CEDAR GROVE CAPITAL MANAGEMENT

"The only way out is through."

October 5th, 2026

To all clients,

During the third quarter of 2026, Cedar Grove Capital Management's Multi-Strategy Composite returned **(12.7%), net of fees**, compared with (7.2%) for the Russell 2000, (7.4%) for the Russell Microcap Index, and 2.4% for the S&P 500. Since the composite's January 14, 2026, inception, the strategy has returned (26.2%), net of fees, versus 7.9%, 10.6%, and 12.4%, respectively.

CGCM Multi-Strategy Composite[1,2,3]				
(All Managed Portfolios with Balances >$20,000)				
	Net Return	**Russell 2000**	**Russell Microcap**	**S&P 500**
Q3 2026	*(12.7%)*	*(7.2%)*	*(7.4%)*	*2.4%*
YTD through September 30, 2026[4]	*(26.2%)*	*7.9%*	*10.6%*	*12.4%*

1) Time-weighted returns (TWR) are unaudited and represent an account opened during the reported quarter. Investor's actual returns may differ from the returns presented due to when onboarding was completed and position weightings with each respective portfolio.

2) Portfolios consist of client accounts that are strictly involved with our multi-strategy offering (L/S + Special Situations).

3) Standard fees consist of a 1.0% management fee, applied monthly on the end balance, as well as a 20% performance fee above our Russell 2000 benchmark, calculated at the end of the year. A high-water mark is standard across all accounts and in measured over the entire life of the clients' investment.

4) YTD represents the composite inception date of January 14th, 2026 through the end of the quarter September 30, 2026.

- Past performance is not indicative of future results.

Position Summary	
No. of Positions	**13**
No. of Longs	*13*
No. of Shorts	*0*

Position Breakdown - Sector	
Healthcare	4
Biotechnology	2
Internet Technology	2
Industrials	1
Consumer & Retail	4

Position Breakdown - Market Cap	
<$200M	2
$200M <> $500M	2
$500M <> $2B	6
>$2B	3

The third quarter of 2026 was difficult, and the drawdown we experienced was a tough one to stomach. The portfolio had rebounded strongly through the end of August, only to see those gains reverse in September. For long-term investors, saying we have the patience to ride out storms on the path to outsized returns is one thing; enduring intense volatility and painful drawdowns is another. Although I prefer to focus on long-term results, the short-term experience is difficult to ignore.

At the end of the third quarter, the portfolio was down approximately 26% year to date. This represents a substantial loss of both your capital and mine. While this year has been anything but predictable, I take full responsibility for the results thus far.

As patient, long-term investors, we appreciate what compounding can do for our portfolios. Long-term returns look like a straight line in hindsight, but they are paid for with the messy, uncomfortable reality of short-term volatility. When we own investments that we believe are worth substantially more than their current market prices, and focus on companies rather than market predictions, we will inevitably experience some drawdowns.

It is particularly disappointing that this drawdown has come in our inaugural year.

However, as portfolio managers, we spend a great deal of time researching companies through conversations with management, site visits, product walkthroughs, and expert calls, all in an effort to find a needle in a haystack. Our process focuses on understanding the underlying business fundamentals and avoiding overpaying. But that work does not take place in a vacuum.

Ultimately, the market needs to recognize the value we see in the companies we own. While we try to begin our purchases at attractive valuations, the market does not always share our assessment. Volatility can allow us to increase positions at discounted prices, a dynamic that can work in our favor over time but requires us to endure near-term declines. Market forces can also weigh on investments whose businesses continue to perform well.

For instance, several of our holdings saw their share prices decline despite again exceeding expectations and raising guidance. Their operating results supported our assessment of the underlying fundamentals, but that progress was not reflected in their share prices.

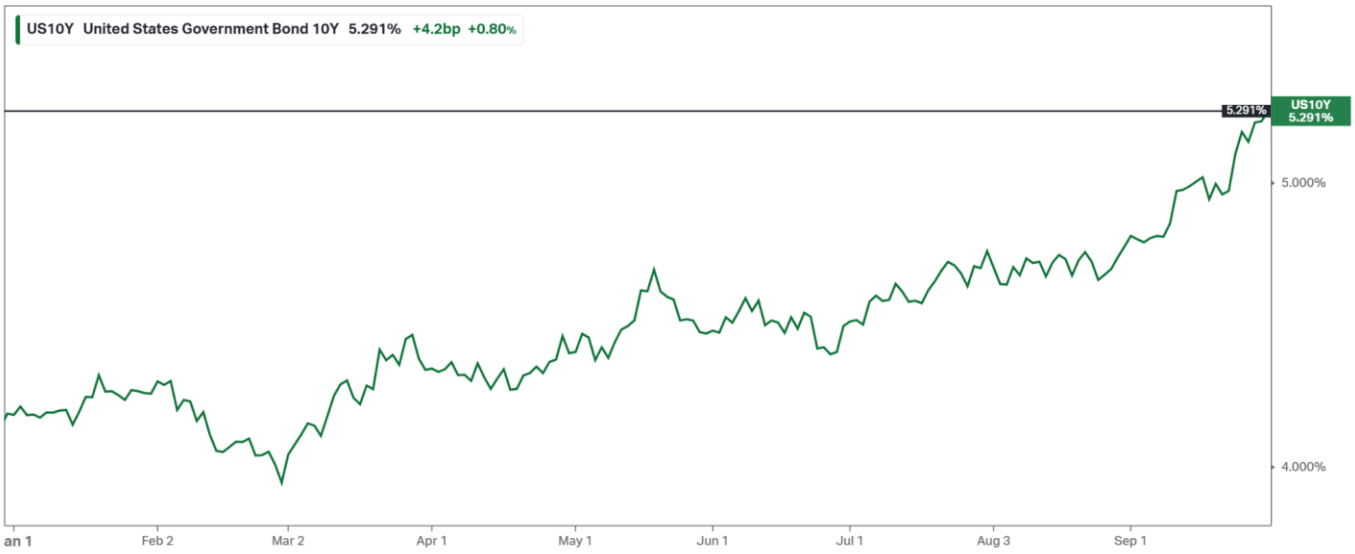
Evolv Technologies (EVLV) and The RealReal (REAL), which we have held since Q1, both exceeded estimates and raised guidance during the quarter. Yet their stocks sold off sharply following each quarterly announcement this year. EVLV, our largest position, has exceeded estimates and raised sales guidance in each of the past five quarters, but its shares fell 21% this quarter and are down approximately 36% year to date. REAL has exceeded estimates and raised guidance in each of the past six quarters, yet its shares fell approximately 25% this quarter and are down approximately 44% year to date. Hydreight Technologies (NURS.V), our investment in a provider of white-label telehealth services, reported year-over-year sales growth of more than 421%, yet its shares declined 26% in Q3.

These results help explain our frustration with the quarter. Identifying improving business fundamentals is difficult; seeing that progress go unrecognized in share prices makes the experience harder still.

