January 24, 2018

Dear Partner:

We're pleased to report that in the 4th quarter of 2017, Dane Capital Management (the "Fund") returned over 19.2%[i], net of fees and expenses, resulting in the Fund generating a 50.2% return for the year, net of fees and expenses.

We run a concentrated, value-oriented portfolio and our goal is always to have good months and good quarters. However, as we've stated, both when results have been disappointing or strong, Dane's performance should be judged over years and not months or quarters. We remain confident that our disciplined process of investing in well-positioned, strong, undervalued, frequently unknown or underfollowed companies, with aligned managements, will result in superior outcomes.

We have been running a significantly net long portfolio (approximately 90%) to which some of our more hedged friends have asked, "What happens when the market turns down?" Dane is not making a long market bet. It's simply our belief that at our Fund's current asset size we can identify underfollowed opportunities that we believe have a strong margin of safety, and may return multiples of purchase price, while shorts are limited to a maximum 100% profit.

Moreover, we have observed over the past 3+ years that the Fund has relatively little market correlation. While it's a small data set, we can report that with the market at new highs in 2018, the Fund is down a few percent. If we were short a set of popular shorts, we'd very well be down far more. If we're patient, we believe our investments will work out. That said, when we find a compelling short we will not refrain from going short.

4Q update

In the 4th quarter virtually all our positions performed well, several of which we're not yet prepared to disclose. Top positions including Daseke (DSKE), which we discussed at length in our 3Q letter (and previous letters) was up ~10%, while its warrants, which we're also long, were up approximately 20%. Limbach (LMB), which we've also discussed at length and which we believe remains meaningfully undervalued, was up about 5% and its warrants over 10%.

Several percent of our gains were generated from our investment in Andina Corp II warrants (ANDAW). We bought a 1%+ position in warrants first thing the Monday following the announcement of the SPAC merger between Andina and LazyDays late the previous Friday night (http://bit.ly/2EUgySQ). We discussed Andina/LazyDays at length in our 3Q letter. The reason for the purchase was three-fold. First, we thought the warrant pricing at the open on Monday bore no resemblance to the value implied by Black-Scholes. Second, we believe the company has a compelling valuation — 6.5x 2017 EV/EBITDA and a 10%+ cash flow yield — with the potential to consolidate the highly fragmented RV dealership industry at exceptionally low multiples. Third, we think the transaction will close given that it's fully backstopped, again, something not priced into warrants. Andina warrants tripled from our 4th quarter purchase price. We believe this is a business that can compound as they consolidate the industry over time, much like AutoNation has done in the automotive sector.

An undisclosed investment which we purchased in April was up 42% in 4Q, and over 135% from the time of purchase in early April. Another recent smaller investment was up 50% in 4Q.

In summary, it was a very strong quarter, although we continue to believe that many of our holdings are significantly undervalued and will compound over time.

Investor relations/Marketing
Given the Fund's solid 2017 results, we have enjoyed increased inbound investor interest. For the most part, the Fund has grown through self-selection by investors who have read our investor letters on-line on ValueWalk, GuruFocus, or other venues, or have seen our detailed write-ups on Seeking Alpha (a link can be found here — many of our Seeking Alpha articles are now behind a paywall, but we're happy to send PDFs, if of interest) or SumZero. As a result, we have a great set of LPs who understand our thought process, investment philosophy, and appreciate our transparency. We continue to make little outgoing fundraising efforts but continue to accept new LPs.

Our effort at original, top-flight research and thoughtful expression of our investment ideas was rewarded by SumZero by their selection of Dane Capital as the winner of Top Stocks for 2018 in the Small Caps category, which was announced in a press release earlier today (http://bit.ly/2n73TVo). A panel of over 40 judges selected our write-up of Andina/LazyDays, which, as previously mentioned, we believe has the potential to compound at a significant rate in years to come.

In 2016, which was a very disappointing year for the Fund (we were down 8%), we had just a single redemption, while multiple LPs added to their investments. We're grateful for their continued confidence in our strategy.

Given our solid performance in 2017, we've been adding one or more new LPs virtually every month, and have visibility into new additions on February 1st and March 1st. To be clear, we are judicious in our growth. Our aim is to be among the best performing funds on Wall Street. We ask ourselves how to put up another year like 2017 — not how to accumulate AUM.

As we've written in previous letters, since the inception of Dane, the average market cap of our holdings has increased from 2/3 below $250mn to 2/3 above $400mn, largely due to our investment in post-SPAC mergers, which have the benefit of being underfollowed and widely ignored (like micro-caps) but have market caps that often range into the billions of dollars. We feel confident that as our AUM grows, we will have ample opportunity to intelligently deploy capital.

2017 in review: What went right, what didn't go right but should in 2018, and what went wrong

"To thine own self be true" — Shakespeare, *Hamlet*, Polonius Act 1, Scene 3

What went right — After a challenging first half of 2016, we decided to reduce the number of positions held in our portfolio. We believed we were spreading ourselves too thin and not putting enough focus on the positions in which we had the highest conviction. We want to be *the expert* (or among the experts) on our holdings, and we felt that wasn't the case.

