MountainWorks, LLC
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July 15th, 2018

2018 Return	April	May	June	Q2	2018	Return Since Inception
MountainWorks	5.3%	-11.0%	0.6%	-5.7%	-18.1%	48.9%
S&P 500				1.6%	-1.2%	50.3%

Dear Member,

In the second quarter of 2018, MountainWorks lost 5.7% of its value, versus a 1.6% gain for the S&P 500, dividends reinvested (According to DQYDJ). Year to date, the Fund has lost 18.1% of its value versus a 1.2% loss for the S&P 500. It has been an unpleasant start to 2018 to say the least, and I apologize to Members who are incurring losses in the portfolio. Over the past six months, 5 of my core positions experienced declines of 25% or more. The outcomes have been both unforeseen and useful teaching tools, albeit at an unwelcome cost to myself and others. As a result, for the past few weeks I have been in the process of refining my investment process, reviewing financials of businesses, and shifting the portfolio to focus more on intrinsic value & growth. While the definition of intrinsic value differs from investor to investor, I believe that value can largely be ascertained through defining a framework that involves growth in revenues, earnings before interest, taxes, depreciation & amortization (EBITDA), free cash flow, earnings per share, and equity. That said, I have turned to researching the balance sheet, income statement, and cash flow statements of various companies I own and that I am interested in. Below, I will discuss the negative impact five core positions, ones that I owned before refining my investment process, then talk through the top 5 positions in the portfolio, and how the changes will set us up for the rest of 2018. As I reflect and move forward, I know that this is a key time in my life, and next six months are vital to the success of the Fund and my career.

Portfolio. Since January, BGC Partners (BGCP) has lost 25.2% of its value, resulting in about a 6% loss for the Fund. It is my oldest and now second largest position. BGCP currently trades at $11.50, and while the company has grown earnings before interest and taxes, grown its equity, and grown revenues, I am holding at this point and awaiting off-balance sheet catalysts (a more detailed analysis can be found here).

In late February, Fresenius management announced intentions to terminate their merger with Akorn, Inc. (AKRX). The merger was for $34.00/share, and when the news broke, so did AKRX shares, losing 50% of their value, resulting in a ~3.9% loss to the Fund at the time. Akorn is taking steps to force the merger, and so while I have not added to or subtracted from the position, I remain long.

In May, Aralez Pharmaceuticals (ARLZ) announced they would be closing business in the United States, sending prices from $1.50/share to $0.50/share in a single trading day, losing two-thirds of its value. On that day, I sold the entire position at $0.85 per share, knowing that my investment thesis was fully broken. The capitulation resulted in a 4.2% loss to the Fund.

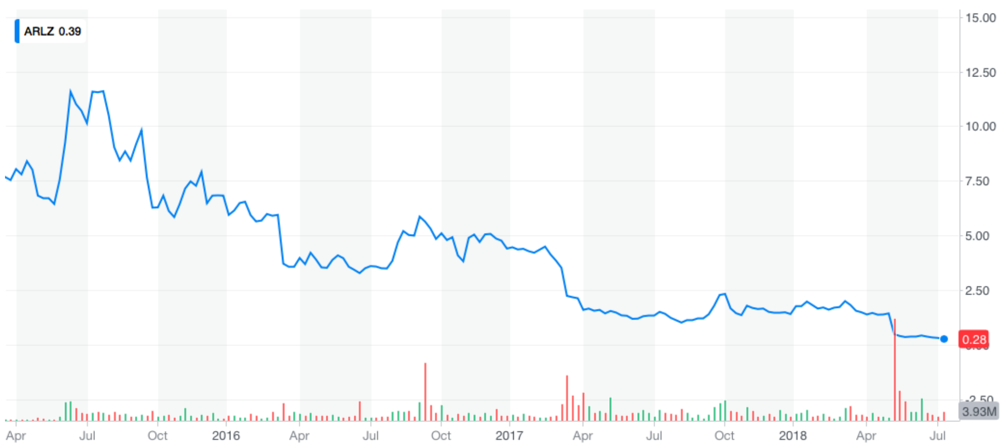
Also in late May, Airborne Wireless Networks (ABWN) lost 60% of its value in a single trading session. The stock has gone from $1.90 per share down to virtual bankruptcy, as it now trades at one-tenth of a penny. I sold all of the position at a $0.24, resulting in a loss of 1.4% to the Fund.