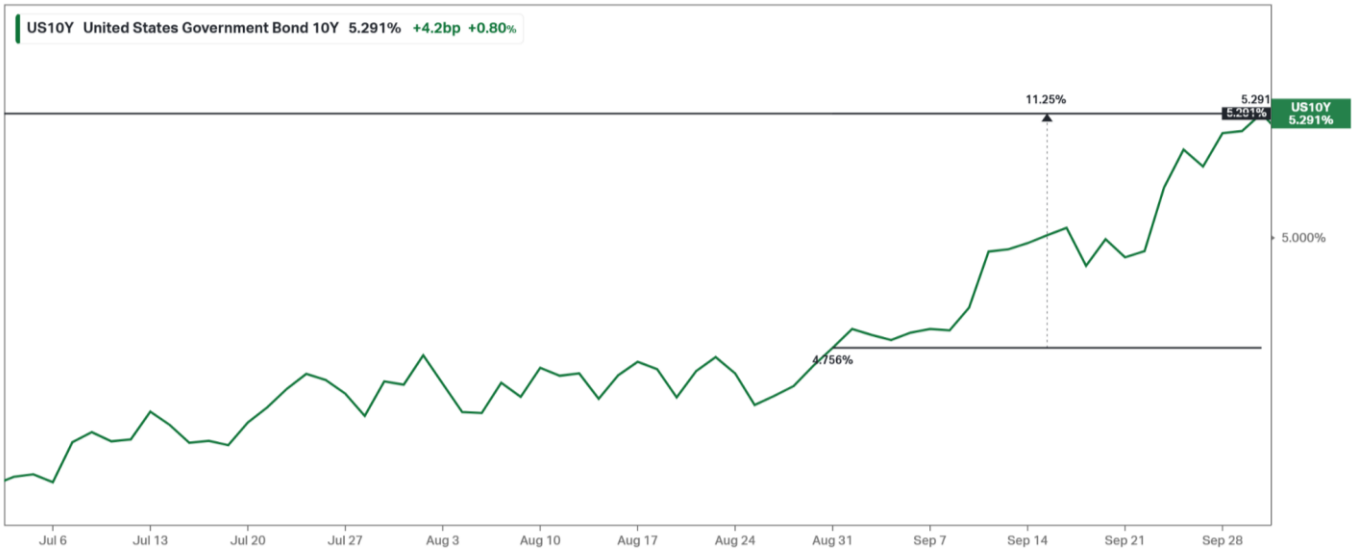
However, we believe the drawdown we experienced was not due to underlying business performance slipping. In September, the yield on the 10-year U.S. Treasury rose above 5%, reaching its highest level since 2007, as shown in the charts below.



U.S. 10Y Treasury Note back to 2007.



U.S. 10Y Treasury Note year-to-date.



U.S. 10Y Treasury Note In Q3'26.

The 10-year Treasury yield rose 54 basis points in September amid concerns about persistent inflation, including record-high diesel prices, tariffs, immigration restrictions, and the AI buildout. Upward pressure on rates from factors unrelated to the business cycle has also weighed on markets. Concerns about fiscal sustainability, weaker institutional and household demand for long-term Treasuries, and substantial investment-grade debt issuance by hyperscalers have also contributed to rising yields.

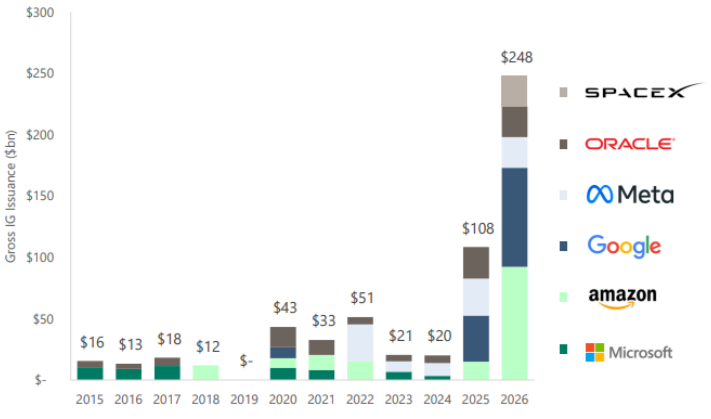
Apollo recently shared a useful slide illustrating the volume of AI-related debt issuance this year.

APOLLO

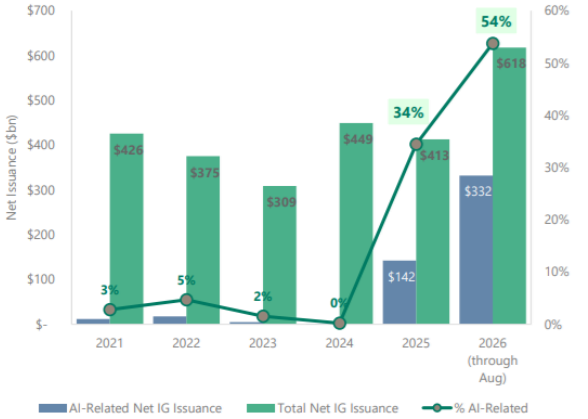
AI-Related Financing Needs Driving Record Volumes and Are Unlikely to Slow

To finance rising capex needs, the **hyperscalers have issued nearly $250bn in IG debt in 2026 so far**, more than the cumulative total of the prior decade.

Hyperscaler IG Issuance in 2026 Has Surprised to the Upside



AI-Related Issuance Accounts for Over 50% of Net IG Issuance This Year



Reflects the views and opinions of Apollo Analysts. Subject to change at any time without notice. For illustrative and discussion purposes only. There can be no assurances that any of the trends described herein will continue or will not reverse. Past events and trends do not imply, predict or guarantee, and are not necessarily indicative of future events or results. (Left) Source: Bloomberg as of September 3, 2026. (Right) Source: Bloomberg, as of August 31, 2026. AI-related issuers include Alphabet Inc, Amazon.com Inc, Meta Platforms Inc, Oracle Corp, Vertiv Holdings Co, Equinix Inc, NVIDIA Corp, Space Exploration Technologies Corp, Beignet Investor LLC, Sopaipilla Investor LLC, QTS Fayetteville I Dc1-2 LLC / QTS TRS Fayetteville I DC1-2 LLC, HUT 8 DC LLC, RD Michigan Property Owner I LLC, Beacon Point DC LLC.

22

Considering how the 10-year Treasury yield influences valuations across financial assets, it is a tough market force to ignore. At these elevated yields, bonds have become more attractive relative to equities. Against this backdrop, market breadth has weakened considerably.

By quarter-end, approximately 67% of Russell 2000 constituents were trading below their 100-day moving averages, up from 45% at the end of August. Similarly, 52% were trading below their 200-day moving averages, up from 38% at the end of August.





This deterioration occurred even as the index itself held up considerably better. However, this divergence cannot persist forever. Either breadth catches up to price, or the index comes down to meet breadth. While an index selloff might come off as a bad thing, a final index-level correction is often how a multi-month correction beneath the surface ends.

We are watching that divergence closely as we enter Q4, including whether broader participation improves or the index weakens.

While we cannot control market forces, we seek to make our core investments in companies that benefit from strong underlying tailwinds, have relatively strong balance sheets, and are more resilient in a recession. These characteristics are especially valuable as financing costs continue to rise.

Of the ten companies we own (out of thirteen), excluding our two biotech companies and one company that is just turning profitable, all are profitable on a last-twelve-month adjusted basis. Five have net cash positions. Among those with net debt, the median net leverage ratio is just 1.6x. This relatively modest leverage should give us breathing room if rates continue to rise.

The position commentary below provides more detail on our portfolio activity and recent additions.

Position Commentary

Closed Long Positions

During the quarter, we closed our long positions in MTY Food Group (MTY.TO), uniQure (QURE), ClearPoint Neuro (CLPT), and Suja Life Inc. (SUJA).

MTY Food Group was a special situation investment based on the view that its strategic review, initiated in November 2025, could result in a sale that would unlock value. As time passed, the macroeconomic backdrop worsened for restaurant companies more broadly. With no update on the strategic review by the beginning of Q3, we decided to manage risk by closing the position.

Just before quarter-end, uniQure published four-year data for AMT-130, its experimental treatment for Huntington's disease. The results showed that the treatment continued to slow disease progression, but the effect was less pronounced than in the three-year data. The stock sold off, and CLPT declined in sympathy. Although both were small positions, we decided to close them and reallocate the capital elsewhere.

After Suja Life reported its Q2 2026 results, the stock declined more than 45%. We viewed this as an overreaction to the earnings report and shared our notes explaining why we believed the shares were mispriced. The stock subsequently rebounded more than 50% from its level on the day after earnings, and we took profits and redeployed the capital into our core holdings. Read the Suja research note.

Closed Short Positions

During the quarter, we closed short positions in Bending Spoons SpA (BSP), Chipotle Mexican Grill (CMG), The Ensign Group (ENSG), Gemini Space Station (GEMI), Jersey Mike's Subs (JMKE), Moderna (MRNA), Reformation (REF), Once Upon a Farm (OFRM), and X-Energy Inc. (XE).

