Old West Investment Management, LLC

January 11, 2021

Dear Investor,

What a year!! 2020 will long be remembered for all the obvious reasons of pandemic, protesting, rioting and worldwide suffering. Had you told me one year ago what was coming, I would have predicted steep market losses. Of course, the market did fall dramatically by 34% during March, but then rallied throughout the balance of the year finishing in record territory. At Old West we participated in the March selloff, but then what happened to our portfolios was nothing short of remarkable.

As you can see on your enclosed statement our portfolios had a fantastic year, eclipsing the benchmarks in each strategy. Our LP strategies returned an average of 65% and our SMA strategies returned an average of 66%.

I have been investing for nearly fifty years and have been investing other people's money for over twenty years, and I have never seen this type of out-performance of markets.

One of the most difficult aspects of managing money is being early to ideas, and then waiting for the rest of the market to discover them. This requires a client base that believes in your team and investment process, and is willing to wait for your research to pay off. Well, pay off it did! Our team is thrilled for our clients and ourselves to have such an outstanding year.

So how did we do it? Good old fashioned stock picking. The investment world has determined passive investing is the way to go and trillions of dollars have flowed into index funds and ETF's. Having the kind of year we just had reinforces my belief that deep dive research into individual companies is the way to go.

At the urging of Old West partner and portfolio manager Brian Laks, we began investing in what we saw as a once in a generation opportunity in the nuclear power and uranium mining industry. Often when you're early to an idea you need to have the stomach to watch stock prices fall, sometimes dramatically, knowing that what you're holding has an intrinsic value many times what the market is pricing. As can be seen from the following table, this was true for our top holdings which fell initially but are now well above their first purchase price. What's more, by having the conviction to steadily add to these positions as prices fell, our overall returns were even greater.

Company	First purchase	Price	Low	Drawdown	12/31	From low	From purchase
Cameco	10/06/16	8.02	5.50	-31%	13.40	144%	67%
Energy Fuels	03/23/18	1.59	0.85	-47%	4.26	403%	168%
Denison Mines	06/01/18	0.46	0.20	-57%	0.65	224%	41%
NexGen Energy	06/12/18	2.26	0.55	-76%	2.76	406%	22%
IsoEnergy	06/20/18	0.27	0.25	-7%	1.92	668%	611%
Global Atomic	10/15/18	0.30	0.28	-7%	1.59	468%	430%
Paladin Energy	12/10/18	0.13	0.04	-71%	0.25	558%	92%
Kazatomprom	12/27/18	13.70	11.40	-17%	18.00	58%	31%
Centrus Energy	07/16/19	3.36	2.92	-13%	23.13	692%	588%

Even though these stocks had a great run into the end of the year, we feel strongly they are only in the early innings of their outperformance. The uranium mining industry had been in a severe downturn for nearly a decade, and now that the cycle has turned we believe a multi-year bull market lies ahead. If you recall from our most recent investor letter, Brian did a writeup of Centrus Energy. At the time of that letter Centrus was trading at $9 per share. It finished the year at $23.

In our investor letter last July, Old West partner Chad Cook gave a bullish presentation of Fulgent Genetics (FLGT). We first purchased FLGT at $4 per share. At the time of the letter it was trading at $20 and it finished the year at $55. This Southern California based company is one of the fastest growers in the field of genetic testing, but their quick and nimble move into Covid testing has seen the company grow at 300% year over year.

Another top performer for us last year was Zedge (ZDGE), a company that operates worldwide as a content distribution platform. Old West partner Joe Boskovich Jr. has closely followed the career of serial entrepreneur Howard Jonas, and ZDGE is just one of Howard's many holdings. We first invested in ZDGE at $3 per share, watched it fall as low as $0.66, and our patience was rewarded as the stock finished the year at $6.

As you know, we began investing in gold mining companies several years ago and the price of gold and the share price of the miners didn't do much until this year. The price of gold finished the year just shy of $1900 per ounce, up 26% for the year. The mining companies we owned were all up nicely during the year, with Barrick up 26% and International Tower Hill Mines up 161%. We like gold today more than ever, and plan on adding to our positions on any pullbacks.