Since the beginning of the year, Bitcoin Cash (BCH/USD) has lost 72% of its value against the dollar. Just about all of the gains I captured last year from crypto went into Bitcoin Cash, but not all at the same price. While I did buy at the top, I also bought at the bottom, and I have been averaging down as Bitcoin Cash has oscillated from a price of $3,300 per coin down to $700 per coin. The 72% loss in value over the past six months has resulted in a ~3.5% loss to the Fund.

All told, I estimate the losses incurred from these five positions - BGCP, AKRX, ARLZ, ABWN, and BCH/USD - to be over 19%, which means that excluding the downside effects, the Fund would be up more than 1% on the year. So, I can only say that I am reflecting on the losing positions in the portfolio, focusing on where and why mistakes were made, and re-balancing to concentrate assets in places that offer more substantial rewards with less downside risk. Two of the losing positions - ARLZ and ABWN - were microcap stocks with a capitalization of around $100 million or less, and they were companies that were not generating profits. So instead of investing in the "idea" of an airborne wireless network, or investing in revenues without free cash flow, I have instead leaned toward value through growth in book value, growth in earnings, growth in revenue, growth in cash flow, and growth in earnings per share.

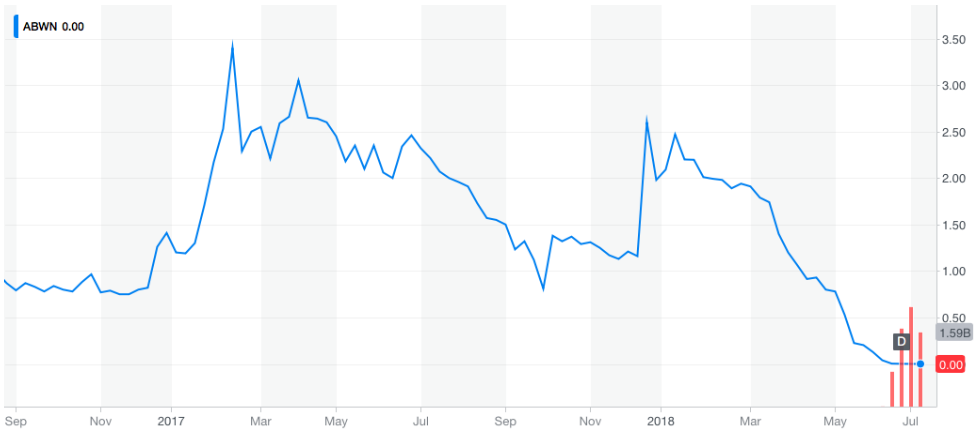
One of the positions sitting at a loss - AKRK - is a broken merger arbitrage, in which the company reported reduced revenues, making the buyout price of $34/share closer to 70x EV/EBITDA, as opposed to the 12x multiple it traded at in 2016. Merger arbitrage can present some of the most rewarding event driven investments out on the market. However, while about 90% of all mergers close, it's the 10% that can ruin a merger-arb portfolio. In the case of Akorn, after reading all of the background, I found out that there were around 13 potential buyers, and with a strong merger agreement that favors the target (in this case Akorn), the merger appeared ready for consummation. However, at the 11th hour, Fresenius attempted to walk away from the deal. So while I was wrong about the probability of deal closure, there was an added problem that compounded the losses: it was my 12x EV/EBITDA multiple was based on last year's figures. On slide 34 of a Fresenius Kabi merger deck, two bullet points stand out to me now that I should have seen six months ago: Akorn's Q3 performance was below expectations, and the 2018 expectations were challenging. Although that would have probably not stopped me from making an investment, it does affect AKRX prospects given a break - and that's exactly what happened. After Fresenius' termination, Akorn broke way below the pre-deal price of $22/share, all the way to a low of $12/share. So the lesson here is that while merger arbitrage exists in a win-or-lose binary state, the ones to stay away from are mergers where the target is losing (or has already lost) intrinsic value. That would lead to a ballooned stock price with virtually all gains dependent upon closing the deal. Instead of relying on a binary outcome, I want to stack the cards in my favor, by finding event-driven deals, then valuing the underlying stock before making an investment. NXPI, currently our largest position, is an example of a merger-arbitrage opportunity that if the deal is not consummated, will likely leave NXPI as an undervalued stock in the aftermath. More on NXPI later.