You can read our published notes on OFRM and JMKE using the links provided. OFRM | JMKE

Increased Positions

During the quarter, we increased our positions in Abivax (ABVX), Evolv Technologies (EVLV), Tantalus System Holding (GRID.TO), Hims and Hers Health (HIMS), Kits Eyecare (KITS.TO), LENSAR (LNSR), Nektar Therapeutics (NKTR), Hydreight Technologies (NURS.V), The RealReal (REAL), and Starling Oncology (STLN), formerly known as The Oncology Institute (TOI).

New Positions

Zedcor Inc (ZDC.V)

We initiated a small tracking position in Zedcor Inc. (ZDC.V) while continuing our due diligence. Zedcor is a Canadian company specializing in customizable mobile surveillance and live monitoring solutions in the U.S. and Canada. You may have seen its mobile camera towers in parking lots or around construction sites without noticing the company behind them.

Zedcor's share price has gradually declined from its May highs, which provided an opportunity to initiate a position. Meanwhile, the company continues to grow and expand margins while serving an important niche. At quarter-end, Zedcor traded at approximately 13x next-twelve-month EBITDA. Our preliminary estimates suggest revenue growth of more than 65% next year, with EBITDA margins above 40%, an expansion of approximately 200 basis points year-over-year.

OneSpaWorld (OSW)

OneSpaWorld is an asset-light spa operator that derives most of its revenue from the cruise industry. We previously owned the stock in Q1 after oil prices began rising, and we revisit it when we believe the market has misinterpreted its relationship with the cruise industry, which appears to be frequent.

OSW often sells off alongside cruise operators when oil prices rise or investors worry about lower-income consumers reducing discretionary spending, even without company-specific news. While that reaction may seem logical, we believe it overlooks how OSW operates and has once again created an opportunity to buy at an attractive price. At the base level, OSW needs passengers to board ships to sell them spa services. Just this past week, Carnival Corporation (CCL), OSW's largest customer, announced better-than-expected earnings. Booking trends continued to strengthen during the quarter, and booked occupancy for 2027 is at record levels. You can read more about our long thesis using the link provided.

Auxly Cannabis Group Inc (XLY.TO)

Auxly Cannabis Group is our first official cannabis investment, and we believe it offers a compelling opportunity for continued growth. Auxly is a vertically integrated Canadian cannabis producer whose Back Forty brand has become the country's No. 1 cannabis brand by dollar sales. The business is supported by its highly automated, low-cost Leamington greenhouse and its strategic relationship with Imperial Brands, which owns approximately 20% of the company.

Auxly has undergone a sharp turnaround, reporting approximately C$131 million in first-half 2026 revenue, up 20% year over year, and C$26.5 million in adjusted EBITDA, up 40%. Its shares trade at approximately 11x last-twelve-month free cash flow. Despite these improved fundamentals, Auxly trades at a discount to Canadian cannabis peers and has several avenues for future growth. While the U.S. cannabis market remains in limbo, we find Auxly's prospects attractive at the current valuation and have initiated a position

Select Position Commentary

Abivax (ABVX)

When we last spoke about ABVX in our Q2'26 letter, we noted that the company released updated safety information that reduced concerns of reported malignancies of its ulcerative colitis (UC) drug, obefazimod. However, as time went on, the stock experienced a slow decline in the quarter. We believe there are two reasons for this. 1) Without an impending takeover announcement, arbitrage traders have largely been reducing their exposure in the name, and thus, leaving long investors to be the only incremental buyers of the stock. 2) With yields trading at where they are, historically speaking, biotechnology companies tend to bear the brunt of such a move. Neither, in our opinion, change the long-term potential of this drug, which we estimate can still make ABVX be valued at north of $170/share with the soon-to-be commercialization, or >$200/share in the event of a buyout. As a reminder, with phase 3 maintenance data already released, this is a mostly de-risked drug asset in a pharmaceutical environment that is actively looking for high-quality assets to add to their portfolios considering many will be experiencing patent cliffs over the next five to ten years. One way or another, excluding any left tail events, ABVX's intrinsic value should be realized over the coming years.

Nektar Therapeutics (NKTR)

Similar to ABVX, NKTR also experienced its own drawdown during the quarter. However, semi-positive highlight came from the eventual conclusion of its lawsuit against Eli Lilly (LLY), where it sought damages in their handling of the drug when it held co-development and commercialization rights dating back to 2017, came in favor for NKTR. LLY was found in breach of contract and NKTR was awarded $90 million in damages. Including simple interest, the gross amount would be ~$115 million, or ~5% of its market cap.

However, before the verdict came, the market was spooked when a jury note to the judge asked to explain the difference between 'no breach' and 'breach with a $1 damage award.' This led to an >$200 million loss in market cap for the company which did not recover once the verdict came in favor of NKTR and damages were awarded and was only exacerbated by the rise in yields. While we were hoping for more in damages — NKTR was asking for as much as $1 billion, which frankly, we were not underwriting anywhere close to — we believe that his is a net positive for the stock and removes an overhang that has been in the works for years.

Additionally, while it did not occur in Q3, NKTR released updated Alopecia Areata (AA) off-treatment data on October 1st. The data showed that 75% of the patients in a subgroup maintained the same amount of hair on their scalp four months after ending treatment, and 63% managed to do so after six months. Given that AA could be approved as a second indication for rezpeg, the results seemed directionally positive despite the small sample size.

Despite the readout, the stock sold of >20%, which is odd considering the market had already appeared to assign it no value to AA prior to the release. Seeing how NKTR is now officially in a catalyst desert until the next read in Q1'27, stocks like this end up becoming a consensus short rather than one that trades around logic.

None of this changes the prospects for rezpeg in the treatment of atopic dermatitis (AtD) and even without AA, we still believe that the intrinsic value of NKTR could be worth >$165/share.

Hims and Hers Health (HIMS)

Lastly, we have a long history with HIMS both on the long side and the short. More recently, we officially shared our investment thesis on the company, and why we think that with the legal overhang behind them, the company looks strategically positioned to capture significant share in the cash pay space. This is all assuming that Andrew (CEO) doesn't fly too close to the sun again.

We believe that should management be able to execute the way we think they can, a path to tripling our investment over the next few years appears to be in the cards. If interested, you can view our podcast episode on the opportunity via the Yet Another Value Podcast.

Closing Perspective

Despite the results of the first nine months, I remain optimistic about the future. Before launching the fund, I spoke with some of you about the many reasons to be pessimistic about the market, the economy, or even the country when things aren't going according to plan. Pessimism can look prescient when things go badly, but history also shows that difficult periods eventually give way to better ones. Some recoveries come quickly, as after the COVID selloff and the tariff-related declines during President Trump's second term; others take longer, as after the global financial crisis. It is hard to stay positive when there is so much to worry about, especially when markets do not rebound as quickly as recent years have conditioned us to expect.

I do believe that the drawdown in the market during Q3 has given long-term investors a 'target rich environment' and shared why I believe that is in a recent post of mine. Because of this, for the first time this year, I have taken up our gross leverage by 6% to 106%. We will continue to monitor price action in the event we believe the market is continuing to discount our highest conviction holdings.

As a reminder, nearly all my liquid net worth is invested alongside yours, so our incentives are firmly aligned. Even after this drawdown, barring a catastrophic event, I believe we own good companies for the future, and will highlight two of those at the end of my letter.

I hope you had a great summer, and, as always, I welcome your calls and emails, whether to ask a question, discuss something on your mind, or simply say hello.

