AW Research Q3 2019

9/19/2019

Performance

At the end of Q3 2019, my portfolio is up 19.24% year to date (YTD). In comparison, the S&P 500 is currently up 19.36% YTD. The decline from 25% to 19% return over the past quarter was the result of allowing my position sizing in Square and Teladoc to dominate the portfolio, which impacted the overall returns. In the future, I plan to trim my positions as they approach 17-20% of my overall portfolio to minimize or prevent the possibility of something similar occurring again.

Many important lessons were learned during this quarter that will improve my earning potential in the future. Although I underperformed this quarter, I am pleased with a few positions I've been building this quarter. I believe my performance is best judged based on longer-term outperformance between 3-5 years.

Aw Research Return

Q1 2019	Q2 2019	Q3 2019
15.33%	10.52%	-6.61%

1 Year	3 Year	Annualized
19.24%	65.15%	21.75%

S&P 500 Return

Q1 2019	Q2 2019	Q3 2019
13.07%	4.30%	2.99%

1 year	3 Year	Annualized
19.36%	34.80%	12.11%

Rebalancing

It's well known that Warren Buffett, Peter Lynch, and many other notable investing gurus became successful from investing in microcaps. Over the decades, the microcap space has remained an inefficient market due to the lack of institutional ownership. As a result, there is a significant value disconnect in many underfollowed companies.

I am interested in owning quality companies that operate within the micro, small, or mid-cap range. I am focused on building an exclusive, high-quality portfolio of undercovered and misunderstood companies.

The small companies I am searching for have a few common characteristics: a durable competitive advantage, long growth trajectories, and a management team that has a significant amount of their net worth invested in the company. I am interested in finding undervalued companies that can become overvalued. Fairly valued isn't good enough. Great companies always trade at a premium because there is a scarcity of them.

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Selected Portfolio Results

One closed position and two new positions worth discussing.

Teladoc $TDOC Closed on 8/28/2019

During the second quarter, I exited a long position in Teladoc that was initially opened in May 2017 for an 81% gain. I closed the Teladoc position because I lack the knowledge in the governmental regulations that Teladoc will have to hurdle in the coming years. Also, I am not well acquainted with the healthcare sector. I do not feel comfortable holding a large position in a company where the risk/reward is not in my favor. Moving forward, I believe that my capital can appreciate better and safer placed elsewhere over the next 3-5 years.

Gaia, Inc $GAIA Opened on 8/12/2019

Gaia is striving to be the Netflix for the “New Age”, it is a play on the popular trend of subscription-based specialty programming. From my point of view, the market is undoubtedly underestimating the positive impacts of price increases and improving customer lifetime metrics as Gaia advances on its path to profitability.

Gaia has all of the characteristics for a small-cap company, along with an enormous valuation disconnect. The company operates in a niche sector, has a durable competitive advantage, long growth trajectories, and a management team that has a large portion of their net worth invested in the company. I recently published a research report featuring Gaia on the website that discusses my thoughts on the company and its future in length. I initially opened with a 5% position at $6.90 and continued to build my position throughout the quarter, as I gained conviction.

Immucell Corporation $ICCC Opened on 9/16/2019

ImmuCell Corporation (ICCC) is a growing animal health company that develops, manufactures, and markets scientifically-proven products that improve health and productivity in the dairy and beef industries. ICCC is initiating a plan to begin exporting its First Defense product, a protectant against calf scouring. The following USDA statistics for 2019 provide some perspective on this opportunity: Dairy and Beef Cows: US: 41,300,000, Canada: 4,650,000, China: 67,400,000 European Union: 34,450,000, Australia and New Zealand: 18,470,000, Mexico: 11,150,000, South Korea: 1,700,000, Japan: 1,470,000

Re-Train has been the company’s focus since 2000 and is currently in phase 2 of the FDA trials. Re-Train is a niacin based intrammarry treatment of subclinical mastitis in lactating dairy cows. Mastitis carries an economic cost of approximately $2 billion per year, including $300 million in discarded milk from cows that have been treated with traditional antibiotic drugs. ICCC invested $15.5 million in Re-Tain product development as well as $5.3 million in a Nisin production facility (indication this drug will get approved). This drug will be important for avoiding costly milk discard. The current practice only treats mastitis when the milk of the infected cow cannot be sold. Dairy producers are required to discard milk for a period of time during and after treatment with Mastitis treatment products due to concerns of antibiotic residue in milk.