The coming year will be fascinating for many reasons and it will be interesting to see how the economy recovers as the vaccines become widely available. I believe this reopening will put the Fed in a no win situation. For years the Fed has printed money and manipulated interest rates to prevent recessions. It started with Alan "the maestro" Greenspan, passed on to Ben Bernanke and perfected by Janet Yellen. How ironic that Yellen will soon be Treasury Secretary. As an owner of gold…I am thrilled.

Economies have natural tendencies to go through boom and bust cycles. Our country suffered a terrible recession in 1920-21 that lasted 18 months and business activity fell 40%. The newly created Fed did not ride to the rescue. Excesses were wrung out of the economy like water out of a soaked rag, and natural economic forces created one of the longest periods of economic expansion, the Roaring 20's. Recessions are necessary for long term economic stability, unless you want to borrow into oblivion and destroy your currency.

Due to Covid most Western governments have spent wildly to prevent pain in their societies. The U.S. has increased government debt by $3.5 trillion in 2020, which eclipses the old record. Where this debt is different is it wasn't used for infrastructure projects or productive assets. It was mostly used to give people money. This massive amount of liquidity, which has already created bubbles (think SPACs, Tesla, corporate borrowing binge) will very likely cause more inflation than the Fed is comfortable with. At that point they either need to let interest rates rise or enact so called "yield curve control" to suppress them. I believe they will not let rates rise, as already they are borrowing to service debt. Once they choose yield curve control the dollar might fall dramatically, which would be very bullish for gold and other commodities.

Another potential flashpoint in the inflation concern is the growth of our money supply. The U.S. M2 money supply grew 26% in the past year, double the growth rate of the 1970's when inflation spiraled. There's no doubt the government's massive transfer of dollars to Americans in need (and some who aren't in need but happy to take the money) is causing the money supply to skyrocket. I always felt it ridiculous that the Fed has a 2% inflation target. They have been planting inflation seeds for years, so watch what you wish for. It's possible the Fed has backed themselves into a corner with no way out. We believe that we are very well positioned when inflation finally arrives.

Even though we had a fantastic year, several of our top holdings have yet to work. In my third quarter 2018 letter, Joe Boskovich Jr. did a writeup of DHX Media. The company has since rebranded as WildBrain and the story is developing just as we hoped. Joe writes the following:

WILDBRAIN (WILD.CN, WLDBF)

As readers of our quarterly letters may recall, WildBrain is a global children's content and brands company. They make children's cartoons and television shows and distribute their content across broadcast platforms, streaming platforms, and on their advertising-video-on-demand (AVOD) network, WildBrain Spark. For a second income stream, WildBrain then licenses all the consumer products based on their programs. At the time of our original writeup, DHX Media / WildBrain was a starter position in the portfolio. Although our timing was a bit premature, our conviction has continued to grow, and today it is a sizeable position in most of our strategies.

In August 2019, DHX Media named Eric Ellenbogen as the company's new CEO. We oftentimes view management change as a catalyst to unlocking value, and we definitely believe that to be the case in this situation. Ellenbogen, who had served as an advisor to the company for the prior year, has an incredible and proven resume in kid's content and for developing franchise IP. Ellenbogen was the President and CEO of Marvel Enterprises before its acquisition by Disney. He then co-founded Classic Media, which became one of the largest private owners of branded kid's and family entertainment. Classic Media was acquired by DreamWorks Animation in 2012, and Ellenbogen became the Co-head of DreamWorks Classics and DreamWorks International Television. One of Ellenbogen's first moves as the new CEO was changing the corporate name to WildBrain, the name of its child-focused YouTube business which was renamed WildBrain Spark. For the last several quarters Ellenbogen has been busy putting the right management in place, and we believe getting the company ready to emerge as a global leader in kid's content.