Sincerely,

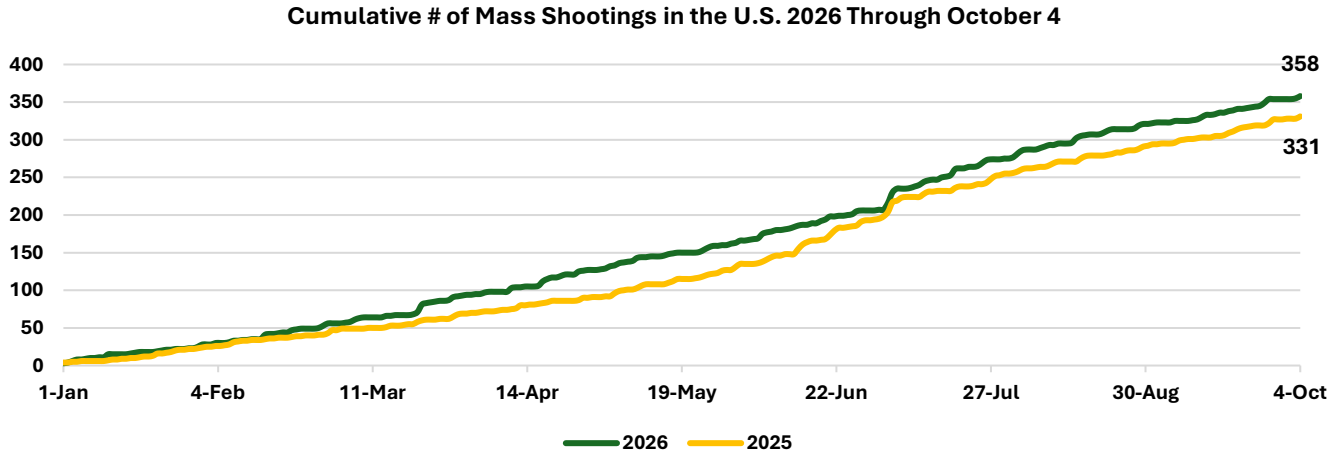
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Evolv Technologies (EVLV)

When making investments, we like to focus on overlooked companies with durable industry tailwinds and opportunities to grow for years to come. Evolv fits that profile, although the need it addresses is sobering: helping schools, hospitals, entertainment venues, and other public spaces protect people from gun violence.

In 2025 alone, there were >400 mass shootings in the U.S., with 233 of them taking place in a school. And the trend is not getting any better. Year-to-date, through October 4th, there were already 358 mass shootings, an 8.2% increase from 2025.



As gun owners ourselves, we recognize the importance of addressing this problem. For organizations responsible for public safety, the challenge is to strengthen security without making everyday activities slower or more disruptive. We believe Evolv offers a compelling solution to that challenge.

Founded in 2013 by security industry veteran Michael Ellenbogen, Evolv develops technology designed to detect concealed weapons. The company went public through a SPAC merger in 2021 at an approximately $1.7 billion valuation. Its shares subsequently declined sharply as enthusiasm for SPACs faded.

What interests us is Evolv's approach to modernizing an industry long dominated by conventional metal detectors and manual screening. Anyone who has attended a major sporting event or concert will recognize the familiar routine: waiting in line, emptying pockets, opening bags, and undergoing additional checks when everyday items trigger an alarm.

Those procedures can create bottlenecks and place substantial demands on security staff. Evolv's products aim to improve that experience while helping operators identify potential threats.

The company's two primary products are **Evolv Express**, which screens people as they walk through a gateway, and **Evolv eXpedite**, which screens bags.

Express combines advanced sensors with AI to distinguish potential weapons from many everyday objects.

eXpedite uses AI and X-ray imaging to identify potential threats in bags without requiring an operator to interpret each image. Together, the products are designed to improve screening efficiency and reduce unnecessary interruptions.

In essence, Evolv's value proposition aims to achieve a few things, which, depending on the end customer, could be more valuable relatively speaking.

1. **It dramatically reduces nuisance alarms and secondary searches.**
    - The company recently released a report stating that they achieved ~2% alert rates in their K-12 environments, indicating a low false positive rate.
2. **The speed and volume improvements are beneficial to customers.**
    - Legacy detectors can only process a few hundred people an hour, so it's critical for high-throughput venues like stadiums or amusement parks.
3. **The potential to reduce labor costs.**
    - Because the systems don't require a full staff for the operations of security screening (not to be confused with no staff). Customers could save money by reducing their security labor costs in high-traffic venues by reducing the number of secondary bag checks and manual pat-down staff required.
4. **Modular potential.**
    - While Evolv's bread and butter is security screening for weapons, the systems are modular.
    - For instance, in 2020, the company pivoted to incorporate a thermal sensor module (TempCheck) for express systems to screen for elevated body temperatures during COVID.
    - While we haven't needed that for some years, it does show the potential that these systems have for future improvements.
5. **Cloud connectivity and SaaS integration.**
    - Both of Evolv's products feed into Evolv's cloud-based software platform, which provides more important data points to the end-user than just scans.
    - This also means that since their units are IoT-connected for remote monitoring, the company can deploy new AI models (ex, to detect emerging threat items) across the installed base via cloud updates → think, Tesla pushing car software updates without the car needing to return to the dealership.
6. **An open API integration.**
    - Evolv's systems offer an open API for integration with third-party security infrastructure.
    - As an example, the software can trigger mass notification systems or integrate with video management software (VMS) to cross-reference camera footage when a threat is detected.

These capabilities help explain why we view Evolv as more than a conventional screening equipment supplier. Express has also received a U.S. Department of Homeland Security SAFETY Act Designation as a Qualified Anti-Terrorism Technology.

A Recurring Revenue Model

EVLV is unique for a security screening company because it a) was the first to introduce a SaaS subscription model to security screening (as opposed to just a one-time hardware sale) and b) requires all its products to have a subscription.

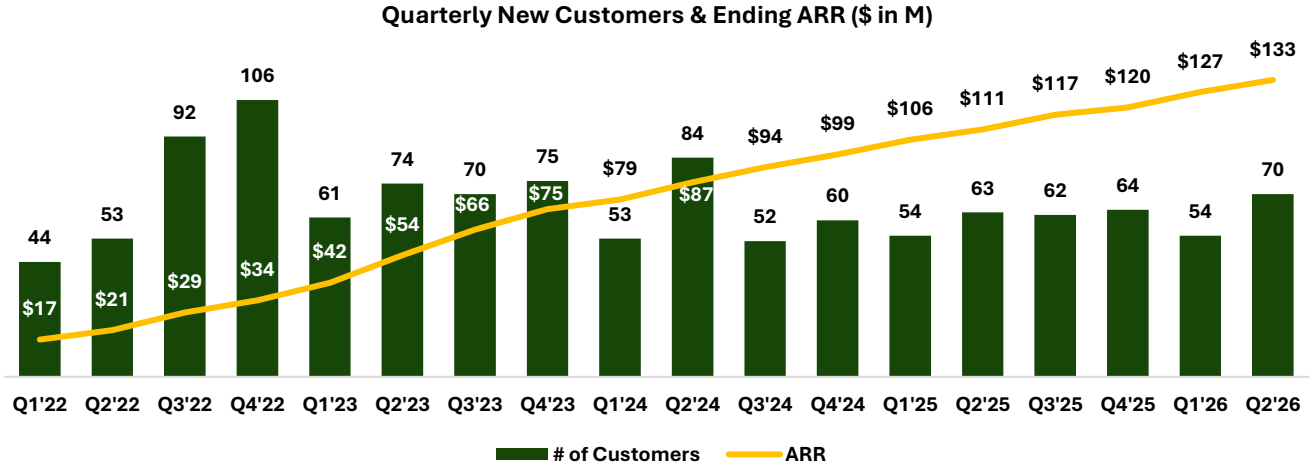
The entire business model is run on a razor/razor-blade model where the razor is the physical hardware (Express or eXpedite), and the razor-blade is the SaaS subscription. Customers typically sign up for a 48-month contract on either a "full subscription" or a "purchase subscription."

- **Full Subscription**
  - The customer leases the hardware and pays for an all-in subscription fee (monthly or annual) that covers the equipment use, software license, maintenance, and updates.
  - The equipment remains on EVLV's balance sheet, and revenue is recognized ratably.
  - For Express subscriptions, they typically cost $2k - $3k/mo, so ~$25k - $36k in annual ARR.
- **Purchase Subscription**
  - Buyer pays for the hardware upfront (capital purchase) and then pays for an ongoing subscription fee for software and services → typically 4 years.
  - For purchase deals, hardware list prices can range from ~$30k to ~$60k for single or dual-lane systems, plus another ~$12k to ~$15k in annual software fees.

