

Dear Fellow Partners:

The Summers Value Fund LP (“the Fund”) returned -8.7% net¹ during the third quarter of 2019, which underperformed against the Russell 2000 Index return of -2.8% and the Russell Micro-cap Index return of -5.4%. The Fund has returned -7.7% net¹ year-to-date, which compares unfavorably to the Russell 2000 Index return of 13.0% and the Russell Micro-cap Index return of 6.9%. The Fund has returned -4.4% net¹ since inception compared to the Russell 2000 Index return of -7.6% and the Russell Micro-cap Index return of -16.2%.

We’ve cautioned our limited partners since the Fund’s launch that we could be out of sync with market indexes over long periods of time given our esoteric portfolio. Our strategy utilizes a contrarian and value-oriented approach to investing in inefficient corners of the market, which we believe will generate superior returns over a full investment cycle. We remain optimistic about the future given our expectation that the compressed values in our portfolio will be recognized by the market over time.

Year-to-Date Portfolio Commentary

At the end of September, the Fund consisted of eight long positions and two short positions. During the quarter, we were more active than usual selling out of four long positions and covering three short positions. We’ve been thinking hard about our portfolio construction and believe that we have been too broad in our approach. We feel strongly that moving toward a more concentrated and focused portfolio will increase our odds of future success. With that in mind, the top five positions in the Fund now represent 75% of the portfolio up from 57% of the portfolio at the end of the second quarter. We would anticipate greater monthly performance volatility going forward but would also anticipate enhanced return prospects over the long-term if our stock picking proves prescient.

The performance summary remains mostly unchanged with our longs broadly underperforming year-to-date while our shorting activities have proved profitable. The largest contributor during the period was an undisclosed long position. We will provide more details about this position in our annual letter. As it stands, we continue to be selective buyers of this stock. The biggest detractor during the period – by a wide margin – was Scott’s Liquid Gold (SLGD). Scott’s has encountered challenges in 2019 including reduced skin care sales to China and a weak face mask market. We are encouraged by the recently announced acquisition of the Kids ‘N’ Pets brand of stain remover products. My wife and I have three kids and two dogs in our house, and we’ve been putting the product to good use. After considerable trial, we believe the product is a winner. Scott’s remains statistically cheap, but the company’s operating performance requires improvement before the stock can appreciate in our opinion. Overall, our long positions have not performed as well as anticipated in 2019. However, in many cases, we believe the intrinsic value of the underlying companies has increased.

The Fund currently holds two short positions in which we believe the underlying company could end up going bankrupt – leaving the equity worthless. Both of these short positions are in pharmaceutical companies that have failed to effectively launch new products and are burning material amounts of cash with overly indebted balance sheets. We shorted the first stock in February while the second smaller position was shorted in early July. In the third quarter, we experienced a high level of volatility on the short side, which drove us to cover three positions and focus on our two best ideas. For example, our largest short position almost doubled in price from early August through mid-September, which was a

nerve-wracking experience but one that we've lived through before. We covered a small amount on strength as the position size grew but held on to the vast majority of the position. The stock has since declined back to its recent lows. We've always respected the fact that shorting is a difficult endeavor, but we will continue to selectively short stocks in the future when we see money-making opportunities. At the time of this writing, the Fund has generated a meaningful amount of gains on the short side this year.

Position Updates

Biospecifics (BSTC)

Biospecifics stock has declined by 20% in the year-to-date period even though we believe the company and its commercial partner are performing at a high level with Xiaflex. The second quarter results released in August were highlighted by 13% revenue growth and 33% profit growth. The company's operating margin improved by 700 basis points year-over-year driven by lower royalty payments to partners and reduced spend on research and development. Biospecifics generated \$10 million of free cash flow in the first six months of the year and ended with \$94 million of cash on the balance sheet and no debt (25% of the market cap). The company's commercial partner Endo Pharmaceuticals continues to guide to mid-to-high teens Xiaflex revenue growth in 2019. Endo also announced that legendary NFL quarterback John Elway agreed to be its new spokesperson for Xiaflex in Dupuytren's contracture, a debilitating condition that affects one's hands. Mr. Elway signed on after successfully treated both of his hands with the drug. We expect that Endo's "Facts on Hand" campaign, led by Mr. Elway, will create greater patient demand for Xiaflex in the future. Additionally, in September, Endo announced that the cellulite biologic license application or BLA was filed with the FDA. We view the cellulite indication as an important component of future growth for Xiaflex in a cash-pay market.

We recently wrote a letter to the board of directors at Biospecifics urging them to act decisively to name a new CEO after a prolonged period without permanent leadership. On October 10, the company named Kevin Buchi as its new CEO. We've known Mr. Buchi for over a decade since his time as the CFO and CEO of Cephalon, which was sold to Teva Pharmaceuticals for \$8 billion in 2011. We are pleased to see new leadership at the company, and given Mr. Buchi's background, we would expect business development to feature more prominently in the strategy going forward. We also recommended that the board move to more aggressively deploy the company's capital with the stock trading near multi-year lows. On our 2019 earnings estimate, and after stripping out the cash on the balance sheet, the stock is trading at just over 10x earnings. We believe that now is an opportune time to take advantage of market pessimism to retire shares at attractive prices before the cellulite launch. Lastly, we encouraged the board to take an active role in re-negotiating the company's commercial deal with Endo Pharmaceuticals to provide economic life beyond the current agreement, which ends in 2028. We believe an expanded commercial agreement with Endo would be viewed favorably by investors.

Electromed (ELMD)

Our thesis on Electromed hinges on the premise that the company is under-earning after a multi-year period of poorly executed sales force expansion accompanied by decremental returns. We applaud the changes that management made earlier this year to put the company on more solid footing including naming a new head of sales and restructuring the sales force. It is our view that the business should be able to consistently generate a 15-20% operating margin over time given its favorable gross margin profile.

In August, Electromed reported calendar second quarter results that exceeded our expectations. Sales increased by 9% while earnings increased by 18% versus the previous year. The company's operating margin expanded by 120 basis points year-over-year to 17.3%. If one normalizes for one-time items in each period, it tells an even better story with 770 basis points of year-over-year margin improvement to 18.6%. Electromed generated \$1.4 million of cash flow from operations in the quarter and ended the quarter with \$7.8 million of cash and no debt (15% of the market cap). In total, the company reported *record* revenue, *record* profit and *record* cash flow from operations in the quarter, which is its seasonally strongest. We believe that the company's strong second quarter results reinforced our thesis that the sales force optimization will structurally increase margins in the future. Despite that, several more quarters of improvement could be required before the stock "re-rates" materially. While the stock reacted positively to the second quarter results, we continue to believe that the stock is vastly undervalued relative to industry peers and remains a perennial acquisition target.

Partnership Update

A partnership is only as strong as the general partner's ability to attract like-minded limited partners with similar investment horizons and temperaments. Although we haven't met our return expectations, we are nevertheless driven to succeed. We come to the office every day focused on generating superior returns for our limited partners who may be understandably frustrated. My family is the largest investor in the partnership, so we've disproportionately felt the negative performance. As a testament to the quality – and patience – of our investor base, we have not received one call or email complaint. We appreciate their patience through this period of underwhelming performance, and we believe the future remains bright.

In Closing

The Fund's underperformance over the past 12 months has created some very attractive risk-reward scenarios in the portfolio. We won't speculate as to when those values will be recognized by the market, but in the meantime, we will patiently stay the course. 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

¹Summers 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

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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.