Dear Fellow Partners:

The Summers Value Fund LP ("the Fund") returned 13.3% net[1] during the fourth quarter of 2019, outpacing the Russell 2000 Index return of 9.5% and the Russell Micro-cap Index return of 12.9%. For the full year 2019, the Fund returned 4.6% net[1] compared to the Russell 2000 Index return of 23.7% and the Russell Micro-cap Index return of 20.7%. The Fund has returned a cumulative 8.3% net[1] since inception compared to the Russell 2000 Index return of 1.2% and the Russell Micro-cap Index return of -5.4% over the same period.

2019 Portfolio Commentary

As evidenced above, while the small and micro-cap indexes performed quite well in 2019 our results for the year proved unsatisfactory. The tech-heavy and growth-oriented NASDAQ index did even better by appreciating over 35% in 2019. Of note, value stocks underperformed growth stocks during the year by a wide margin, a trend that has persisted since the relative performance of value stocks peaked in 2007. In fact, over time, value stocks have rarely been as cheap as they are today against their growth peers. Although we don't know "*when*", we expect that value stocks should perform better than growth stocks in the future. As a reminder, the performance of our portfolio will always hinge on the success or failure of the idiosyncratic positions held in our high conviction strategy.

At the end of the year, the Fund consisted of eight long positions and two short positions. Six of our long positions have been held in the portfolio since launch. During the fourth quarter, we were mostly inactive from a trading perspective other than harvesting gains on the short side of the portfolio. We purposefully re-positioned the portfolio in August and September to favor our highest conviction ideas and did not add or delete any positions after that change. Our top three positions represented almost 60% of the Fund's exposure at the end of the year. Our short exposure has been scaled back significantly as we have recently struggled to identify new opportunities to deploy capital on the short side. Our international exposure was 14% at the end of the year, and we have spent more time evaluating companies outside the United States in recent months as valuations appear more attractive.

While we made money on both the long and the short side of the portfolio in 2019, the overall performance was underwhelming relative to the major market indexes. On the long side, our biggest contributors included Electromed (ELMD) and Eagle Pharmaceuticals (EGRX). We continue to hold both positions in the portfolio today. The biggest detractors included Covetrus (CVET) and Scott's Liquid Gold (SLGD). We sold out of our Covetrus position in the middle of the year but continue to own our position in Scott's Liquid Gold. On the short side, the biggest contributors included Acorda Therapeutics (ACOR) and Paratek Pharmaceuticals (PRTK). We recently covered our position in Acorda after the company announced a disappointing outlook for 2020 but continue to hold a small Paratek short position.

The esoteric nature of our portfolio has resulted in an uncorrelated return profile relative to our benchmarks since inception. At the end of the year, the Fund's correlation to the Russell 2000 Index was .36 while the Fund's correlation to the Russell Micro-cap Index was .43. As our partners know, our strategy utilizes a contrarian and value-oriented approach to investing in inefficient corners of the market including off-the-run securities with little institutional sponsorship. We hold investments in select international markets including Canada and Israel that have contributed to our uncorrelated return profile. We also hold stocks that trade on the over-the-counter (OTC) exchange and are not included in any of the major market indexes. Our shorting activities have also acted to differentiate our return profile versus the small and micro-cap benchmarks. We expect our portfolio to maintain a low level of correlation against the market indexes over the long-term.

The Volatility Challenge

Volatility comes with the territory when investing in the public equity market. Like most value investors, we do not subscribe to the theory that volatility equals risk. Indeed, we believe that the likelihood of permanent loss of capital is a better definition of risk. When investing in small and micro-cap securities, volatility can frequently provide opportunities to add or trim positions during periods of excessive weakness or strength. Our long-term lockups were specifically designed to give us the confidence to add to our positions on weakness. Ultimately, we are willing to persevere through periods of volatility if the net result is a higher return for our investors over the long term.