> "Charlie and I operated with 5 positions. If I were running 50, 100, 200 million, I would have 80% in 5 positions, with 25% the largest…There were various times I would have gone up to 75%, even in the past few years. If it's your game and you really know your business, you can load up." – **Warren Buffett, February 25, 2008**

We are not quite that concentrated, but we are very confident that we know our positions exceptionally well. This type of concentration lends itself to volatility, which academics measure as Beta or risk. However, if we believe we have insight into a given situation, then we will serve our LPs well by devoting a disproportionate amount of capital and attention to these opportunities. We benefited from concentration in 2017 and anticipate doing so in the future.

In 2017 we also increased our focus on SPACs which has become an area of specific expertise. SPACs are widely ignored by most investors for several months or quarters post de-SPACing and we have taken advantage of this market inefficiency. We expect SPAC issuances, which were up approximately 150% last year, to remain strong in 2018. In addition to this specific domain expertise, we benefit from excellent relationships with sponsors, bankers, and block traders

As to select specific positions:

Agrofresh (AGFS) — AgroFresh remains a small position, but seemed extremely oversold at the start of the year, with significant year-end tax selling in 2016. With new management installed in late 2016, new products, a share repurchase announced by Dow, and capital commitments from Avenue Capital and Dow, the stock was up 179% on the year. The company continues to hold a sizable debt-load, but it is not due until 2021 and we believe they will be able to refinance and push maturities out further. In addition, the company continues to generate significant free cash flow with 80% gross margins and low capital intensity.

Daseke (DSKE) — Daseke is the former Hennessy 2 SPAC and performed extremely well in 2017. It is a top 3-position for Dane and we own both shares and warrants. The warrants returned about 160% (we added in early January when it was clear that the transaction was fully backstopped) and the stock returned over 40%, although we added when shares fell, resulting in an approximate 50% return. With the stock still 2-3 EBITDA turns below our view of fair value, and as the largest player in the flat-bed trucking industry, but with just 1% market share, we believe the runway for sustainable growth and compounding is massive. We also appreciate the management alignment, with Chairman and CEO Don Daseke, who owns almost 40% of the company, with 2 years remaining on his lock-up.

Micron (MU) — Shares of Micron returned 87% on the year. As a former semiconductor analyst that covered Micron we believe that while Micron is a widely-followed stock, we possess unique perspective. We believe the costliness and limited ROI of new FABs will curtail capacity additions, which have historically crushed cycles. Micron is likely to earn $9-$10 in 2018, meaning it's trading at 4-5x EPS. If we're wrong, we simply don't see as harsh a cycle as we have in the past. The diversity of end markets is far broader, and we can see moderate, but not excessive capacity growth. If the trough of the cycle is $4-$5 per share, we don't see a lot of downside. In the interim, we see plenty of room for multiple expansion.

Playa (PLYA) — We've owned both Playa common and warrants and sold much of our position near its highs. That said, we still believe they have an exceptional management team and believe the longer-term roll-up story. When shares broke below $10 we added to our position. We also owned warrants at $0.60, which were exchanged to stock for the equivalent of $1.01 (or $10.10 for 10 warrant – at the time they were at $0.78). In aggregate, we made over 50% on our position in 2017. We maintain a small position and are looking to be opportunistic to add to our position since we believe the long-term story is intact. Although we were troubled by the Jamaica resort running behind plan (we believe they will successfully address the issues), and at the end of the day, we like low multiple stocks. We see a strong long-term growth runway for Playa

Hostess Brands (TWNK) — The Hostess Brands story played out almost precisely as we said it would when we wrote about it on August 15, 2016 (http://bit.ly/2pqFOcC), when the company was still Gores, and the merger had yet to close, although clearly it would close. We thought it would pick up coverage, grow faster than peers, and go from the low multiple stock in the sector to the high-end of the group. We exited our position near 52-week highs with a 25% gain on shares and a 50% gain on warrants. From the time of our original purchase, we returned approximately 50% on shares and a near 3x return on warrants, which were meaningfully undervalued at the time of purchase, based on prices implied by Black-Scholes.

