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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Small Cap Value Manager Likes Homebuilders, Furniture, and Trucking

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SECTOR — GENERAL INVESTING

TWST: Tell us about your firm and please introduce your fund.

Mr. Deysher: The Pinnacle Value Fund is an SEC-registered mutual fund launched on April 1, 2003, with a mandate to invest in small and micro-cap companies that we feel are undervalued relative to asset values or earnings power. Most trade below the radar screen of institutions, and our goal is long-term capital appreciation with income as a secondary objective.

We target companies with significant upside potential and limited downside risk. Most have strong balance sheets, capable managements, attractive business niches, sound accounting practices, and large insider ownership. We seek targets where good things are happening below the surface, and we think hard about what could go wrong going forward.

TWST: And who are your typical clients? Do you have mostly institutional clients, or private investors?

Mr. Deysher: Our clients are a mix of small institutions and individuals. In addition to direct accounts, we are on most of the major brokerage platforms including Schwab, Fidelity, Vanguard, and others. We want to make the fund accessible to all investors so we've kept our minimum at $2,500.

TWST: Tell us about the fund's structure in terms of the sectors and subsectors you hold, and weightings.

Mr. Deysher: The portfolio currently has about 40 names. The top 10 positions are about 43% of the portfolio since we like to make concentrated investments where we have high conviction. From there it's smaller positions where we are either building or reducing a position. We have quite a few R&D positions where we own a small amount and we're getting to know the company before making it a larger position.

In terms of segments and sectors, we're generally agnostic. We go to where the values are, and if they end up in a particular segment or sector, that's OK. We don't have a mandate to invest a certain percentage of the assets in a particular segment.

TWST: What's your overall view of the current market scenario? Some say it has more room to run, others say it's already too highly valued. What's your view?

Mr. Deysher: We think the market is at least fairly valued if not overvalued. Our crystal ball is no better than anyone else's, but we've had a pretty big run over the last couple of years and most of the metrics, whether it's price-to-earnings, price-to-book, price-to-cash flow, point to stretched valuations. Of course, sometimes there are pockets of opportunity within the market which we try to exploit.

TWST: Before I ask you where you're seeing your best pockets of opportunity now, give us a view of your fund in terms of the heaviest weighted sectors and names?

Mr. Deysher: We have decent exposure in the following segments: apparel/textiles, construction/fabrication, transportation and energy. The portfolio is built stock by stock and those segments give you an idea of where we're finding the best values at this point in time.

Our top four positions are **Gulf Island Fabrication** (NASDAQ:GIFI), **Hurco** (NASDAQ:HURC), **Unifi** (NYSE:UFI) and **Culp** (NYSE:CULP).

TWST: Can you give us a closer look at those top positions?

Mr. Deysher: Gulf Island Fabrication makes metal structures for various projects both energy and non-energy related. They got their start with offshore oil platforms but recently won a contract to help support the rebuilding of the Francis Scott Key Bridge in Baltimore. Management sold non-core assets and redeployed the proceeds into a couple of accretive acquisitions. So far, so good.

Hurco Companies is a long-established machine tool maker serving independent job shops that're more focused on service and quality than price. But it's a cyclical market and most of their key end user markets are bumping along the bottom. **Hurco** is reducing costs which provides operating leverage when the cycle turns.

Unifi makes polyester and nylon yarns that go into apparel and home furnishings. **Culp** makes fabric that goes into things like furniture and mattresses.

Like **Hurco**, **Unifi** and **Culp** face soft end user markets and have embarked on major restructurings to help restore profitability. Fortunately, all three firms have reasonable balance sheets that provide flexibility and insiders have been buying.

TWST: And what about energy names? Why do you like energy now?

Mr. Deysher: We like energy because oil and natural gas prices are low now due to oversupply and the soft world demand. Exploration and development budgets are being cut, meaning less drilling and less replenishment of reserves.

My understanding is that hydrogen has prospects, but it's going to require a large build-out of infrastructure to accommodate it. Unlike natural gas and liquefied natural gas, which have infrastructure including ports, tank farms, and pipelines, hydrogen is not there yet.

1-Year Daily Chart of Hooker Furnishings Corp.

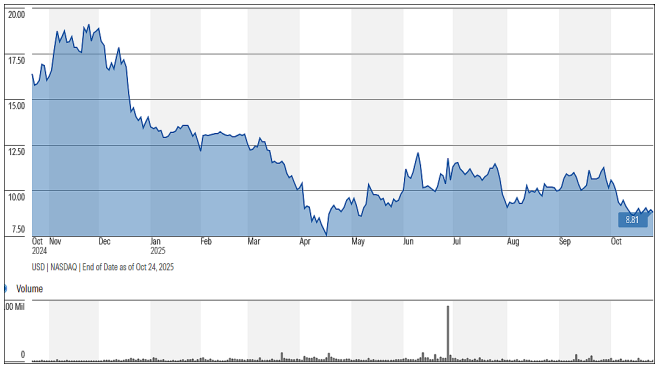

Chart provided by www.BigCharts.com

So, while there is some excitement about hydrogen as an alternative fuel, I think it's too early to assess what the ultimate outcome will be.