On Dec. 13, 2019, "The Wall Street Journal" published an article by Jason Zweig titled "The Secret to Winning Big: Losing Big." In it, Mr. Zweig argues that most fund managers cannot hold their winners for the long term because they are unwilling to "withstand the pain" associated with periods of intense volatility even though holding through such periods is crucial to generating out-sized returns. We would argue that holding through periods of intense volatility is even more challenging within the confines of a concentrated strategy. Mr. Zweig cites one of the best performing stocks of the past 30 years, Jack Henry & Associates (JKHY) as a prime example. He contends that according to the Wilshire data, "If you invested $1,000 in Jack Henry stock at the closing price on Sept 30, 1989, you'd have had $2,763,000 as of this Sept 30." Jack Henry's performance far surpassed that of legendary investor Warren Buffet and the S&P 500 Index over the same period. Mr. Zweig goes on to say:

> *"Earning that spectacular gain, however, would have taken superhuman determination: From June 2001 through October 2002, Jack Henry's shares fell 67%. Between October 1996 and August 1999, the stock underperformed the S&P 500 by a cumulative 72 percentage points."*

The performance history of Jack Henry is not an anomaly. The author concludes that, "The numbers are consistent: Among the top 10 stocks over the past three decades, four – Fair Isaac Corp., Kansas City Southern, Best Buy Co. and Monster Beverage Corp. – suffered interim declines of at least 75% according to Wilshire. To end up earning hundreds of times your original investment, you would have had to lose at least three-quarters of your money along the way."

We think this article is illustrative of our strategy. For example, we began buying shares of Emisphere (EMIS) in February of 2019 between $4-5 per share based on our optimism for the company's lead drug Rybelsus for the treatment of Type 2 diabetes. In September, Emisphere shares peaked at roughly $11 following FDA approval of this revolutionary new diabetes pill, which was undisputedly the most positive event in the company's history. At $11 per share, Emisphere had grown to become one of the Fund's largest positions. However, following the approval in September through the end of November, the stock declined by almost 60% on no further news. The company's commercialization partner, Novo Nordisk, was launching Rybelsus and performing well – albeit early – but investors aggressively sold the shares, nonetheless. We accumulated the stock through this gut-wrenching period as we watched the early prescription trends exceed our expectations. Our thesis on the stock remains unchanged, and we believe the painful sell-off after the approval of Rybelsus allowed us to build our position at advantageous prices.

Only time will tell if we will be proven right, but we believe that Emisphere shares have multi-bagger potential over the next three to five years driven by the enormous global commercial potential for Rybelsus in Type 2 diabetes and other future indications including obesity and liver disease.

New Position: Taro Pharmaceuticals (TARO)

We initiated a position in Taro Pharmaceuticals in August with an average cost of $79 per share. Taro is an Israeli generic pharmaceutical company focused on the development and commercialization of topical medications (creams, gels, ointments, etc.). India-based Sun Pharmaceuticals owns 76% of Taro with the minority shares trading in both the United States and in Israel. Taro's unique situation – domiciled in Israel with management in the United States and controlled by Sun Pharmaceuticals in India – has led to very little analyst coverage or investor interest in the stock. In addition, the generic pharmaceutical industry is currently viewed with investor skepticism due to a number of issues including industry-wide pricing pressure, opioid liability exposure and overly indebted balance sheets. We have known Taro for 20 years, but the stock popped up on our screen in August trading near a 52-week low and after selling off 50% from the highs, which it reached in early 2015. With no opioid liabilities, a pristine balance sheet and industry conditions stabilizing, we believe that Taro is a classic case of "*throwing the baby out with the bath water*."

We purchased shares of Taro when they were selling for 6x current fiscal year (ending in March) earnings per share x-cash. Taro has a history of generating free cash flow and the company features a fortress-like balance sheet. As of the most recently reported quarter, the company had $1.48 billion in cash and zero debt against a market cap of $3 billion (49% of the market cap). In the trailing 12-month period, Taro generated roughly $260 million in free cash flow. Against the enterprise value (market cap – net cash), the stock was trading with a 17% free cash flow yield, which represented a very attractive yield in today's market – or any market for that matter. Despite operating in the highly competitive generic pharmaceutical industry, Taro displays attractive financial characteristics including a gross margin in the mid-to-high 60s and an operating margin in the mid-to-high 40s. The company has not generated an annual ROIC below 45% in the past five years. In short, Taro has carved out a highly profitable niche position in what is otherwise a challenging industry.

