SUMMERS
Value Partners

DECEMBER 2018

MONTHLY PERFORMANCE													ANNUAL		
YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND	S&P 500	R2K
2018						1.3%*	5.2%	2.3%	4.4%	-4.3%	-2.2%	-2.7%	3.7%	-8.3%	-18.2%

** since June 4, 2018*

PORTFOLIO CHARACTERISTICS											
# Longs:	10	Long Exposure:	91.2%	Gross Exposure:	99.6%	US Exposure:	91.9%	Largest Long:	22.6%	Top 3:	45.3%
# Shorts:	5	Short Exposure:	8.4%	Net Expsoure:	82.8%	Intl Exposure:	7.7%	Largest Short:	5.1%	Top 5:	62.0%

Dear Fellow Partners:

The Summers Value Fund LP ("the Fund") returned -9.0% net[1] during the fourth quarter of 2018, which compared favorably to the S&P 500 return of -13.9% and the Russell 2000 return of -20.5%. The fourth quarter of 2018 was the worst quarterly performance for the major indexes since the third quarter of 2011. For the month of December, the Fund returned -2.7% net[1] versus the S&P 500 return of -9.2% and the Russell 2000 return of -12.1%. December represented the worst monthly performance for the S&P 500 since 1931, and the index briefly entered bear market territory during the month. For the partial year beginning in June, the Fund returned +3.7% net[1], which compares to the S&P 500 return of -8.3% and the Russell 2000 return of -18.2%. The Fund is not managed to look like the major indexes and could deviate materially (positively or negatively) in any given period, including years.

Overall, the Fund lost money on the long side of the portfolio in 2018. The biggest contributor during the year was Biospecifics (BSTC), a position we wrote about in our third quarter investor letter, which can be accessed here. Biospecifics benefited from a re-acceleration of Xiaflex growth in 2018 driven by an effective direct-to-consumer campaign executed by its partner, Endo Pharmaceuticals (ENDP). We continue to believe that Biospecifics has a bright future driven by the Xiaflex opportunity in cellulite, a new indication that we expect Endo to file for in 2019. As a result, the position remains prominent in the portfolio. The biggest detractor during the year — by a wide margin — was Indivior (INDV.LN). We bought Indivior shares in October after our due diligence identified a favorable risk-reward profile following a 60% decline in the stock price. Our legal expert interviews concluded that Indivior would win an important court case against a potential generic competitor, which would provide the company with ample time to launch its second generation injectable Suboxone product, Sublocade. However, we were quickly proven wrong as the company lost its court case in November. Consequently, we sold the position, which — while it was in the bottom half of the portfolio — became a realized loss and our most significant mistake of the year.

On the long side of our portfolio, we continue to find opportunities in small and micro-cap companies within the global health care sector. These companies tend to be neglected by Wall Street and institutional investors, which creates a window for us to identify attractive investment ideas. As our limited partners know, our process begins with a close examination of a company's balance sheet and cash flow statement before we analyze the income statement. Especially in our micro-cap positions, we demand that our companies have meaningful cash balances and very little — or preferably zero — debt with a history of free cash flow generation. We currently have positions in five stocks with market caps under $500 million, and each company holds a substantial portion of its respective market cap in cash and carries zero debt on the balance sheet. We believe that strong balance sheets provide downside protection and optionality for our management teams to create shareholder value through smart

acquisitions, share buybacks and dividend payments. In our opinion, these idiosyncratic attributes also make our holdings attractive acquisition targets over the long run.

On the short side of the portfolio, the Fund generated a positive return in 2018. Short performance was driven by a sharp sell-off in the shares of Optinose (OPTN). In our July performance update to our limited partners, we wrote: "*As it currently stands, this is one of the better short opportunities in recent memory.*" We started shorting the stock above $29 and made it a near maximum-sized position based on the results of our physician and payer due diligence. The position was the largest contributor to the Fund during the year as our thesis played out, and the stock declined to the mid-single digit range. We covered the majority of our Optinose position in December as the stock approached our price target, but we continue to see commercial challenges for the company going forward. The Fund did not have any material losers on the short side of the portfolio in 2018, but our batting average will certainly decline over time.

On the short side, we continue to identify opportunities to take advantage of over-indebted pharmaceutical companies that are mis-executing on new product launches as well as medical device companies where valuations remain extremely rich and where companies are exhibiting deteriorating fundamentals. The short side of the portfolio tends to be more short-term oriented and focused on specific catalysts than the long side of the portfolio, which focuses more on valuations. As it stands, we are short five companies where we believe the market may have overly optimistic commercial expectations and where consensus expectations may not be met. We do not believe that most small-cap pharmaceutical company management teams have adjusted to the new environment where payers (insurance companies) will no longer reimburse for "me-too" products, and this dynamic continues to present us with new short ideas. As always, we will monitor prescription trends and perform due diligence with physicians and other industry participants to prove or dis-prove our thesis for each position.