Regardless of which subscription the customer chooses, both options connect the initial hardware deployment to a continuing stream of subscription revenue, and the average contract is non-cancelable for the four-year term, with rare exceptions under special circumstances.

The cost is substantially higher than the roughly $5,000 price of a conventional metal detector archway. The purchasing decision therefore depends on the broader value of the system, including screening efficiency, staffing requirements, and the visitor experience. We believe those benefits help explain customers' willingness to pay a premium.

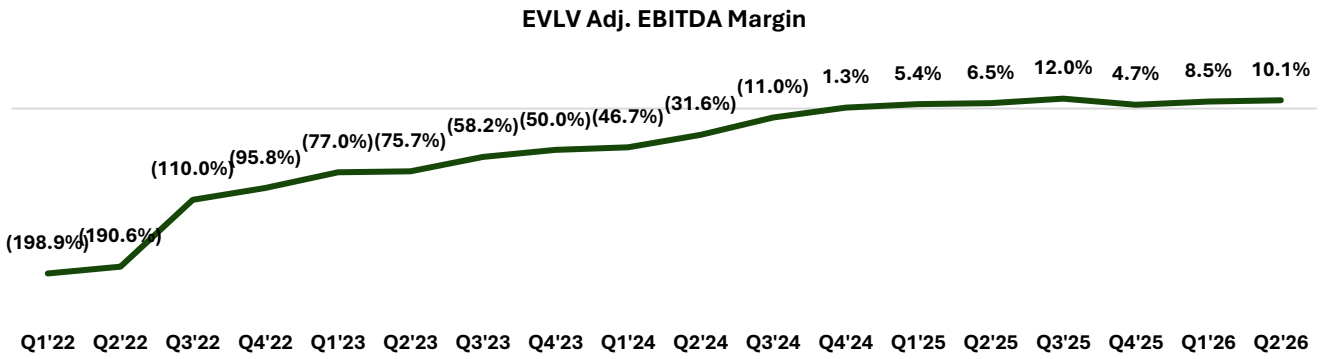
By the end of Q2 2026, Evolv's annual recurring revenue had reached $132.7 million, up 20% year over year. and achieved net revenue retention of >100%.



Additionally, full subscriptions offer smoother revenue and higher LTV, which is why Evolv is increasingly steering customers to a full subscription offering. This has led to subscription revenue being a majority of sales (>50%) for most of its public life with more recent quarters in 2024 hitting ~60%. And as these subscriptions scale, overall operating leverage will continue to be unlocked.

Gross Margins	**Q1'24**	**Q2'24**	**Q3'24**	**Q4'24**	**Q1'25**	**Q2'25**	**Q3'25**	**Q4'25**	**Q1'26**	**Q2'26**
Product	(108.9%)	(45.3%)	(94.6%)	(29.3%)	(37.1%)	(111.7%)	13.9%	(3.7%)	11.7%	(10.9%)
Subscription	60.7%	59.7%	59.0%	50.2%	59.0%	56.0%	51.8%	58.7%	63.9%	63.7%
Service	77.2%	79.4%	76.9%	77.5%	74.7%	74.4%	70.1%	67.4%	74.5%	71.8%
License	89.4%	91.6%	90.9%	96.9%	98.1%	88.1%	89.6%	61.2%	73.2%	80.2%
Total	**54.8%**	**58.5%**	**57.8%**	**57.5%**	**59.8%**	**49.8%**	**49.7%**	**48.4%**	**50.9%**	**50.2%**

Source: Company financials.

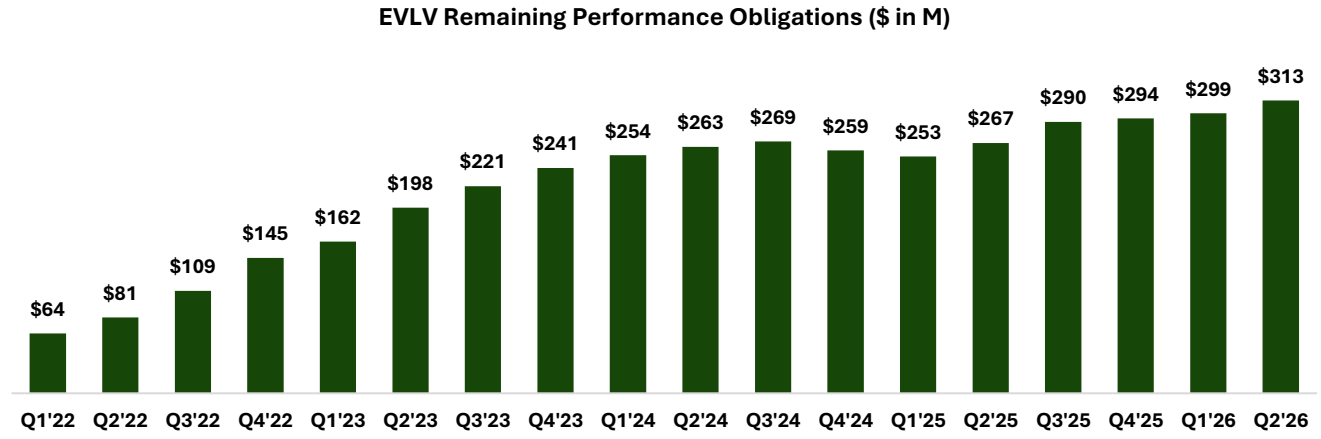


Customer Adoption and Revenue Visibility

Evolv serves customers across professional sports, entertainment, healthcare, education, and other settings where large numbers of people gather. Its technology has also supported major international events. In 2024, the company reported providing screening for a major global sporting competition in Europe. In 2025, Express was deployed at all 12 host stadiums for the FIFA Club World Cup. We believe these deployments provide useful references when prospective customers evaluate the technology.

That adoption has translated into a substantial base of contracted future revenue. At the end of Q2 2026, Evolv's remaining performance obligations, or RPO, totaled $312.6 million. This represents revenue expected to be recognized over multiple future periods under existing customer contracts.

Relative to our 2027 revenue estimate, that balance exceeds 1.4x projected annual sales. Although the revenue will be recognized over several years, we view the contracted base as an important source of visibility as Evolv continues to expand.



But just like every company, not everything has been perfect, and Evolv is no excuse.

Back in October of 2024, The board issued a statement that the past quarter (ending September 2024) could not be relied upon, and they were investigating. This internal investigation led to a leadership shakeup where the then *CEO, Peter George, was fired without cause*, and Michael Ellenbogen (founder and Chief Innovation Officer) was appointed as interim president and CEO.

Not long after, on *November 21st*, the company announced the results of its internal investigation, which effectively concluded that the company overstated revenue by a few million dollars because they pulled it forward faster than they should have.

The CFO, Mark Donahue, resigned and four other employees were either terminated or resigned.

While the bad news seemed to close a door, new ones tend to emerge. On December 9th, EVLV announced that it was hiring John Kedzierski as the new president and CEO, starting December 16th. This was a great hire because John previously worked at Motorola's video security business for over 15 years and had extensive enterprise sales experience.

And, in April 2025, EVLV hired Chris Kutsor as its new CFO. Chris has COO experience from his last company, and he also worked at Motorola Solutions for several years before that.

While all the above was going on, the FTC decided to take action against Evolv for what it said were deceptive advertising and marketing practices. You can read the complaint here, but the gist was that the FTC didn't like that Evolv was saying that it could "detect all weapons," create "weapons free zones," and that customers could save 70% compared to metal detectors by reducing the need for additional personnel.

The settlement was straightforward, too. Evolv admitted to no wrongdoing, did not require paying out any monetary compensation, the company couldn't advertise certain things or in certain ways, and that certain K-12 contracts between April 2023 and June 2023 could cancel their contracts with no penalty.