However, ICCC is aiming to treat mastitis before the cow reaches the clinically affected stage with Nisin. No other FDA approved mastitis treatment product on the market can offer this value proposition. ICCC’s near term goal is to double sales through continued growth in First Defense and successful launch in Re-Train*.* ICCC estimates that there is market potential to achieve $5.8 million in sales during the first launch of Re-Train and growth potential of $36.1 million in year 5. ICCC has a longer-term goal to triple sales during the 5 year period.

I have limited ICCC to a max position of 5% and that may be trimmed to 3% as more is uncovered about the company. Currently, 40% of their revenue is from one source, making this a poor risk/reward stock. Moreover, FDA approval for Re-Train and attaining the licenses to expand First Defense internationally is still speculation. Ultimately, this is a speculative position, and that is why my position size is limited.

Other Significant Portfolio Updates

Docusign $DOCU Opened on 11/29/2018

DOCU is outperforming its competition in functionality and practicality. DocuSign's achievements have produced a distinct economic moat, or a competitive advantage over its competitors. However, the moat does not solely pertain to eSignature, which is easily replicated. DocuSign’s ability to automate processes in contractual and/or documental commitment will protect its long-term profits and market share from competing firms. The applicability of DocuSign is significantly beyond that offered, or even likely to be offered by the many other entrants into the space. There are numerous competitors who offer electronic signature solutions, but very few offer an end to end system of agreement, like DocuSign does.

Initially, I opened a 5% position in Docusign. I wanted to wait and see how the management team could execute on their “land and expand” strategy. The DocuSign

Agreement Cloud includes the new Contract life-cycle management and more. After the company reported its Q1 2019 results (Given Docusigns fiscal year differs), there was a 20% decline in the stock price to $43, right where I opened my initial position.

The sharp after-hours decline was due to a decrease in billings. During the earnings call, CFO Michael Sheridan explained that the lack of billing growth was because multi-product sales involve more complexity in terms of integration designs. This positive motion in the business extended some of the upsell cycles for existing customers that wanted to deploy and the company's expanded offerings. This extended sales cycle impacted the billings in dollar net retention in Q1.

To conclude, the lack of billings growth is a positive showing that many new and pre-existing customers were interested in expanding into the Agreement Cloud. Moreover, DocuSign's Q2 earnings released on September 5th had 40% revenue growth and 47% billings growth. This resulted in a sharp stock price increase to $62 at the end of the quarter leaving me up nearly 50% on my position.

Square $SQ Opened on 5/25/2017

Square is uniquely positioned to take advantage of several major developments in the evolution of point-of-sale (POS) transactions and peer to peer (P2P) payment transactions. The company stands at the forefront of payment processing, and serves a wide variety of merchants across an array of industries. Currently, 70-80% of SQ merchants are self-serving into the app and into the service.

Square's omnichannel ecosystems are its biggest asset. The company's products are all very tightly interconnected so it makes sense to combine them: accepting payment cards, using Square installments to split big sums into smaller installments, Square Capital for lending services, the Cash Card, the Square Payroll to pay your employees, etc. However, these products are all from Square's original seller ecosystem, which is still expanding. A large number of investors still associate Square with its legacy payment system, just as DocuSign was still viewed as an eSignature company. Both of these companies have become much more.