As you can imagine, luring a top-notch media executive and creative talent away from a larger company is not cheap. A big name usually comes with a big cash salary which would not meet our investment criteria of only investing in companies led by management teams with high stock ownership and shareholder friendly compensation. That's why Ellenbogen's compensation package made us all the more excited. Half of Ellenbogen's pay package is in the form of cash salary (1/3rd of which he is required to use buying stock on the open market), and 50% is tied to stock grants. Half of those stock grants will vest over a period of three years and the remaining fifty percent will vest as follows: 1/3 on the achievement of a stock price target of $7.00; 1/3 on the achievement of a stock price target of $9.00; and 1/3 on the achievement of a stock price target of $11.00. As of the time of this writing, WildBrain common stock is trading at $1.75. So yes, Eric Ellenbogen stands to be nicely compensated, but at stock prices 300%, 414%, and 529% above where the stock is currently trading. This alone should tell you something about his optimism regarding the company's assets and potential, and he offered a clearer picture into the future during this most recent quarter's conference call. The Peanuts franchise + other library content + consumer product sales + the massive advertising opportunity at WildBrain Spark + the ability to discover and partner with new IP at WildBrain Spark that could evolve into hits = many different ways to win big as a WildBrain shareholder.

I. Continued Success with Peanuts Franchise / Apple TV Partnership

Peanuts is WildBrain's "tentpole" property and the success of the Peanuts gang demonstrates that franchise brands can live on and prosper for years into the future.

Peanuts was created as a comic strip in 1950, and today, 70 years later, kids are still discovering the brand every day. Owning various media names over the years, I have learned that profits from content production are often surprisingly low due to massive marketing budgets and other production related costs, and the only proof that a brand is "Evergreen" should be proven out in high margin consumer product / retail sales. Most entertainment brands simply lack consumer product sales which I believe either indicates the lack of a forever franchise or management's ineffectiveness at monetizing IP.

As you can see in the chart on the next page, Peanuts is the #8 entertainment / character property with over $1.6 billion in annual global retail sales. These attached consumer products act like "oil wells" that never cease pumping cash, and include everything from the sale of toys, music publishing, school supplies, health and beauty aids, food products, etc. The #9-character property on the below list, Peppa Pig, was the primary asset acquired by Hasbro last year in a $4 billion acquisition, which is a good comp for what that the Peanuts franchise may be worth. WildBrain owns a 41% controlling stake in Peanuts (Sony owns 39% and the Shultz estate still owns 20%), which means that WildBrain's stake in the franchise alone is probably worth multiples of the current stock price.

Retail Sales of Licensed Merchandise Based on $1 Billion+ Entertainment/Character Properties, 2018

Figures in Millions USD

RANK	PROPERTY	LICENSOR	GLOBAL RETAIL SALES	SHARE OF SALES IN U.S. & CANADA
1	Mickey & Minnie	Disney	$3,265	39.9%
2	Hello Kitty	Sanrio	$2,645	22.7%
3	Star Wars	Disney	$1,923	48.9%
4	Paw Patrol	Nickelodeon	$1,811	58.6%
5	Marvel Avengers	Disney	$1,798	46.3%
6	Disney Princess	Disney	$1,686	43.5%
7	Winnie the Pooh	Disney	$1,675	29.4%
8	Peanuts	DHX Media	$1,662	27.9%
9	Peppa Pig	eOne	$1,270	19.1%
10	Spider-Man	Disney	$1,075	35.5%
11	Frozen	Disney	$1,013	55.5%

Note: Figures are for retail sales of all licensed merchandise for calendar years 2017–2018.

Does not include: Content licensing such as DVDs; products created through in-house divisions rather than through licensing agreements with third parties (e.g. toys at Mattel or Hasbro or Pokémon video games from Nintendo); or nonretail products such as touring shows, theme park attractions, cruises, gambling/lotteries, and the like.

SOURCE: THE LICENSING LETTER

Despite this success, we believe that the Peanuts franchise is significantly under-monetized and will become much more valuable in the coming years due to the new Apple TV+ / Peanuts partnership. The newly announced partnership is transformational and will give the Peanuts franchise a fresh make-over and will make the brand more relevant than ever. The partnership with Apple TV+ is the largest content deal in WildBrain's history, making Apple the new home for all of the Peanuts content. The full impact of new Peanuts content for Apple TV+ will not reflect in WildBrain's financials until 2022, but the entire value of the back-catalogue license will aggregate in the upcoming quarter, which will be on the order of 60% more than what was last publicly reported in the transaction between Iconix (former peanuts owner) and ABC Television in 2014.

