Industrial and pharmaceutical customers typically must have their equipment calibrated and certified every year for the accuracy of temperature, pressure, electrical and spatial measurements. Companies can buy the specialized equipment necessary themselves or have a third party like Transcat take care of the calibration services and certifications through its service centers.

The primary driver of the business is on the service side. In the U.S. calibration-services market, 25% of the work is done by the manufacturers that make the equipment, 35% is done in-house, and 40% is handled by service providers such as Transcat, which has roughly 18% of the overall market. Companies are increasingly concluding that it doesn't make sense to buy their own expensive equipment that basically sits idle for most of the year, so the outsourcing share of the market continues to expand.

Running calibration labs is a fixed-cost business with high incremental margins, so as the company has grown and increased its lab utilization, operating margins have increased from 3.2% in 2013 to 5.5% in 2016. As the company grows organically and through tuck-in acquisitions, we expect that improvement to continue.

INVESTMENT SNAPSHOT

Transcat
(Nasdaq: TRNS)

Business: Provider of test, measurement and control services and distributor of test, measurement and control instruments used in a wide variety of industrial applications.

Share Information (@5/30/17):

Price	**12.15**
52-Week Range	8.26 – 14.05
Dividend Yield	0.0%
Market Cap	$84.9 million

Financials (TTM):

Revenue	$143.9 million
Operating Profit Margin	5.5%
Net Profit Margin	3.1%

Valuation Metrics
(@5/30/17):

	TRNS	S&P 500
P/E (TTM)	18.8	23.9
Forward P/E (Est.)	n/a	19.1

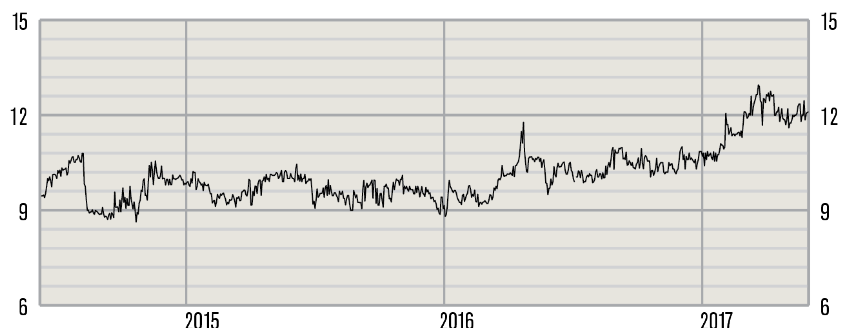
Largest Institutional Owners
(@3/31/17):

Company	% Owned
Emancipation Mgmt	13.1%
Heartland Adv	8.5%
WCM Inv Mgmt	6.8%
Minerva Adv	5.9%
DGHM & Co	4.7%

Short Interest (as of 5/15/17):

Shares Short/Float	0.3%

TRNS PRICE HISTORY



THE BOTTOM LINE

Increased outsourcing by customers of equipment calibration and certification functions should allow the company to continue to improve operating profitability as the utilization of its labs doing such work improves, says Donald Porter. Using an 8x EV/EBITDA multiple on his 2018 estimates, he expects the shares one year out to be worth at least $16.

Sources: Company reports, other publicly available information

Are acquisitions an important part of the game plan?

DP: The CEO, Lee Rudow, worked at Transcat's biggest competitor for a while and had experience earlier with Danaher, and we believe he's been a good steward of capital in growing the business organically and through acquisition. The companies acquired generally have annual revenues between $500,000 and $5 million, and the purchase prices have usually been cheap, in the 4-6x EBITDA range. We think the acquisition program – they've made eight acquisitions in the past eight years – has been quite accretive to value and we expect it to continue.

Now trading just above $12, how inexpensive do you consider the stock?

DP: This also has no sell-side coverage. Assuming only 3-4% top-line growth, we see earnings per share growing at something like 8% annually. The shares we think can do better than that. On my estimate of $18 million in 2018 EBITDA, with an 8x EV/EBITDA multiple and plus the cash they'll have on hand, we think the shares will be worth at least $16.

As is the case with Marcus – and a not-insignificant number of our micro-caps, actually – we also believe Transcat would eventually make an attractive acquisition for a bigger testing and measurement company such as Tektronix, Trescal or Simco Electronics.

One last general question: From an investment standpoint, how have or haven't you been responding to the goings-on in Washington, D.C.?