What didn't go right but should in 2018

Limbach (LMB) — In 2017 we suffered a modest loss in shares of Limbach (shares declined about 2% for the year), a top-3 position for the Fund. However, we added to our position when shares dropped, so we were about even on the stock for the year. Shares declined first because of a delayed 10-K filing — the delay was just a few days and there were no restatements. The stock was also hit by a deceleration in backlog growth in 2Q (it reaccelerated in 3Q) and 3Q guidance that the company would achieve the low-end of annual EBITDA guidance of $18-$20mn (still up 7% y/y). The low-end of guidance includes unanticipated cost overruns (some of which should be recovered in 2018), and non-recurring public company expenses. Both expenses would have been adjusted out on a pro-forma basis by many companies. We wrote about this at length in November (http://bit.ly/2BXiDfr) and noted that backing out these costs, the company's organic

EBITDA growth would have exceeded 30%. The company also eliminated the entirety of its high-interest rate preferred, reducing its average borrowing costs.
If we simply assume that there are no cost overages and non-recurring charges don't recur, and Limbach achieves a flat 2018, unlikely given 9.4% y/y backlog growth in 4Q and the recent announcement of a major data center win (the first they've won), then EBITDA should be $22mn, or $23mn assuming $1mn in overrun cost recoveries – or 28% y/y growth. Assuming 10% organic EBITDA growth, and an acquisition at 4-5x EBITDA, we believe EBITDA will be at least $30mn, or 66% y/y growth. In our view, stocks with that type of growth profile don't trade at 6x EBITDA, a 4 EBITDA turns discount to comparables. We think there is significant upside to shares in 2018.

MagnaChip (MX) — We previously wrote about MagnaChip at length and more can be found (http://bit.ly/2G7Gmwp). We remain optimistic about the opportunity for significant share appreciation — we were roughly even in 2017. The company has 5 OLED chips today, and multiple new wins. To put this in perspective, in 2016, this segment contributed roughly $160mn in sales with just a single AMOLED chip, and dropped over 50% in 2017. The company has improved its mix in foundry and in its power semiconductors and has guided that OLED will be at least $100mn in 2018. Amazingly, despite 3Q EPS of $0.28, or $1.12 annualized, the Street has modelled consensus EPS of $0.88 for 2018. We expect the number to be at least $1.40, which at a 15x multiple is $21 and at 20x is $28, or far more than a double. MagnaChip was recently at the Needham conference where they were very bullish, touching on OLED opportunities in automotive, the IoT, TVs and foldable phones. This strikes us as an early innings opportunity for a stock that is still widely ignored by the Street and could be dramatically higher in coming quarters.

Yatra (YTRA) — Yatra is the second largest OTA in India, the fastest growing large economy in the world. We believe the opportunity for the company is vast, and despite guidance of 35-40% annual revenue growth, we suspect that as personal incomes rise, the Indian travel market will get off the bottom of the "S-curve" and growth could accelerate dramatically. In the short-term, we believe business is good, but the stock has acted poorly for several months. We believe this is almost solely due to a large seller. Filings indicate that Norwest Ventures, which held shares for 10 years, and probably was past its vintage, no longer holds any shares. We believe they distributed the shares to their LP, and suspect that they have been bleeding shares in recent months. We suspect that when the selling dries up, the stock will stage a strong recovery based on excellent fundamentals and the company continuing to operate to plan. We believe this story is in its early stages and we will be rewarded for our patience.

What went wrong

RMG Networks (RMGN) — Several years ago we were very excited about RMG Networks. They had a new, hungry CEO who was quickly cost reducing a bloated organization. He brought in a dynamic new team – a team we spent time with in Dallas — and was ready to take advantage of the company's historic relationships with 50 of the Fortune 100 companies they had as customers. With mid-to-high 50s gross margins, we thought that if the company could scale revenue, it could quickly become significantly profitable. 2016 was supposed to be a strong growth year with an array of new products, since the company had not innovated under the old management team. They did not grow. Yet, on conference call after conference call, CEO Bob Michelson discussed how he had never been more excited. In December of 2016, the company did a rights offering, often a harbinger of good news. Michelson discussed the numerous pilot programs that had been going on for quarters with large multinationals. The CEO barely participated, although one of the Board Members backstopped the transaction. In 2017, the first 2 quarters revenue were up roughly 3% each y/y, while in 3Q, revenues dipped almost 10%. All 3 quarters were well below 2015 levels. Throughout 2017 Michelson talked about new products – didn't we just get new products in 2016? Pilot programs shouldn't take this long, even with multinationals. Michelson showed an ability to cut expenses, but he and his team have shown an utter inability to close. We punted at about a 35% loss from our average cost, fortunately well above current levels. When you have the greatest thing since sliced bread, or something simply outstanding, it ought to sell.

A few final thoughts

It's nice to look back on a good year, but as we continue to reiterate, the measure of our success will be over years. We generate virtually all of our ideas independently and tell our sell-side coverage we'd rather one good call a year than a call every day. That said, thanks to Gino at Craig-Hallum, Jerry at Northland, Tom at Roth and Coops at Jones — you've all helped. Also, thanks to former Weisel colleagues Marc at Deutsche, Andrew at UBS, and Chris at SunTrust.

We're optimistic that Dane is well positioned for 2018. More importantly we feel confident in our process and aligned with our LPs (of which we remain the largest). We appreciate your continued partnership and we look forward to keeping you apprised of our Fund's progress. As always, we're available and happy to discuss the Fund.

Sincerely,

Eric

Eric

[i] Net of expenses for a Series A Investor invested in Dane Capital Management Fund LLC

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