Aralez pharmaceuticals was formed as the result of a merger between Pozen and Tribute Pharmaceuticals. When the merger first happened back in 2015, Aralez traded at about $10/share. I invested in Aralez at $5/share, when their key drug Yosprala didn't achieve revenue expectations. I spent hours reading about Aralez, researching the size of the patient market for Yosprala, understanding omeprazole and aspirin as a combination drug, and then performing a discounted cash flow analysis. And after all the hours of research, publishing the research online, and all of the effort I put into Aralez, it was all for not, and my valuation method was wrong, because I used Aralez's growing revenues to derive a price target. I held Aralez for over one year, and in May 2018, the company capitulated and announced it was shuttering its U.S. business. The stock price crashed, along with my investment thesis.



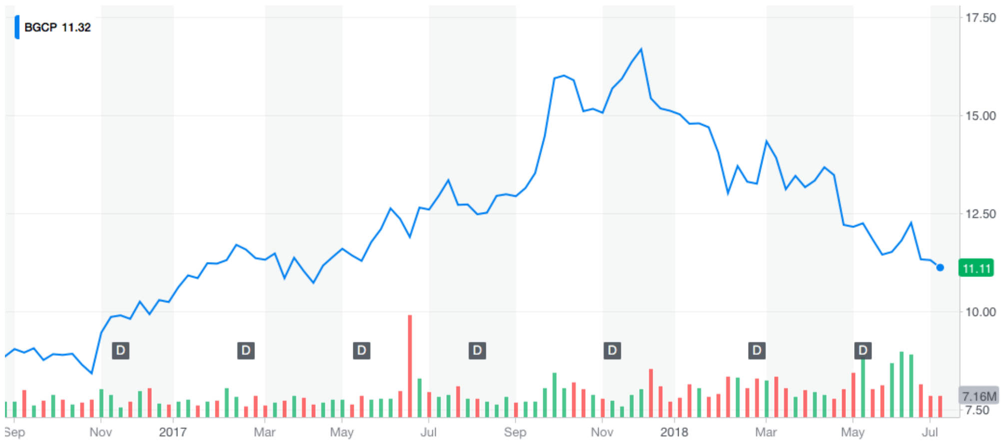
From doing this research, and living through a virtual bankruptcy for Aralez, I've learned that discounted cash flow analyses, while they are useful for predicting future cash flows, are largely dependent upon assumptions of future revenues, future earnings, future taxes, and future costs of capital that don't necessarily exist. So rather than relying on a future that hasn't occurred yet, my valuation methodology will instead examine past performance of a company in order to forecast future growth, while at the same time establishing a present valuation with a margin of safety. With Aralez, the company was not profitable, and despite the revenue growth, once that growth could not be achieved, it resulted in a near 100% drop in price.

Airborne Wireless Networks was a microcap investment that I leaned on because of the "idea" of a new kind of Internet that could blanket the United States - by turning airplanes into virtual cell phone towers in the air. It is a novel concept, but ABWN showed no revenues, all costs, and was definitely losing money.



I was able to sell both ARLZ and ABWN in time to salvage some of the assets, but going through two virtual bankruptcies in a single quarter has been awful medicine to swallow, and it has caused me to re-work my valuation methodology and input a framework that prevents these kinds of investments. Over the past few months, I have produced a research structure that would ward off an investment in microcap companies like Aralez and Airborne Wireless Networks.