Scott's Liquid Gold (SLGD): Position Update

At year end, the Fund's largest position was Scott's Liquid Gold (SLGD), a position that we wrote extensively about in our November performance update. We continue to believe that the stock is egregiously mis-priced, trading at 3x current year EV/EBITDA with a pristine balance sheet, strong free cash flow generation and an attractive portfolio of beauty and skin care brands. Last week, the company announced the launch of a Prell Conditioner product, which expands the company's shampoo franchise headlined by Prell Shampoo and Denorex Medicated Shampoo. With almost 90% of sales currently generated from beauty and skin care products, we believe that Scott's is a mis-understood equity with ample opportunity for a re-rating as business performance improves in 2019 and the stock becomes discovered by new investors. We remain in discussions with management regarding our 13D filing, which can be found here.

Avadel Pharmaceuticals (AVDL): Closing Out a Successful Short

Avadel is a specialty pharmaceutical company based in St. Louis. We originally shorted the stock in July after noticing several new competitive product approvals on the FDA web site. Our thesis on Avadel was that its base generic pharmaceutical business would erode faster than expected as newly approved competitive entrants lowered their price to gain share. In addition, we expected the launch of the company's lone branded drug for nocturia (the need to urinate two or more times during the night),

Noctiva, to wildly underperform against management's expectations. If these two events played out, we expected the company to miss consensus estimates and burn an increasing amount of cash.

Avadel's base generic injectable business consists of three approved products: Bloxiverz, Akovaz and Vasculep. Each of these products has virtually no competitive moat and faced growing competition over the summer as newly approved products entered each market. Avadel was forced to match lower selling prices to maintain share which negatively impacted the income statement. As a result, the company missed both second and third quarter financial results handily.

In addition to weakness in the base generic pharmaceutical business, we viewed management's in-licensing of Noctiva as a serious strategic error. In the summer of 2017, Avadel paid $50 million upfront to in-license Noctiva from Serenity Pharmaceuticals. Upon launching the drug in May of 2018, Avadel made an additional $20 million payment. This "bet the farm" transaction drained the company's cash reserves, which led to a convertible bond offering in the first quarter of 2018 in the amount of $144 million. The company also agreed to pay a 20% royalty on sales to Serenity. In our opinion, the Noctiva in-licensing deal was a colossal mis-allocation of capital. The drug is delivered intranasally and carries a black box warning in the label for risks around low sodium. In our due diligence, these two items were viewed as being major impediments to the drug's commercial potential. Additionally, the drug reduced the need to urinate by less than one time each night – an efficacy level that was viewed as clinically irrelevant by the physicians with whom we spoke. The drug continues to struggle commercially, and we don't expect a positive inflection in the future.

We fully covered our Avadel position in December as the stock approached our price target for a gain of nearly 70% in five months. We believe the risk that Avadel's stock declines to zero is not immaterial, but we chose to exit the position on the back of our base case scenario being achieved. Along with Optinose, Avadel was a key contributor on the short side in 2018.

Electromed (ELMD): Finding Value in a Niche Industry

Electromed is a $40 million medical device company located in New Prague, Minnesota. The company's only product is the SmartVest, a high frequency chest wall oscillation (HFCWO) device. The SmartVest is essentially a percussive device that helps lung compromised patients to clear mucus and phlegm from their lungs to lower the risk of infections and hospitalizations. The SmartVest has been used by cystic fibrosis patients for years but has recently seen growth in the bronchiectasis (abnormally dilated bronchi) population. The HFCWO market is small at roughly $150 million annually but has been growing in the mid-to-upper single digit range. The company competes in a three-player market against Hill-Rom (HRC) and Philips (PHG), both of which entered the market through acquisitions.

Our thesis on Electromed is that shareholders are positioned to win in one of two ways: either 1) the management team solves the company's salesforce productivity issues, which should drive meaningful leverage through the income statement and an attractive earnings and cash flow growth profile or 2) the company is acquired given its favorable margin structure and sales growth opportunity. In either case, we believe that the stock is materially undervalued today trading at roughly 1.1x FY19 EV/Sales and 1.4x FY19 EV/Gross Profit. Admittedly, EV/Gross Profit is an unconventional valuation metric, but we believe it is relevant given that we view the company as an acquisition target. It also highlights that the company has a very attractive gross margin in the upper 70% range. Meanwhile, we expect the company to end

FY19 (June) with $9 million of cash and zero debt, which represents 20% of the current market cap. Electromed has been profitable for the past five years and should generate free cash flow of $2-3 million in FY19.

Electromed has demonstrated an ability to grow sales over the years, but unfortunately, the company has not grown profitably. Electromed has invested heavily in sales reps enlarging the salesforce from 30 reps at the end of FY16 to 49 reps currently, a 63% increase. However, sales have only grown from $23 million in FY16 to $32 million expected in FY19, a 40% increase. Along the way, average sales per rep has declined from $680,000 in FY16 to $550,000 in the first quarter of FY19. We view salesforce productivity improvement as the key to increasing EBIT margins from the high single digits to the mid-to-high teens over the next 24-36 months. Achieving this outcome should drive significant leverage through the income statement and an attractive earnings and cash flow growth profile. Management has indicated that solving for this issue is of utmost importance. We see at least 50% upside in the share price if management is successful in their efforts.