The new "Snoopy in Space*"* series in partnership with NASA that premiered last fall was one of Apple's most viewed shows and recently renewed for a Season 2. "The Snoopy Show" premieres in February of this year, and a series of holiday specials (Mother's Day, Back to School, Earth Day, etc.) will premiere in the coming year and complement the existing Halloween, Thanksgiving and Christmas specials that were licensed in the back-catalogue deal. Most recently, Mariah Carey's "Magical Christmas Special" topped the Apple TV+ charts at #1 in over 100 countries and was watched by tens of millions of people. If you happened to watch the Christmas Special with your family, you will know that Snoopy, Woodstock, Charlie Brown, and the rest of the Peanuts gang had one of the more prominent guest appearances. As this new content reaches new audiences and new generations of kids, and as Apple continues to build its kids' streaming content with Peanuts as its anchor property, management expects the existing Peanuts licensing business to grow significantly.

II. Vast Potential with Other Owned IP

Management has stressed that the new Peanuts/Apple TV+ content is a creative magnet unlike anything the company has ever seen. The prospect of working on an iconic animation property like Peanuts for Apple TV+ is attracting top talent to the studio, thereby establishing a virtuous cycle which will reignite other key IP from its vast portfolio of popular brands. Several of these programs have been licensed to SVOD platforms (streaming-video-on-demand) like Netflix (*Johnny Test, Chip and Potato*), several are being introduced and/or grown through WildBrain Spark's AVOD network (*Strawberry Shortcake, Calliou, Rev & Roll,* etc.), and others through linear broadcast (*Dorg Van Dango* on Nickelodeon, etc).

Management has singled out several franchises for redevelopment that have impressive operating histories and legacies of significant consumer product sales. Two such examples are *Strawberry Shortcake* and *Teletubbies*.

- **Strawberry Shortcake**: *Strawberry Shortcake*, which was purchased from Iconix Brands in May 2017, is being re-developed and re-introduced on WildBrain Spark, WildBrain's AVOD network of channels. In the 1990's *Strawberry Shortcake* was first introduced as a one-hour home video produced for 20th Century Fox Home Entertainment for $250,000. Over the next five years, Strawberry Shortcake did $5 billion of retail sales with 300 licenses and 600 products in the marketplace distributed worldwide.

- **Teletubbies**: *Teletubbies* is another franchise with a rich history of retail sales. On Ellenbogen's first conference call in mid-2019, he discussed a new 360° approach to brand development to fully capture higher margin consumer product sales. On that call, Ellenbogen highlighted that *Teletubbies*, a beloved preschool property, had done less than $1 million in consumer product sales in the prior year. During the early 2000's Teletubbies was doing several hundred million dollars per year in retail sales.

As the fan base continues to grow for these two brands on their dedicated WildBrain Spark channels, premium content deals will be announced, which should then ultimately lead to consumer products strategies not too different than they experienced in the past. If WildBrain is able to replicate past success, it is not unreasonable to believe that these brands could be worth in excess of WildBrain's current valuation. Outside of these brands, several other properties in WildBrain's library have exciting potential, including *Green Hornet, Carmen Sandiego, In the Night Garden, Calliou, Rev & Roll, Johnny Test*, and many more.

III. Significant Opportunity at WildBrain Spark

The largest and most exciting opportunity in our opinion is at WildBrain Spark, WildBrain's advertising-video-on-demand (AVOD) business on YouTube, Amazon Fire, Roku, Tubi, etc, and as this segment continues to grow, the market should assign a much higher multiple to the overall company valuation similar to other digital media assets.

As the market transitions from a linear broadcast centric market, digital media platforms have become the most popular destinations for kid's entertainment. YouTube has led the way grabbing close to 20% of viewing time. With more than 200 million subscribers on YouTube, WildBrain Spark has over 300,000 videos under management across more than 800 kids' channels for both its own IP and for 3rd party brands. The WildBrain Spark network generates approximately 4 billion views per month and reaches 1-in-3 kids - about 40% of kids under the age of 13 - globally on YouTube every 90 days. We believe that WildBrain Spark is a "breakout business" that will become a meaningful growth engine and may ultimately become the most valuable business segment at WildBrain.