Two of the positions that have negatively impacted the portfolio in the first half of the year I am still holding: BGCP and Bitcoin Cash. Given that I have changed up my valuation process to focus on Equity, EBITDA, Revenues, Free Cash Flow, and Earnings Per Share, I have re-run through BGCP's financials, and the company has shown good growth in book value, earnings before interest, taxes, depreciation & amortization, and in revenues, but there has not been growth in free cash flow or earnings per share. While this is a red flag concerning my investment, the consensus estimate for growth by the analysts is 12.5% per year. In the short term, BGCP prices may not appreciate very much, but if they continue to grow the company in the coming years, then I will revisit the valuation and make adjustments, but for now, I am holding my position in BGCP and may adjust the size of the position depending on how the rest of the year turns out. There are still off-balance sheet catalysts for the company of an event driven nature, including Nasdaq share payments and spinning off its commercial real estate business to shareholders, so there are additional possibilities for BGCP holders to capture value. But for now, I'm holding.



Bitcoin Cash is my single cryptocurrency holding, and it is one that I have periodically bought over the past year, and since January I have worked to average down on the position, because of the significant price drop in all cyrptocurrencies. Due to the fact that Bitcoin cash is a currency and not a company, there is little analysis I can perform in order to interpret earnings or revenues and obtain a valuation. That said this investment more closely represents a foreign exchange trade rather than a stock purchase. So, in a sense I have diversified the portfolio into forex, and the over-arching theme for investment is rather simple: the creation of a new asset class. Traditionally, we think of equities, bonds, commodities, real estate, and fiat currencies as five different asset classes. We can buy stock (equities) in a company, purchase a 10-year treasury note (bonds), buy a futures contract in gold or silver (commodities), purchase a home (real estate), or leave our money in cash (fiat currency). But over the past year, a new asset class has come to the forefront: cryptocurrency. Bitcoin Cash, which started trading one year ago come August, is a digital asset that I believe has five properties of money: it is (1) a store of value like gold, (2) it is a medium of exchange (someone could purchase a cup of coffee with bitcoin cash - this is not always the case with traditional bitcoin core), (3) it is fungible (interchangeable with other bitcoin cash wallets/tokens, just like dollars to dollars), (4) it is portable, capable of being on a bitcoin cash wallet app on a cell phone (different from gold, which cannot be easily transported), and (5) it is durable (not easily destroyed and cannot be counterfeited). In other words, Bitcoin cash represents sound digital money. While there are many debates going on as to the value of Bitcoin cash and other cryptocurrencies, and the future is unknown, I have added to the position at ~$700/token, and I am holding. While most of the Fund is located in equities, this position diversifies us into an entirely new technology, and members now have exposure to a "crypto hedge fund", so to speak. While I continue to hold the position, I am monitoring it on almost a daily basis.

Here are a few statistics to consider: there are about 17 million Bitcoin Cash tokens in existence. At $700/token, that's a total market value of $12 billion dollars. In contrast, there's currently about $1.67 trillion U.S. dollars in circulation. Furthermore, if we were to split that $12 billion evenly for every American adult (about 250 million people), then each of us would own $48 worth of cryptocurrency. I currently own over $5,000 of it. In other words, I believe there is scarcity in the market that is not reflected in price. The same argument works for all cryptocurrencies. The top 4 cryptos by market cap - Bitcoin Core, Ethereum, Ripple, and Bitcoin Cash - are worth approximately $180 billion. If every U.S. adult owned the same amount of money in cryptos (just like every U.S. adult owns U.S. dollars), then we would only be able to own $723 of crypto assets. We currently own over $5,000 of those assets.