DP: Like many investors, we'd generally see tax reform, easing of regulatory burdens and increased infrastructure spending as positives. But I think we're treading carefully in making decisions based on political agendas in Washington, for the simple reason that it's very difficult to accurately assess how things are going to play out.

I did recently sell our position in ICF International [ICFI], a consulting firm that has a fairly diverse book of business, but does a lot of work for the Environmental Protection Agency, State Department and U.S. Agency for International Development. I started to see it as an Obama stock in a Trump era, with big headwinds if budgets are cut in non-defense spending. The stock had negatively reacted already, but I got out because I thought the headwinds could persist for some time.

On the positive side, we own On Assignment [ASGN], a contract and permanent-placement staffing firm with specializations in technology, healthcare and life sciences. It would appear to be very well positioned if changes in immigration regulation tighten the labor supply in certain sectors or if companies cut back on outsourcing to India and look for U.S.-based solutions. That's fine, but independent of what happens in Washington, this is a company that is well managed and taking share in markets that are vibrant and growing. That's why we own the stock. VII

Additional Disclosures:

The DGHM MicroCap Value composite is an actively managed, diversified portfolio of the equity securities of primarily U.S. based value companies at the microcap end of the market capitalization spectrum, currently defined by the firm as companies between $50 million and $1 billion. The Micro Cap Value composite was created in February 1990.

Dalton, Greiner, Hartman, Maher & Co., LLC ("DGHM") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. DGHM has been independently verified for the periods 12/31/92-12/31/16. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The DGHM MicroCap Value composite has been examined for the periods 12/31/93-12/31/16. The verification and performance examination reports are available upon request. The benchmark returns are not covered by the report of independent verifiers.

Period	DGHM Microcap Value Gross Return	DGHM Microcap Value Net Return	Russell 2000 Value Index	Russell Micro Value Index	Composite Assets ($mm)	# of Portfolios	% of Total Assets	% of Non-Fee Paying Assets	Composite Dispersion	Composite 3-year Annualized Std Deviation	Russell 2000 Value 3-year Annualized Std Deviation	Russell Micro Value 3-year Annualized Std Deviation
2016	28.85%	27.26%	31.74%	30.59%	$94	11	7%	5%	0.14%	12.76%	15.51%	15.95%
2015	0.33%	-0.93%	-7.47%	-6.45%	$69	10	5%	28%	0.09%	12.24%	13.46%	13.56%
2014	9.78%	8.43%	4.22%	3.15%	$67	6	4%	28%	0.38%	11.52%	12.79%	13.41%
2013	38.29%	36.62%	34.52%	41.17%	$64	6	4%	25%	0.26%	15.54%	15.82%	16.46%
2012	23.88%	22.38%	18.05%	22.81%	$48	6	5%	25%	0.15%	18.36%	19.89%	21.32%
2011	-0.25%	-1.45%	-5.50%	-10.33%	$97	8	8%	8%	0.32%	21.69%	26.04%	27.40%
2010	22.18%	20.70%	24.50%	28.35%	$171	11	14%	5%	0.25%			
2009	15.90%	14.50%	20.57%	17.52%	$214	18	23%	3%	0.56%			
2008	-34.29%	-35.20%	-28.92%	-34.93%	$254	20	29%	N/A	0.40%			
2007	-2.47%	-3.69%	-9.79%	-13.13%	$471	22	32%	N/A	0.37%			
2006	17.33%	15.92%	23.49%	21.81%	$564	25	26%	N/A	0.96%			
2005	13.53%	12.16%	4.70%	3.15%	$595	22	19%	N/A	0.66%			
2004	28.13%	26.87%	22.24%	20.92%	$523	21	17%	N/A	1.02%			
2003	31.62%	30.08%	46.02%	63.46%	$422	18	15%	N/A	0.66%			
2002	-6.34%	-7.53%	-11.43%	-5.79%	$290	15	14%	N/A	0.13%			
2001	30.07%	28.52%	14.02%	27.53%	$316	11	16%	N/A	0.70%			
2000	16.92%	15.52%	22.82%		$311	12	25%	N/A	0.81%			
1999	11.35%	9.99%	-1.49%		$245	10	33%	N/A	0.81%			
1998	-6.30%	-7.49%	-6.45%		$297	10	30%	N/A	0.22%			
1997	45.16%	43.51%	31.78%		$305	6	24%	N/A	0.50%			
1996	34.24%	32.69%	21.40%		$209	5	13%	N/A	0.66%			
1995	13.56%	12.19%	25.75%		$169	6	6%	N/A	1.05%			
1994	2.24%	0.98%	-1.55%		$62	3	2%	N/A	N/A			
1993	21.80%	20.36%	23.85%		$55	1	2%	N/A	N/A			