The interesting part here is that despite the FTC inquiry, many customers still wanted to stay with Evolv. Hunterbrook Media published its report on the shakeup in December 2024 and showed that while the settlement only affected a small percentage of Evolv's business, the school customers didn't seem to be leaving. A testament to how much they value the systems and wanted to continue using them.

So, despite the legal overhang removal, consistent revenue growth, improving margins, growing ARR, favorable net revenue retention, net cash position, strong industry tailwinds, and a backlog of revenue that surpasses the entirety of next years annual sales two quarters in advance, beating estimates and raising sales guidance the market has been slowly bleeding Evolv's stock price over the last number of months.

At the start of this year, the market was valuing Evolv at 8x NTM EV/Sales. By the end of the quarter, it had brought that valuation down to just 4.1x EV/Sales.

We mark the black line as an important because it is currently trading at just under 4.2x, the day that President Trump suspended tariffs on smartphones, computers, and other electronic parts last year, and under the 6.8x in May 2025 when management released guidance that they would do ~23% revenue growth in 2025. They went on to do 40% in FY'25.



We think there are few factors at play affecting the stock price. The obvious being the rise in 10-year Treasury rates, and the latter possibly being the disbelief that the company can continue growing top-line revenue at >20% for years to come.

However, we push back on this notion that the sales might not be as durable as they seem. Not only has the company been able to consistently add new customers every quarter, it's also able to deepen its relationship with these companies by upgrading them into new systems (Gen2 Express) or cross-selling them into their eXpedite system.

This proven ability to land and expand has allowed the company to confidently raise revenue expectations each of the last three quarters, and more recently, raise both Ending ARR and adjusted EBITDA for the full year.

As of	Guide (Midpoint, $ in M)	
3.10.26	**FY'26**	**FY'26 Inc/(Dec) Since Prev Q**
Sales	$175.0	7.7%
Ending ARR	$147.5	NA
Adj. EBITDA	$14.0	NA
5.12.26	**FY'26**	**%**
Sales	$177.5	1.4%
Ending ARR	$147.5	0.0%
Adj. EBITDA	$14.6	4.0%
8.11.26	**FY'26**	**%**
Sales	$182.5	2.8%
Ending ARR	$149.0	1.0%
Adj. EBITDA	$15.5	6.6%
	FY'26 Sales Inc Since 3.10.26 >	4.3%
	FY'26 Ending ARR Inc Since 3.10.26 >	1.0%
	FY'26 Adj. EBITDA Inc Since 3.10.26 >	10.8%

While the drawdown in EVLV has been painful, we firmly believe that management has done an excellent job in executing on its growth strategy and proving why customers continue to seek out its systems for security screening.

If the company were trading at the median NTM EV/Sales multiple the company was assigned over the last 21-months, we would already be looking at a stock worth over $8/share based on our 2027 revenue estimates. The fear that I have now with this investment is not that it won't continue to grow, it clearly is, but that the stock price is getting dangerously low to the point where it could be acquired in a takeover attempt. While any news of a takeover would be an immediate benefit to us, it would limit our ability to potentially recognize the full intrinsic value of the company that we believe it to be worth.

Which, based on our assumptions with similar razor and razor-blade model peers, would put the stock price above $10/share.

It's not such a farfetched thought considering that SoundThinking (SSTI), a competitor to Evolv, announced last week that they were being acquired by a private equity firm for a total consideration that would value the company at >100% of the pre-deal announcement. Industry experts we've spoken to have argued that SSTI's technology is not even close to what Evolv offers, but that clearly hasn't stopped buyer's interest. The point there being that there is interest in these companies now, and sharks have been circling the drain.

One call option worth noting is that we do see a world in where a marriage between Axon Enterprise (AXON) and Evolv could be in the cards.

Rather than competing, these two technologies are highly complementary and frequently used together in "layered security" setups. For instance, a hospital or school might use Evolv at its entrance doors to catch weapons, while utilizing Axon's body-worn cameras and cloud software to manage security team responses and evidence logs.

It's not as crazy as it sounds. Henrik Kühl currently sits on the board of directors for Evolv, and he also conveniently serves as Senior Vice President of Strategy & Corporate Development at Axon. Not to mention that he made an open market purchase of 15,000 shares of the stock when it was trading at $5.73.

Given that Axon just raised fresh capital ($1 billion) about two weeks ago to partially support its acquisition and investment pipeline, things could get interesting fast. But to reiterate, this is all conjecture and nothing concrete.

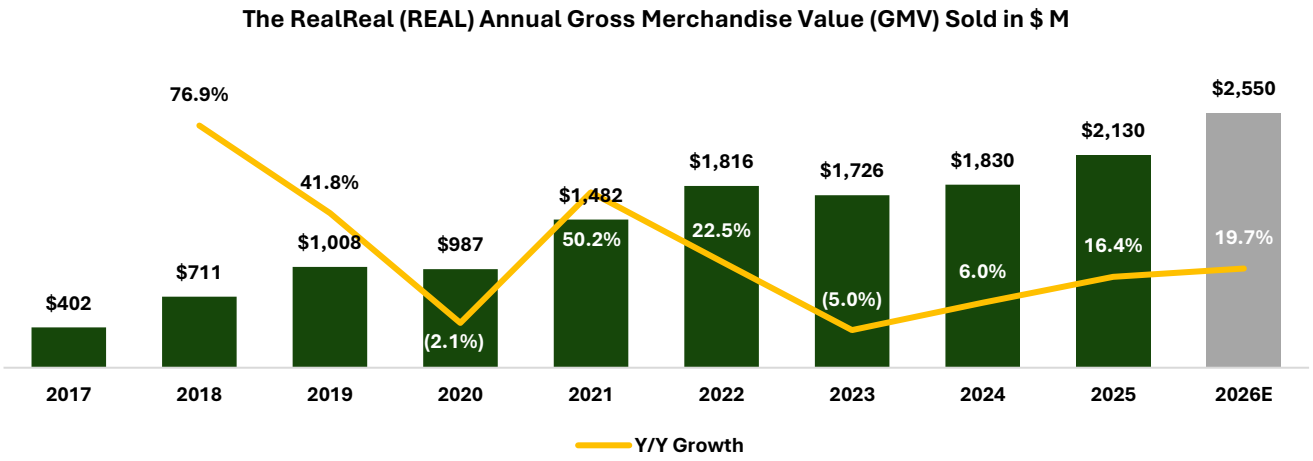
The RealReal (REAL)

We like simple businesses to understand, and The RealReal is one of them. REAL is a resale marketplace (both online and in-store) for secondhand luxury goods (ex, Chanel, LVMH, Dior, etc.). The keywords here are secondhand and luxury.

For conducting business, REAL sources its supply (consignors) by various options (online consignment, in-store, or manager pick-up) that agree to a 365-day agreement for the inventory to be on the platform.

Once the product has arrived at their facility, it is then authenticated, deemed sellable (if not, it's sent back), and then placed online or in-store to be sold to value-oriented luxury shoppers. If the item sells, the company takes a fee (take-rate) for its services and immensely negates any shipping costs from both the consignor and buyer.

This has allowed REAL to establish itself as a premier secondhand luxury marketplace that connects consignors looking to sell their gently used or vintage luxury goods to buyers who are either looking for older, unique pieces or just don't want to pay the full price of a brand-new luxury item and will pay for past collections.



Reflected in REAL becoming a second-hand luxury marketplace is its overall gross merchandise volume (GMV) they've sold on the platform. Factoring in 2026 GMV guidance of ~$2.55 billion, GMV will have grown at a 22.8% CAGR since 2017.

But this recent growth wasn't always the case. Having been a COVID beneficiary, the stock sold off significantly once the pandemic ended and had been treading water within the $1 - $3/share range for quite some time. This drawdown was not unwarranted. Just like all marketplaces, the only way to attract buyers is by attracting sellers to come and list their products. An ever so delicate balance between the cart and the horse. In an effort to boost sales, the company opted to outright purchase inventory rather than just act as the facilitator.