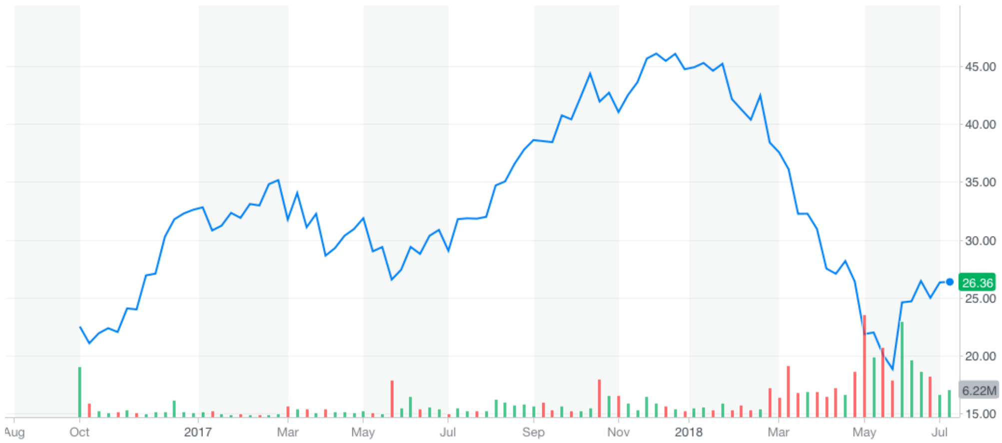
Top 5 Stock Positions. In a effort to refocus the portfolio so that we invest in good companies that grow equity, earnings, revenues, cash flows, and earnings per share, I will highlight the top 5 positions in the portfolio with the goal of identifying good companies at a fair price. Because I was down 18% in the first six months of the year, I have been working hard to change my investment approach, sell out of underperforming assets, re-value every investment I have, and create a whole new valuation methodology. I have back-tested the method by analyzing 10 S&P 500 companies from 2011 to 2015, produced a price target by studying the financials, obtaining growth rates, and projecting to a future value. I then compared my valuation with how the company's stock performed over the next two years thereafter, and I found some *very interesting* results, results that I hope to share with you at a later date, perhaps at our annual meeting. For now, I will explore some results of that method as applied to a couple of our top five positions.

(1) NXP Semiconductors. Because I've been re-working the portfolio toward a new valuation methodology, a lot of the stocks I've researched - Under Armour, Amazon, Lockheed Martin, Century Link, 3M, Dish Network to name a few - would not fit my criteria for investment. And because I'm employing strict guidelines, it turns out that not many companies would make good investments for us. One that does, however, is NXP Semiconductors. At the time of writing, NXP is in the process of being acquired for $127.50/share by Qualcomm. I looked at NXPI's financials from 2013 to 2017, calculated compounded rates of return for Equity, EBITDA, Revenues, Free Cash Flow, and Earnings Per Share. NXPI has grown its Equity, EBITDA, Revenues, Free Cash Flow, and Earnings Per Share at compounded rates of 73%, 45%, 18%, 45%, and 42% per year, respectively. That is pretty impressive growth at a semiconductor company that I reasonably expect to continue, regardless of the QCOM/NXPI outcome. Now, due to the pending acquisition, which has been approved by 8 of 9 regulatory authorities across the globe, with China the one remaining necessary approval, NXPI shares have likely been suppressed because of the waiting period. That said, there are two outcomes for NXPI: either (1) the Chinese State Market Regulatory Administration approves Qualcomm's takeover for $127.50/share, or (2) China denies the merger, which would result in NXPI prices dropping to under $100/share, but also creating discount to intrinsic value. For my part, I will either receive $127.50/share, or end up owning NXPI for the medium to long term.

(2) BGC Partners, Inc. As discussed previously, BGCP is my oldest and now second largest position. Because prices dropped from a high of $16.50 to a low of about $11 (a 33% loss), there has been reason to revisit my thesis to determine if any consistent growth can continue. Using my valuation methodology, there is a weak point in BGCP - they have not grown their free cash flow or their earnings per share. That makes an investment in this company somewhat risky, and as a result I am in a holding pattern, waiting to see how their numbers turn out by the end of the year. My research tells me that it is a fairly good business to be in. BGCP is an interdealer broker, and in a sense acts as a sort of "toll booth" for traders in equities, forex, interest rate products (like swaps and derivative contracts), energy, and commodities. For our purposes, owning the toll booth gives us exposure to the notion that "the house always wins". If that's the case, then I better be the one who owns the house. At the same time, there are some off-balance sheet items that won't show up in BGCP's financials - they are getting paid ~$100 million per year in Nasdaq shares until 2027, and they are in the process of spinning off their commercial real estate business to BGCP holders.