1. Significant Advertising Potential at WildBrain Spark

WildBrain Spark offers brands and media agencies scale and reach backed by data-driven insights and the ability to monitor brand safety as a YouTube designated "Made for Kids" creator of content. With such a large network of channels and content, WildBrain Spark is uniquely positioned to offer advertisers more control over and insights into the videos carrying their ads. This gives WildBrain the ability to sell ads at much higher CPM's (3x or more) compared to YouTube's advertising algorithm.

WildBrain Spark has a very compelling pitch for advertisers of kids and family content. The Spark network has an average of 4 billion viewers per month compared to Nickelodeon's TV network with 1.3 M daily viewers, Disney's TV network with 760k daily viewers, and Cartoon Network with 640k daily viewers.

In WildBrain's most recent conference call, management expressed that they expect to monetize the advertising opportunity beyond what they were doing prior to YouTube's algorithm change in 2019 when the FTC mandated that Google make changes on how it places ads in children's content (Google has moved swiftly to respond by making the necessary changes - emphasis on quality, removing channels, etc - to evolve into a safer environment for kids. This in turn has only increased Spark's already dominant kids position on YouTube). Prior to this change, WildBrain Spark was doing $80 million in revenue and growing 25% annually. We believe that Spark will most likely return to and eclipse this growth as watch time and viewership continue to grow.

- *Advertising Case Study:* <u>Mattel's Cave Club</u>

YouTube has changed the way in which kids and families identify popular toys, and in 2020, Mattel partnered with WildBrain Spark to develop and execute a digital-first launch strategy for a new kids' property, *Cave Club*. This digital-first strategy is designed to introduce audiences to the brand, build excitement ahead of a retail launch, and to create a fandom to sustain and grow *Cave Club's* popularity for the long-term. In less than one year, WildBrain Spark has helped Mattel's *Cave Club* receive 60 million views and the response to the advertising campaign has been 110% above industry benchmarks.

2. **Ability to Build IP and Discover/Partner with 3rd Party Brands.**

In addition to growing awareness for its wholly owned IP, dozens of 3rd party brands like Playmobil, Curious George, The Smurfs, and Popeye have turned to WildBrain Spark to develop their AVOD strategies. Ellenbogen has referred to WildBrain Spark as a brand builder that can help the company identify and then partner with new content that kids want. WildBrain's analytics tools can test new and unproven content, see what is gaining views, further build successful IP, and then partner with those content creators to oftentimes gain an ownership interest or consumer products share. This in turn can potentially build WildBrain's library of IP, increasing the overall value of the company.

- *Brand Building Case Study # 1:* <u>Woody Woodpecker</u>

WildBrain partnered with Universal to test select brands from Universal's content library that had been largely ignored for decades. WildBrain launched *Woody Woodpecker* YouTube channels in Brazilian Portuguese and Spanish. The channels immediately resonated and the dedicated Portuguese channel for Brazil was a breakout hit. The Brazilian channel organically attracted over 2 million subscribers and the Spanish channel over 700,000 subscribers coupled with extremely high engagement and watch time. This is leading the way to build upon the strength of the existing IP and a strategic opportunity to create original content.

- *Brand Building Case Study # 2:* Sunny Bunnies

After Season 1 in Russia, the official *Sunny Bunnies* YouTube channel had just 1,200 subscribers. Wanting to expand the brand to a much wider audience, the creators, Digital Light Studio, approached WildBrain to grow its global reach. WildBrain's team helped transform the official *Sunny Bunnies* channel from 1,200 subscribers, to a top 1% global YouTube channel. WildBrain was able to generate more than 600,000 views per day on average and grew the channel to 325,000 subscribers and 1.88 billion minutes of watch time. Leveraging this success, the *Sunny Bunnies* brand has secured a master toy partner and earnings from the channel have funded further content to support the brand's future growth.

As this writeup exhibits, our team knows the companies we invest in through and through. Compare this to index investing where you blindly invest in the market. No comparison and the numbers will reflect that over the long run. Thank you for your continued loyalty and support, and we wish you and your family health, happiness, and prosperity in 2021.

Sincerely,

Joseph Boskovich, Sr.
Chairman and Chief Investment Officer