We decided to purchase shares of Taro after a close examination of the company's prescription trends and recent financial performance led us to believe that the worst was over for the company. We aren't forecasting robust future growth, but we believe that the company can maintain its recent performance (or better) based on new product approvals, a growing presence in Canada and an easing of pricing pressure across the industry. There is very little start-up capital in the generic pharmaceutical industry today, which should limit competitive entrants going forward. Additionally, many of Taro's competitors are wounded from a balance sheet perspective due to ill-advised acquisitions that were made at peak valuations in the 2014-2015 period. As a result, Taro could potentially deploy capital into value-creating acquisitions at low valuations while it waits for industry conditions to improve.

In early November, Taro disclosed a $300 million stock repurchase program along with its fiscal second quarter results. This was impressive as the share buyback program represented 43% of the minority shares outstanding. In late November with the stock trading at $76, Taro announced that it was tendering for $225 million of stock at prices between $80 and $92 per share. The tender represented 32% of the minority shares outstanding at the time. The stock quickly appreciated into the mid-$90s on the news as investors expected management to raise the tender offer range. The range was not raised, and Taro was only able to acquire $26 million of stock at $91 or 3% of the minority share count. We did not participate in the tender offer as we viewed the shares to be undervalued in the tender range. We expect that management will complete the share buyback program with open market purchases in the future, which should underpin the stock price assuming the business continues to stabilize. Regardless, we applaud management's attempt to aggressively repurchase shares with the stock trading at such a low valuation.

The biggest risks associated with our Taro position include the potential for a longer-than-expected period of industry-wide pricing pressure, a potential financial penalty as a result of the Department of Justice's (DOJ) generic drug price collusion case, and the potential for the stock to be a "value trap." Our impression from listening to management teams across the industry is that pricing pressure is not getting worse as most industry participants are exiting unprofitable product lines and choosing not to launch new approvals into crowded markets. We expect the ongoing DOJ probe to result in a manageable financial penalty for Taro based on our evaluation of the court documents filed to date. Lastly, the stock could prove to be a classic value trap as earnings peaked in FY16 and have yet to begin improving materially. Our willingness to invest in a business that appears to have stabilized does not mean that results will meaningfully improve in the future and, in fact, they could deteriorate further if industry conditions worsen. In short, what appears cheap today might not appear cheap in the future.

Existing Position Updates

Eagle Pharmaceuticals (EGRX)

We have held shares of Eagle Pharmaceuticals in the portfolio since the Fund's inception. Eagle develops and commercializes branded pharmaceuticals with a focus on the oncology and critical care markets. Our history with the company goes back to its founding in 2007 as we were investors in the company's initial round of capital raising. Eagle is fortunate to be led by Scott Tarriff, a well-respected Founder/CEO. We have known Scott since the early 2000s when he was the CEO of Par Pharmaceuticals. Scott is maniacal about his business, and like most Founder/CEOs, he is willing to take the long view.

Eagle was a solid contributor to the Fund in 2019, but we believe further gains lie ahead. The company is on the cusp of a major new product cycle beginning with the potential launch of Ryanodex, a treatment for exertional heat stroke, in the middle of this year. Exertional heat stroke is a major unmet medical need and Ryanodex could be the first drug approved in this indication. The company's pipeline appears poised to deliver in the years ahead including the Japanese launch of Bendeka, a treatment for leukemia in 2021, a new formulation of Fulvestrant for breast cancer in 2022, additional indications for Ryanodex in the 2022-2023 period and launches of generics for both Alimta, a chemotherapy drug, and Vasostrict for blood pressure in the 2022-2023 period. For a company of Eagle's size ($780 million market cap), we believe its pipeline punches above its weight. If the pipeline delivers as expected, we are forecasting impressive profit and cash flow growth in the years ahead.

Eagle ended the third quarter of 2019 with $77 million of net cash on the balance sheet or roughly 10% of the market cap. Over the past four years, the company has generated almost $250 million of operating cash flow and has used a portion of the cash to retire 17% of the share count. We expect the company to generate more cash in the next four years than in the past four years making Eagle an attractive investment opportunity for the partnership.

Electromed (ELMD)

Electromed ended 2019 on a high note after reporting two impressive quarters of financial performance in the back half of the year. It is our belief that the company's operating momentum can be sustained over the intermediate term. We have been writing since launch that the company has untapped earnings power driven by the productivity improvement potential of the salesforce. Electromed, which develops, manufactures and markets devices that clear airways, struggled to sell its SmartVest for several years until the company hired Bud Reaves as its new head of sales in April. Bud has re-energized the selling organization and his team's early performance has been quite encouraging.