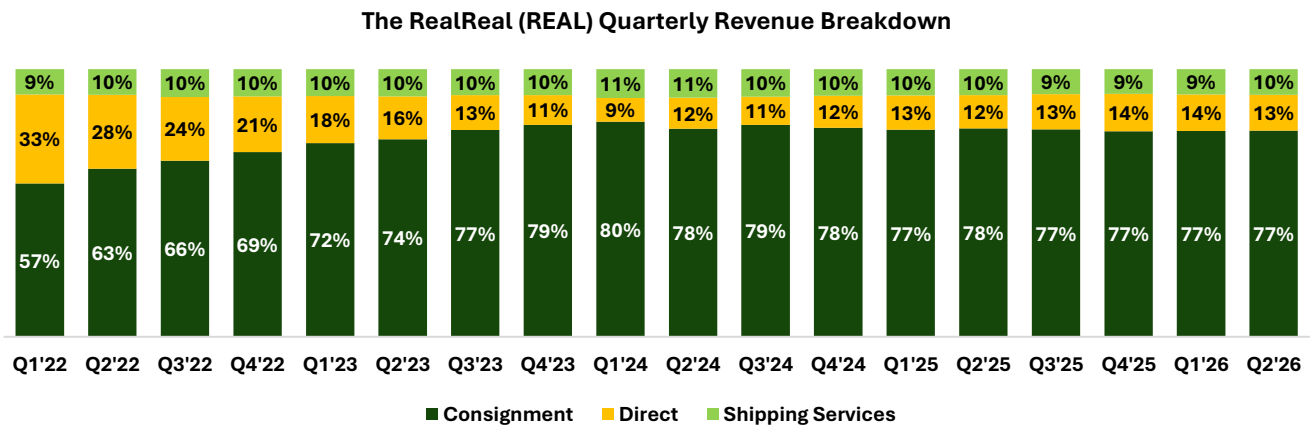
This 'direct revenue' source allowed it to increase sales, but at great expense. Frankly, it's a lot easier, and more lucrative, to act as the intermediary of a transaction rather than being one of the parties. Because the company emphasized low-quality revenue to keep up with demand, margins deteriorated leading into, during, and immediately after COVID.

	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25
Consignment GM	72.5%	73.0%	82.2%	85.2%	86.0%	88.6%	89.4%
Direct Revenue GM	18.5%	13.6%	16.1%	10.8%	6.1%	13.6%	22.4%
Total GM	63.9%	61.2%	58.5%	57.8%	68.5%	74.5%	74.6%

Source: Company financials.

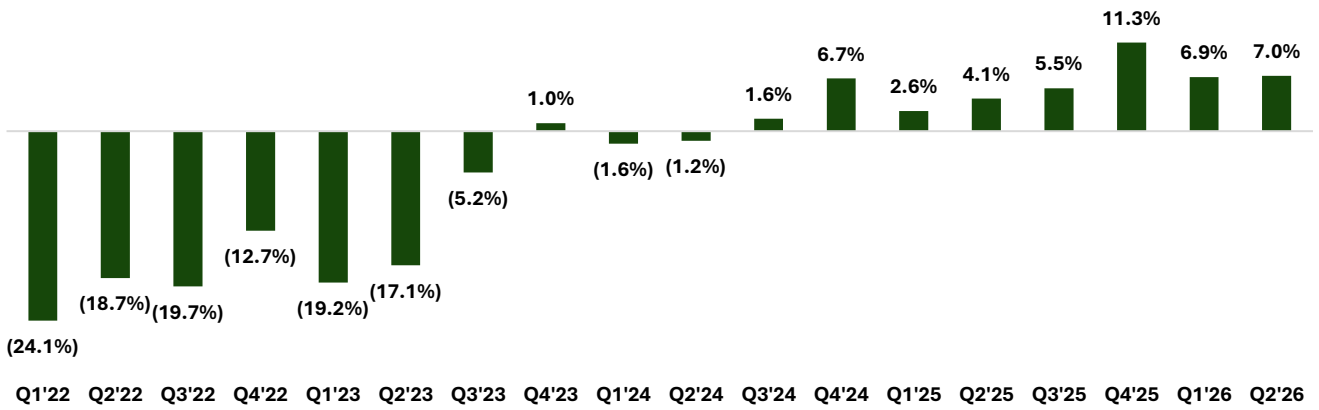
Thankfully, REAL understood they needed to make some changes to increase profitability by prioritizing high-quality sales over just sales. To name a few.

1. Significantly dialed back its low-margin, direct revenue business and emphasized the consigning segment.
2. Reintroduced a new table for take rates, which progressively get smaller the more expensive the item is sold.
3. Revamped the sales team compensation structure so that they are paid more based on getting bigger ticket items vs just the quantity of items, boosting overall AOV sold on the platform.
4. Largely withdrew from selling items under $100, excluding in categories in Home or child wear.
5. Introduced "fair condition," which allows the company to sell luxury goods that might need a little extra love, and not reject them and send them back to the consigner (boosting supply).
6. Implemented technology improvements such as AI that have allowed it to speed up the authentication process, improve dynamic pricing, and better manage the outflow of goods through the warehouse centers.
7. Conducted various corporate and debt restructurings, which had stabilized headcount, paid out CEO settlement, and extended maturities on debt.
8. Launched a new luxury consignment office (LCO) for consignors looking to physically come into a location and get their higher-priced goods appraised for resale (average selling prices being 5 - 7x higher).



The emphasis on controlled, profitable growth has allowed REAL's financials to dramatically improve since the post-CVOID lows. Since then, REAL's adjusted EBITDA margins have expanded from -24.1% in Q1'22, to 7% in Q2'26, with the company having eight consecutive quarters of positive adjusted EBITDA margins. Additionally, the company also reported two consecutive years of positive FCF ($1 million in 2024, and $5 million in 2025).

The RealReal (REAL) Quarterly Adj. EBITDA Margin



However, these various turnaround initiatives are not the only factors that make REAL a compelling investment for us. Over the past few years, management has taken an active, leave-no-stone-unturned approach to capitalizing on the surging growth of the resale market.

To unlock operating leverage in a marketplace model like REAL's, optimizing supply and throughput is paramount. REAL clearly understands the flywheel it is building and how to improve overall customer lifetime value (LTV).

The model fails if consignors refuse to list products on the platform. To address this, the company launched several supply-boosting initiatives, including commissioning stylists and designers for seller referrals, introducing "MyCloset" to help sellers time their listings, fostering stylist-led relationships with consignors, and leveraging strategic retail locations as hubs for consignment sourcing.

These programs have successfully driven overall Gross Merchandise Value (GMV) growth. Moreover, as new buyers join the platform, they frequently return to consign their own merchandise. In FY25, 53.9% of buyers were also consignors, up from 36.7% in 2017, providing clear evidence of model's powerful network effects.

REAL also utilizes a "smart sales" tool driven by internal and external customer data to help luxury managers identify which clients are most likely to consign and when. This tool boosted supply per sales rep by 15% through the first half of 2026—a significant gain given that top-performing reps source over $10 million annually.