(3) Altaba. Altaba (AABA) is a fund that was established after Yahoo! was acquired by Verizon, and it trades at a discount to net asset value of its Alibaba (BABA) holdings. Altaba's NAV is about $98/ share, and it currently trades at $75, a 23% discount to NAV. At the same time, Alibaba has shown growth rates of 81%, 39%, 49%, 14%, and 25% per year in Equity, EBITDA, Revenues, Free Cash Flow, and Earnings Per Share since 2014. The growth has been amazing, and although the analysts predict 4.8% growth in Alibaba's earnings over the next five years, I believe there is more to come. But at the same time, my methodology tells me Alibaba shares are currently trading at a premium, unless the company is able to grow its earnings at 25% as opposed to the 4.8% the analysts are predicting. That said, for the moment I am willing to invest in Alibaba's growth at a premium, but not through BABA shares, through owning its derivative fund - Altaba, which gives me a further discount to Alibaba's current price.

(4) Camping World Holdings. Camping World is run by media-savvy CEO Marcus Lemonis, probably better known for his success on CNBC's TV show *The Profit*. Camping World Holdings has grown its EBITDA, Revenues, Free Cash Flow, and Earnings Per Share by 20%, 14.3%, 34.4%, and 19.8%, respectively. However, the company has shown a negative book value for 2016, 2015, & 2014, which is cause for concern regarding an investment. But Camping World's negative book value is likely due to the fact as a publicly traded company, Camping World is less than two years old. That also brings us to the reasons why the stock price dropped by 50% over the past year or so:

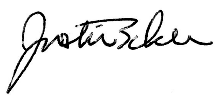


The company failed to file their annual report on time, fired their accounting team (for what seems to be a mistake in reporting the fully diluted share count), and acquired a bankrupt big-box camping retailer in Gander Mountain. These three confluences of events have cause a severe price drop, while at the same time quite possibly creating a good entry point, according to my methodology. From an off-the-cuff quick analysis, I think the business is good, and Camping World has a valuable asset in its "Good Sam Club", a subscription service members pay for that provides discounts on camping gear, accessories, fuel savings, camping locations, and propane.

(5) Genworth Financial. Genworth (GNW) is in the process of being acquired by China Oceanwide for $5.43 per share cash. The deal was announced back in October 2016, and we are still awaiting regulatory clearance. Genworth shares got a decent bump of about 20% or so when CFUIS cleared the merger, which was surprising at the time due to the trade war rumors surrounding China and the U.S. The merger still needs approvals from U.S. insurance regulators in Virginia, Delaware, New York, and North Carolina, Fannie Mae, Freddie Mac, FINRA, Canada, New Zealand, and China. From my own research, Genworth has shown negative growth rates in Revenues, Free Cash Flow, EBITDA, and Book Value; however, I am seeing a trend upward in the past year. Although that doesn't quite warrant an extensive investment in the short-to-medium term, a long term thesis may soon unfold. In other words, while at the moment Genworth does not appear very valuable to me, I like the upward trends over the past year in Equity, Earnings Per Share, EBITDA, and Free Cash Flow. To be honest, It will likely take another year for me to get a better picture of Genworth's future. I like its insurance business, but at the same time, if the company has to incur large write-downs or pay out a lot of claims in its long-term care segment, that could hamper any growth at the company. In the mean time, I'm keeping the position relatively small compared to NXPI and BGCP, and using the pending merger approval as an event-driven outcome to give me one more Ace in my sleeve.

These five positions represent approximately 72% of the portfolio. In the short term, we await NXPI's fate as I expect a decision regarding its merger with Qualcomm by the end of the week. Should the deal break, NXPI shares could decline below $100, but in the long term, the company has shown good growth in nearly all facets of the business. BGCP will eventually spinoff NMRK to its shareholders, and while we wait, the company should grow revenues, EBITDA, and free cash flow. Altaba, as a derivative of Alibaba, will track BABA, and in the short term BABA prices may not appreciate, but in the mean time, Altaba's management will work to close the 23% discount to net asset value. Camping World Holdings has experienced a 50% decline in share prices, while at the same time generating growing their earnings at a compounded rate of 19%. Finally, Genworth Financial, because of its negative growth represents the most uncertain holding as far as long term equity appreciation, is in the midst of a merger with China Oceanwide that I expect, but am not beholden to, an August deadline.

Best,



Justin Polce
Managing Member