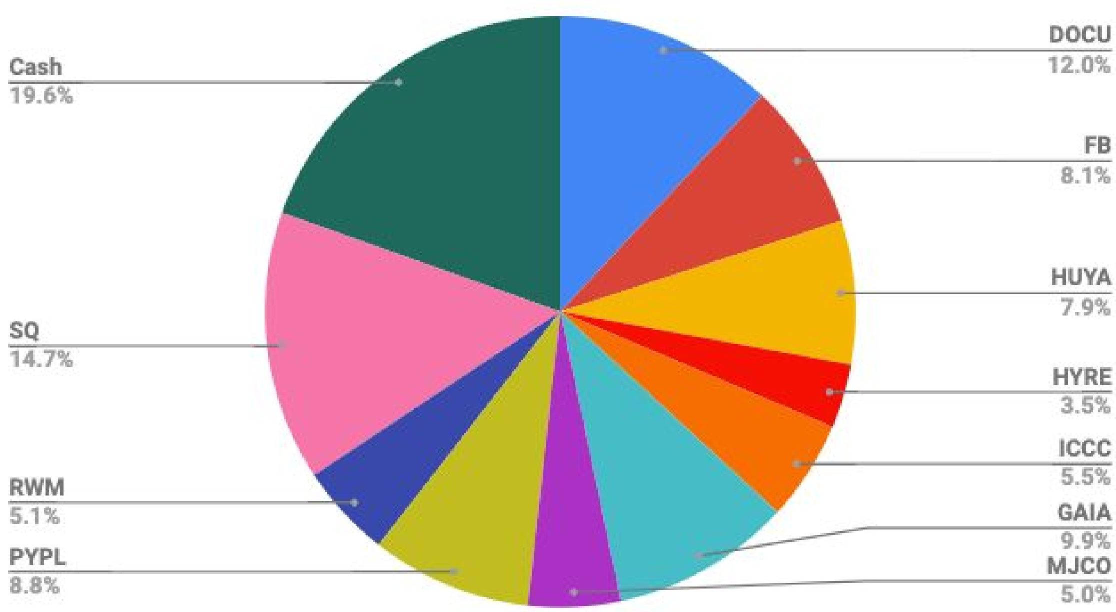
Venmo is on course to achieve $300 million for PayPal full year 2019, Cash App had revenue of $260 million last quarter. Cash App is clearly outperforming Venmo in many aspects. CEO Jack Dorsey stated in the Q2 earnings call that "In just 3 years, Cash App revenue grew from basically $0 to $135 million, excluding Bitcoin, and we saw 3.5

million customers use Cash Card in June, typically using it to purchase multiple times per week."

Square has continued to execute on capturing market share by being able to continue growing revenue levels over 40% with international tailwinds yet to hit. The company is also on track to grow adjusted EBITDA at 60% through the full year 2019. I have complete confidence that CEO Jack Dorsey's vision is aligned with that of shareholders and am confident that Square will be able to continue capturing market share in all of the sectors mentioned above.

Portfolio Summary

Current long positions in Docusign, Facebook, Huya, Hyre Car, Immucell, Gaia, Majesco, Paypal, and SMSI. I am long RWM which is short of the Russell 2000 for downside protection. My 20% cash position will be used to take advantage of any opportunities the market may present.



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Market Outlook

A common game in the stock market is the comparison between the current market cycle relative to a former cycle. There is an abundance of common investment biases that I fall victim to, and I will likely continue to be guilty of. I'm not in the game of predicting market cycles I'm just here to buy good companies at the right valuation that offer e=me a good risk to reward. Hopefully, with a little bit more self-awareness in the research process, I can overcome some of these hidden biases and share them with readers. Speculation aside I plan to remain patient with my 20% cash position until the market creates the type of opportunities I'm looking for.

Conclusion

Active patience is the hardest skill-set to develop, and the most valuable. It forces one to diligently verify a thesis, and do nothing until there is something to do. Ultimately, good companies will rise in any macroeconomic environment. I am proud of the portfolio performance thus far, and excited about the current positions and opportunity set looking forward.

Please feel free to contact me with any questions at Andywalkerfinance@gmail.com.