"Gulf Island Fabrication makes metal structures for various projects both energy and non-energy related. They got their start with offshore oil platforms but recently won a contract to help support the rebuilding of the Francis Scott Key Bridge in Baltimore."

It's often said that the cure for low energy prices is low energy prices and we think that's true. Once demand rebounds, we think the supply shortage will eventually drive energy prices up.

So, we own a basket of energy names including **Seadrill** (NYSE:SDRL) an offshore driller and **Seacor** (NYSE:SMHI) an offshore supply vessel company serving offshore oil rigs. We own a couple of energy royalty trusts, **Sabine Royalty Trust** (NYSE:SBR) and **San Juan Basin Royalty Trust** (NYSE:SJT). Finally, we own a couple of shipping firms that transport liquid petroleum gas worldwide, including **Dorian** (NYSE:LPG) and **StealthGas** (NASDAQ:GASS). We think all will do well once the cycle turns.

TWST: Do you look at alternative energy names? Nuclear, or even green hydrogen?

Mr. Deysher: We don't own any wind farms or nuclear right now. One of our companies, **Dorian LPG**, has a few vessels in their fleet which can transport hydrogen. So, we have exposure to hydrogen by owning a company that can transport hydrogen.

TWST: What do they do with the hydrogen? Is it mostly used as an energy source?

Mr. Deysher: Hydrogen is often viewed as a low emission alternative to fossil fuels. Hydrogen applications include heavy industry, power generation and fuel cell EVs. It's an evolving industry.

TWST: What else are you looking at now? Beyond energy names that you've already shared, where do you see the best pockets of opportunity?

Mr. Deysher: Beyond energy, there are a few pockets of interest. First, furniture stocks, which are down since their fortunes are largely tied to the housing markets with people moving or refurbishing their homes. Housing is under pressure because of high mortgage rates and economic uncertainty.

We own a few furniture stocks including **Hooker Furniture** (NASDAQ:HOFT), **Ethan Allen** (NYSE:ETD) and **Flexsteel** (NASDAQ:FLXS). All have been in business decades, are well managed and have solid balance sheets to get them through the downturn.

Another pocket of opportunity is trucking companies. The industry is at overcapacity now since a lot of firms added capacity in recent years. Now the slowing economy is putting pressure on rates and volumes. Two names of interest are **Heartland** (NASDAQ:HTLD) and **Marten** (NASDAQ:MRTN). **Heartland** is a short-medium haul dry truckload carrier while **Marten** is a truckload refrigerated carrier. Both have survived previous downturns and we feel they'll survive this one.

Another pocket is homebuilders, which are also vulnerable to mortgage rates and economic uncertainty. There are several firms in this space serving various geographies and classes of homes from starter to

high end move-ups. We own **Tri Pointe Homes** (NYSE:TPH), which builds higher-end homes across the country.

TWST: Currently, are there any areas where you might be trimming or selling that look overvalued?

Mr. Deysher: Not on a wholesale basis. We typically trim companies as they reach valuation targets, although that can be a moving number. We've been lightening up on some of our names throughout the year and feel we are well positioned.

We tend to hold our companies for a while. Our turnover averages 21% per year, implying a holding period of five years or so. We complete our due diligence, and once we have a position established, we tend to hold it until the good things that we expect unfold.

We've done some trimming, but not a lot. Our cash is around 30%, which we feel is sufficient for now.

TWST: Are most of your names fairly insulated from tariffs or the Made in America mandates? Or any other regulatory directives?

Mr. Deysher: Many of our companies are subject to tariffs because they buy components and parts from offshore. They are dealing with this in a couple of ways including selective price increases where possible. They are also asking vendors to help share the costs.

We did have some one position acquired earlier this year, **Universal Stainless**, which was acquired by an offshore competitor seeking a U.S. toehold. But M&A has been quiet in our portfolio.

I think there's a lot of economic uncertainty among prospective buyers, both strategic and financial, who are thinking carefully about how a potential slowdown or higher interest rates might affect future earnings. But there are still huge pools of capital that need to be deployed from private equity, venture capital, and hedge funds.

We think there's going to be future M&A activity, but buyers are being more disciplined.

TWST: Do you hold any offshore names? Or sectors largely related to offshore activity?

Mr. Deysher: We have one firm that's domiciled offshore, **StealthGas**, which is headquartered in Athens and operates a fleet of ships that transport liquid petroleum gas worldwide. Like all of our other holdings, **StealthGas** is an SEC-filer. We like the detailed disclosure in 10-Ks, 10-Qs, and 8-Ks, and if a company does not file with the SEC, that may limit the amount of intelligence we can gather.