In the fiscal first quarter announced in November, the company reported year-over-year sales growth of 14% accompanied by earnings per share growth of 500%. The company's operating margin improved from 2.8% to 16.2% year-over-year, which handily beat our expectations. We believe that the company is in the early innings of operating margin improvement after many years of stagnant results. Electromed generated $630,000 of operating cash flow in the quarter and ended the period with $7.8 million of cash and no debt. The company recently completed a $1.5 million headquarters expansion project in New Prague, Minnesota. We believe that lower capital spending and enhanced profitability will drive a meaningful improvement in free cash flow in future periods. The stock remains cheap relative to other fast-growing, profitable MedTech companies trading at only 2x EV/Sales. Our price target on Electromed is $16 per share.

2020: The Year Ahead

We entered the new year with our highest conviction ideas at the top of the portfolio. We believe that these ideas can deliver better performance going forward after a year of relative underperformance in 2019. For the most part, our portfolio companies have strong balance sheets and will generate increasing amounts of free cash flow over time, which can be used for share buybacks, dividend payments or value-creating acquisitions. Many of our holdings are led by talented Founder/CEOs or controlling entities that share a powerful alignment with shareholders. We believe that over time, this alignment will benefit our partnership. We will continue to focus on the long-term appreciation potential of our portfolio companies even if the short-term contains greater volatility. On the short side, we are patiently awaiting better opportunities to present themselves. We do not feel obligated to short stocks without the presence of an attractive risk/reward proposition. We have done very well on the short side since launch, but over time, we expect to generate the majority of the partnership's performance from long positions.

Fees and Taxes

As has been the case since launch, the general partner paid for all fund expenses during the year other than the stated management fee and incentive fee. In 2019, this included fund accounting, tax and audit fees, research expenses and all of the legal costs associated with the board nomination process at Scott's Liquid Gold, which were not reimbursed when we joined the board. The general partner will continue to pay for all fund-related expenses in 2020. We believe that our long-term orientation should provide tax advantages over time. In 2019, the Fund generated a realized loss for tax purposes driven primarily by our sale of Covetrus during the year. Investors should expect to receive K-1s in mid-to-late March.

In Closing

Despite our relative underperformance in 2019, we ended the year on a *high note* with the Fund's best quarterly performance since launch. The Fund owns a limited number of companies that trade with attractive valuations, which underpins our optimism for the future. We know that price can diverge from value for long periods of time, but we continue to believe that our approach will pay off over the long run.

We would like to thank our limited partners who have not put pressure on us to perform better in the short term. We are incredibly grateful to have 90% of the partnership's capital locked up for five years, which allows us to invest like owners. We continue to believe that our long-term orientation is one of our greatest competitive advantages. Our strategy continues to have ample capacity, and we seek like-minded individuals to join the partnership. Interested parties can reach out to me directly at andy@summersvalue.com.

Sincerely,

Andrew Summers, CFA
Managing Partner

MONTHLY FUND PERFORMANCE*													ANNUAL		
YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND	IWM	IWC
2018						1.2%	5.2%	2.3%	4.4%	-4.3%	-2.2%	-2.7%	3.5%	-18.2%	-21.6%
2019	3.8%	2.4%	-5.9%	0.8%	-0.8%	1.1%	-0.4%	-8.4%	-0.3%	0.7%	6.5%	5.6%	4.6%	23.7%	20.7%
** since June 4, 2018*											CUMULATIVE		8.3%	1.2%	-5.4%
											R-SQUARED		1.00	0.36	0.43

PORTFOLIO CHARACTERISTICS											
# Longs:	8	Long Exposure:	99.0%	Gross Exposure:	100.7%	US Exposure:	87.2%	Largest Long:	22.6%	Top 3:	59.5%
# Shorts	2	Short Exposure:	1.7%	Net Expsoure:	97.2%	Intl Exposure:	13.5%	Largest Short:	1.3%	Top 5:	81.3%

[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 B Interests (1.25% 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.

Russell 2000 Index: 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.

Russell Micro-Cap Index: An index measuring the performance of 1393 small-cap and micro-cap stocks that captures the smallest 1000 companies in the Russell 2000 plus 393 smaller U.S. – based listed stocks. The broad index represents the smallest tradable securities that still meet exchange listing requirements, so OTC stocks and pink sheet securities are excluded.

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

Disclaimer:

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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.