



May 2nd, 2018

WAM Clients,

I wanted to send out an update on Command Security (ticker: MOC) given the negative news they announced this morning and the market reaction today.

As long-time clients know, we have held a position in Command Security since 2012. Having started buying our position at prices around \$1.30 a share. At the time MOC was a sleepy New York based physical security company trading below liquidation value and going through a radical management change.

The new CEO at Command Security had an impressive background in the industry and laid out a long-term plan for how he was going to grow the company and compete with the national players in the security industry (i.e. G4S, Securitas, Allied Universal). His plan included moving the company to Washington D.C. to go after federal business, as well as pursuing large contracts with fortune 500 companies that were unhappy with the service they were getting from the bigger security companies.

While I was aware of the challenges in the security industry; Low margins, high competition, and high employee turnover, I was also attracted to the long-term demand drivers in the industry given the growing need for security in every area of life. There will always be a need for security, and the need grows every year. Moreover, the industry was, and is undergoing continued consolidation. This set up MOC well for an eventual sale to a bigger player. Most importantly, we were buying a profitable company at below book value.

Over time as we got more comfortable with Command Security and their management team we continued to build our position, even at higher stock prices. Our thesis and belief in the company was reinforced by their continuing to win large awards from tier one customers. These wins included the U.S. Postal Service, the U.S. State Department, Delta, the TSA and Amazon. Management had laid out a plan and was executing.

Over the past six years as the company won these awards and grew revenue the stock price went higher (as high as \$3.50-\$4), but in our opinion, it never got close to fair value. This was because the company (with our blessings) invested heavily in ramping up the organization to handle these national contracts and win new awards. These investments included hiring managers, training new employees, implementing new software and opening offices to build a national presence. These investments masked the true earnings power of the company.

As such, we never sold many shares, even as the stock rallied. The position size grew. We expected the second half of 2018 to be Command Security's earnings break out. Even better, the company was being invited to bid for larger contracts and with a national presence any

future awards would be massively beneficial to the bottom line as the infrastructure was already in place to handle work anywhere in the country.

Unfortunately, this morning the company announced Amazon has decided to terminate early the relatively new (only one year old) contract it awarded Command Security. While the company was never rewarded by the stock market for winning this contract (as evidence by the stock price being roughly flat over the last year) it has punished the company today for losing it.

This is tough blow, and there is no doubt it removes the major upside we expected the stock to show in the near-term.

However, we wanted to send out this letter to re-assure our clients, that regardless of today's market action, we believe from yesterday's stock price our downside is quite limited over time. The company still has a revenue base of over \$160 million after losing this contract (higher than its fiscal year sales the previous five years before winning the Amazon work). It still is bidding for numerous large contracts, especially in the government space, where long-term contracts are less likely to be cancelled. Equally as important, the need for security is not going away.

While we cannot control what happens to the stock in the near-term, as we update our three to five-year outlook for the company, our view from current prices remains positive. It will likely take longer to achieve our hoped-for outcome, and the eventual upside might be lower, but we are confident that patience will be rewarded.

As Charlie Munger says when it comes to investing: "It's not supposed to be easy. Anyone who finds it easy is stupid."

After almost seven years where WAM caught a lot of breaks, this year has proven the above quote. A few of our companies have hit near-term road blocks. Thankfully with your support WAM is set up with a long-term focus and is able to weather the inevitable storms we will endure. As stated above, we expect our patience to be well rewarded in time.

Please feel free to reach out with any questions via email ([REDACTED]) or phone [REDACTED]
[REDACTED]

Thank you for your support,



Evan