So, while there are plenty of opportunities offshore, there are enough names domestically that we can get our arms around. Especially since we can go way down in terms of market cap to exploit opportunities.

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So, while most of our companies are exposed to tariffs, they've been dealing with them. The good news is that most of the competitors of our companies are also dealing with tariffs.

TWST: If interest rates decline, which areas will most benefit?

Mr. Deysher: A lot will depend on which rates decline. The Fed has been targeting lower short-term rates as it walks the fine line of keeping inflation in check while maintaining employment. Lower short-term rates will help some borrowers, like those with credit card balances. But what impact the Fed reductions have on mortgage and other rates remains to be seen.

Long term rates are influenced by the outlook for inflation, deficit spending, economic activity and other factors. If long-term rates decline this should help drive sales of big-ticket items like homes, furniture, vehicles and capital equipment. But lower long-term rates may signal an economic slowdown which might have the opposite effect on purchases of big-ticket items and economic activity.

TWST: Do you look at M&A? And if so, what's the level of M&A you're seeing currently? Can you share any likely takeover targets?

Mr. Deysher: We normally don't make investments on the basis that a company will be acquired. We invest because of undervalued assets or earnings power. The company must stand on its own merit, and if it's acquired, that's icing on the cake.

1-Year Daily Chart of StealthGas Inc.

Chart provided by www.BigCharts.com

TWST: And do you usually take boots-on-the ground when evaluating a company? Do you meet with top management? And if so, what are some notable takeaways? Which management teams might you be particularly impressed with?

Mr. Deysher: We absolutely talk with top management. It's a critical part of our due diligence. We meet with top management of virtually all of our holdings, either at their office, our office, or at industry conferences. We also participate in conference calls on a quarterly basis, or more frequently if needed. And we like to attend

annual meetings, which are a great place to gather information and speak with management and the board directly.

We look for managers that are hands-on, honest, intelligent, energetic and opportunistic. We want them to think like owner-operators, not caretakers. We examine proxies carefully to assess insider ownership, incentive compensation and related party transactions.

The biggest concern for our managers now is uncertainty about tariffs, interest rates, and the economic outlook. Fortunately, all of our companies have strong balance sheets providing a long runway to get them through any type of downturn.

TWST: Any notable takeaways from the most recent earnings reports? And what are you looking for in upcoming reports?

Mr. Deysher: Most of our companies have reported earnings that are in line. None have really disappointed.

One of our basic approaches is that we like companies that have already disappointed Wall Street. In other words, the earnings disappointments are behind the company and the stock price is down.

So, it's our job to apply our due diligence while the stock price is down to see whether the disappointment that knocked the stock price down is permanent or temporary. Oftentimes we discover that it's temporary, and that eventually earnings will start to pick up.

The stock price will usually follow, especially if the p/e multiple expands in conjunction with the higher earnings, which typically happens. So, you get the benefit of a double whammy: higher earnings with an expanded p/e.

TWST: What are one or two names that look down currently, but maybe have been unfairly punished or widely misunderstood? What would be your one or two top names there?

Mr. Deysher: A top name in that category would be one of our recent purchases, which is **Ingles Markets** (NASDAQ:IMKTA). They're a supermarket chain based in Ashville, North Carolina.

They have 198 stores, and own 85% of those stores, including the land underneath. They were founded in 1963 so the land basis is often low. That's a competitive advantage versus other players who lease their stores. They also have a captive milk processing plant that meets most of their dairy needs, including ice cream.

It's a well-run firm with a tight footprint and, if acquired, would be an easy tuck-in acquisition for a bigger chain. In fact, they are one of the only remaining independent grocers that has not been bought by a big chain.

We think the book value is significantly understated, which would be rerated in an acquisition. Current earnings are below historical levels, but we think they will improve. **Ingles** is definitely under the radar screen of many institutions, and we think it's a good buy at these prices.

TWST: Before we conclude, overall what's your best advice to investors now? Are we in a watch-and-wait situation, or would you be buying or selling anything?

Mr. Deysher: With the market where it is, I think you have to be fairly disciplined in terms of picking your spots. It's no longer a question of throwing darts at the market and having the stock prices go up with the market.

You need a couple of qualities to be successful in this space. One of them is patience. You need the time for the investment thesis to work. And once it works, don't sell too soon.

You need to minimize risk by staying with conservative balance sheets and conservative managements because they must survive. You need to do your homework, and know your company very well. You need to be disciplined in terms of where you buy and where you sell. And finally, don't follow the crowd, think independently to reach your own investment thesis.

Those are a couple of the characteristics that investors should keep in mind who want exposure to the space.

TWST: Anything else you'd like to share?

Mr. Deysher: Yes, let's conclude with four promises that we make to our shareholders. The first is that we will make mistakes and try to hold damage to a minimum. Second, we will invest on the basis of value, not popularity. Third, we'll be disciplined in style and execution. And finally, our family will have a substantial investment so our interests are completely aligned with yours.

TWST: Thank you. (VSB)

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