Electromed is the last remaining stand-alone company in the niche HFCWO industry. Hill-Rom entered the industry by acquiring Advanced Respiratory in 2003 and Philips entered by acquiring Respirtech in 2017. Applying the two takeout multiples to Electromed implies 40-100% upside in the share price. In the most recent case, Philips paid almost 3x trailing 12-month sales for Respirtech, which implies almost 100% upside for Electromed. We believe that Electromed is an attractive acquisition target for a larger medical device company with an established salesforce.

As a one product company, an investment in Electromed does come with risks. The most important risk is a change to reimbursement for the SmartVest. While the company currently enjoys healthy gross margins, that could change if reimbursement declines. We will continue to monitor the landscape for any negative reimbursement proposals. Additionally, with a clean balance sheet, the risk exists that management destroys value through poor allocation of capital. We believe that the board and management will stay conservative and prudent as they are also large shareholders.

The Partnership Continues to Strengthen

The Fund exited 2018 with 85% of its assets in the 5-year share class, which highlights the strength of our investor base. We view our long-term orientation as one of our greatest competitive advantages. We could not have entered any of our micro-cap positions without knowing that our investors shared our long-term vision.

As has been the case since the Fund launched, my wife and I are the largest investors in the partnership. We "eat our own cooking" at Summers Value Partners LLC, which creates alignment with our limited partners. We expect to make additional contributions to the Fund in 2019 as some of our historical illiquid investments become liquid.

Fees, Taxes and Transparency

The Fund carries an annual management fee of 1.00% or 1.25% depending on the share class. The Fund also charges a 20% incentive fee above a 6% cumulative annual hurdle rate. Our goal is to treat our limited partners the way we would want to be treated if we were sitting on the other side of the table. As such, the general partner has and will continue to pay for all research service costs, tax and audit preparation

costs, legal fees and fund administration expenses directly. It is our belief that by paying for these services out of our own pocket, we will do a better job of controlling expenses while maximizing the returns of our limited partners. In 2018, we did not earn an incentive fee on money that entered the Fund after our launch date in early June. For those limited partners who entered the Fund after June, the hurdle rate will be greater than 6% in 2019.

We believe in providing transparency into our positions when it will not have a deleterious impact on our return potential, but we will not discuss positions we are actively trading. We discussed several of our long and short positions in 2018, but not the entire portfolio. We will continue to emphasize transparency when and where we can. Our hope is that by disclosing most of our positions over time, investors will gain insight into our thought process and have a better appreciation for our strategy. On the short side, our preference is to not disclose positions until they are closed out, but we did share our Optinose thesis in our third quarter investor letter due to the size of the position.

We believe that our long-term orientation should provide tax advantages over time. In 2018, the Fund generated a realized short-term loss due to our sale of Indivior shares, which was somewhat offset by realized gains from our short portfolio. Investors should expect to receive K-1s in mid-to-late March.

In Closing

We would like to extend a warm welcome to the new limited partners who joined the partnership during the fourth quarter. The confidence that you have placed in us is truly humbling. Our strategy has ample capacity and we seek like-minded individuals to join the partnership. A referral from an existing limited partner is our preferred method of growth and is always appreciated. Interested parties can reach out to me directly at andy@summersvalue.com.

Sincerely,

Andrew Summers, CFA
Managing Partner

[1]Summers Value Fund LP net return is the unaudited, net return, based on a hypothetical investor who invested at fund inception and pays a management fee and incentive allocation applicable to Class A Interests (1% management fee; 20% incentive fee above a 6% annual cumulative hurdle rate). Net return is not necessarily indicative of any single investor's performance. An investor's return may vary from the results shown based on different fee structures and fund-level expenses. The performance information given is historic and should not be considered as an indication of future performance. Performance reflects the reinvestment of dividends and income.

Definitions:

Indexes: The performance of market indexes is being provided for the purpose of making general market data available as a point of reference only. These indexes are widely recognized by investors, followed by the investment industry and readily available to the investing public. The indexes do not reflect fees and expenses associated with the active management of portfolios. Furthermore, it should be noted that investors may not be able to invest directly in the indexes. The performance returns of the indexes were obtained from recognized statistical sources and include the reinvestment of earnings. Although Summers Value Partners LLC believes these sources to be reliable, it is not responsible for errors or omissions from these sources.

Standard & Poor's 500 Total Return Index (S&P 500): An index consisting of 500 stocks chosen for market size, liquidity and industry group representation, among other factors, the S&P 500 is designed to be a leading indicator of U.S. equities, and it is meant to reflect the risk/return characteristics of the large-cap universe.

Russell 2000 Index (R2K): An index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States.

Enterprise Value (EV): Market Capitalization – Cash + Debt = EV

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Summers Value Partners LLC is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy, investment process, stock selection methodology and investor temperament. Our views and opinions include "forward-looking statements" which may or may not be accurate over the long term. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security.

Prior to investing, investors should carefully review the offering memorandum and related documents, including the risks described therein associated with investing in the Fund. Potential investors are also encouraged to ask questions to Summers Value Partners LLC to ensure they understand many of the risks associated with investing. Additional information can be available upon request.