I. GIPS COMPLIANCE REQUIREMENTS:

1. DGHM is an autonomous investment advisory firm organized as a Limited Liability Company (LLC). DGHM is 80% owned by Boston Private Financial Holdings, Inc., a bank holding company focusing on wealth management through private banking and investment services, and 20% owned by the following DGHM professionals; Tim Dalton, Ken Greiner, Bruce Geller, Jeffrey Baker, Peter Gulli, Joshua Waltuch, Randall Watsek, Michael Dunn, Dolores Casaletto, Kate O'Brien, Erika Donalds, Donald Porter, Douglas Chudy and Lisa Hurst. The Firm is registered with the Securities and Exchange Commission, which oversees its investment management activities. For GIPS purposes, the Firm is defined to exclude SMA (Wrap) and UMA relationships.
2. Portfolio valuations are based on fair values and are expressed in U.S. Dollars.
3. Performance is calculated using total return. Performance includes the reinvestment of dividends and other earnings.
4. Rates of Return are time-weighted, with valuation on a daily basis with geometric linking of period returns.
5. Individual portfolios are valued on a daily basis. Composite returns are calculated monthly with the creation of one performance file using the combined transaction history of all the portfolios in the composite. Monthly composite returns are geometrically linked to calculate performance for longer periods.
6. DGHM's gross and net performance is reported after the deduction of brokerage and other transactions fees. Net performance is reported after the deduction of the highest management fee currently charged by DGHM for the particular product (1.25%). Custodial fees are not deducted. Management fees are more fully described in Part 2A of Form ADV which is available upon request. Withholding taxes are not included as an expense in the calculation of performance.

II. MANDATORY DISCLOSURES:

1. A complete list and description of DGHM's composites is available upon request.
2. At 12/31/16, SMA and model assets excluded from Firm assets totaled $370 Million.
3. Composite dispersion is calculated as the equal-weighted standard deviation of portfolio results.
4. Composite dispersion is not shown for periods where five or fewer portfolios are in the composite for the entire year.
5. The inception date of the composite is February 1990.
6. The management flat fee is 125bps.

III. MANDATORY HISTORICAL DISCLOSURES:

1. Performance is presented since January 1, 1993.

IV. PERFORMANCE DISCLOSURES:

1. Past performance is no guarantee of future results. No assurance can be given that an investor will not lose invested capital. The performance data presented in this report represent the quarter-to-quarter and annual Total Return of an investment in the applicable DGHM portfolio and describe results for the indicated portfolio ONLY for the full period reported; results for specific separately managed accounts may vary due to the cash flows and timing of (a) investment made or withdrawn by the respective account and (b) fees paid to DGHM in accordance with applicable fee agreements between said investor(s) and DGHM. These materials include the discussion of certain companies. These case studies are for information purposes only and should not be considered as investment recommendations. There can be no guaranty that the investment adviser continues to maintain its view of these companies or that the investment adviser continues to hold positions in the companies for its client's accounts. Upon request, DGHM will provide you with similar performance information for all of its investments held during the periods shown.
2. This report is for informational purposes only and does not constitute an offering of securities unless accompanied by the DGHM Form ADV and/ or Investment Management Agreement as the case may be for Separate Accounts. These documents may be amended from time to time.
3. The summary of performance stated herein is internally prepared and results are unaudited.
4. An investment in this product is suitable only for qualified individuals that fully understand the risks of such a portfolio. An investor should review thoroughly the Investment Management Agreement.
5. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

V. INDEX DESCRIPTIONS:

The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell Microcap Index is composed of the 1,000 smallest companies in the Russell 2,000 plus the next 1,000 smallest companies. The Russell Microcap Value Index measures the performance of those Russell Microcap companies with lower price-to-book ratios and lower forecasted growth values. These three indices are non-managed and do not accrue advisory or transactional expenses. Index performance data is sourced from Interactive Data Corporation.

References to the Russell Microcap Value and Russell 2000 Value are trademarked by the Frank Russell Company.