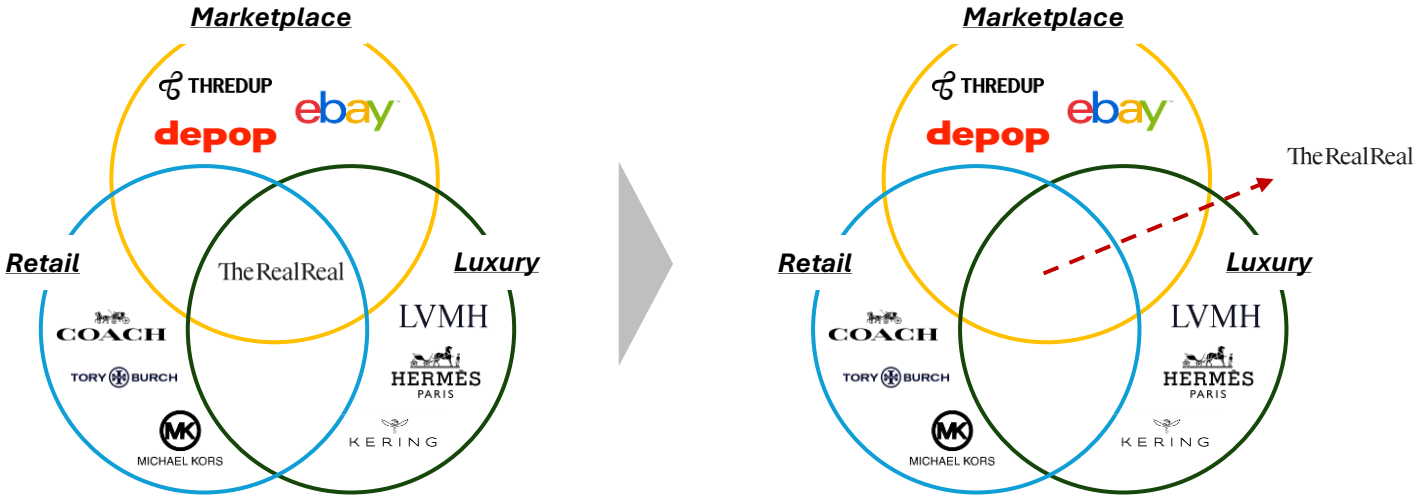
To increase throughput, REAL uses its proprietary AI tool, Athena, to accelerate the processing and authentication of sourced goods, which has historically been done only by people. Launched in Q1 2025, Athena processed approximately 35% of all goods on the platform by year-end. Management estimates that by the end of 2026, Athena will handle nearly half of all items passing through its authentication centers.

Together, these initiatives give management confidence in unlocking 200 to 300 basis points of margin expansion annually over the next few years.

Despite these accomplishments and ongoing growth, the market has yet to reward investors. We believe Wall Street is overlooking REAL's core value proposition by mistakenly lumping it into a broader consumer discretionary slowdown.

For starters, we think that the market doesn't know where to put REAL within the consumer discretionary space. Depending on who you ask, it could just be considered an online marketplace since it's effectively limited its direct revenue in favor of optimizing consignment. Given how it has direct exposure to general clothing and leather goods market, should it be tied to traditional aspirational retailers? Or, since it primarily sells luxury, should they trade like a luxury brand?

We think all of these takes are incorrect and believe that REAL is in a category of its own.



We believe this because of the characteristics that make REAL unique from the traditional buckets.

1. Unlike traditional retail or luxury retail, REAL sources its goods domestically, it does not have to worry about tariff rates. There is zero international sourcing exposure.
2. Destigmatization of secondhand goods will continue to be a strong industry tailwind.
    - Secondhand luxury growth is outpacing traditional luxury (11.6% vs 5.2%) and expected to expand from $34.2 billion in 2023 to $72.3 billion by 2032.
    - BCG recently highlighted that the share of secondhand goods in shoppers' wardrobes has risen to 28% in 2025, up from just 21% in 2020.
3. The testing of drop shipping thus far has outpaced managements expectations and could be an additional lever to pull for long-term GMV growth.
4. Given its luxury platform, REAL can curate and accept which pieces it wants to consign for versus traditional or luxury retail that might be stuck with poor performing collections.
5. Leveraging the omni-channel approach via online and in-store allows REAL to leverage its ability to continue building and deepening relationships within its consignor community.
6. Ability to strategically move into higher ticketed items, such as fine jewelry and watches. Opening an additional sales channel for new prospective clientele.
7. REAL is a beneficiary of AI rather than a target. Athena will continue to optimize verification throughput.

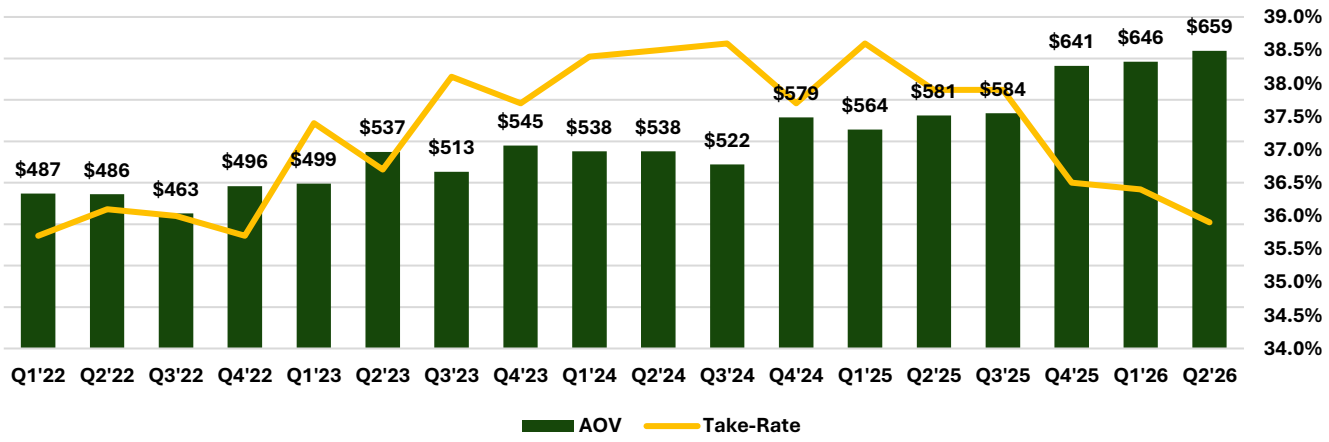
All these aspects can help explain why REAL is uniquely different from the any of the three categories mentioned previously. And while the company continues to beat estimates and raise guide, the market has sold off the stock from a 21-month median NTM EV/EBITDA of 29.4x, to 17.6x today.

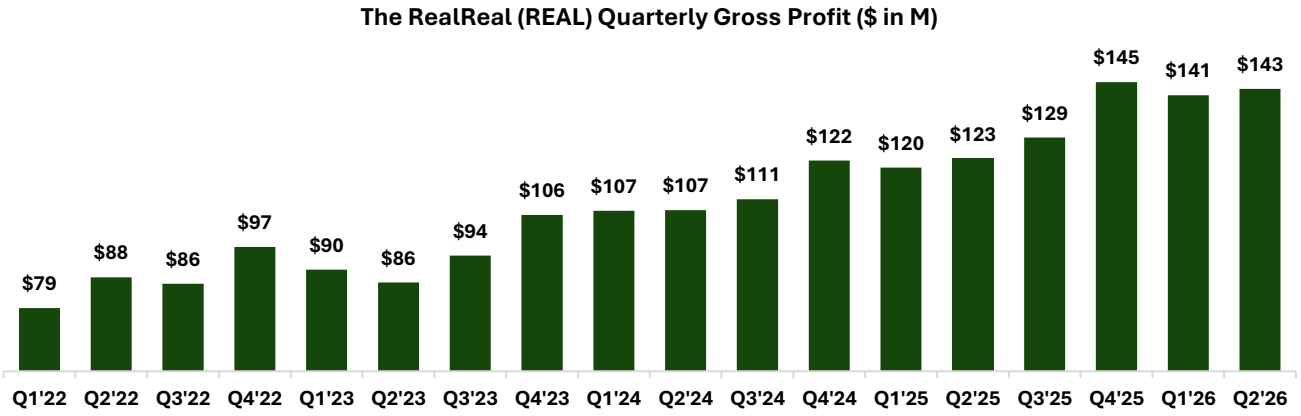


While we have highlighted REAL's unique turnaround and recent operational successes, several key risks warrant attention:

1. High Financial Leverage Ratio (4.4x) → Adjusted EBITDA and free cash flow (FCF) continue to scale rapidly. Furthermore, the company has no near-term maturities—the earliest debt comes due in Q1 2028. REAL can either deploy incoming FCF to pay down debt or wait for a more favorable macro window to refinance.
2. Broad Consumer Discretionary Slowdown → While a macro slowdown poses a headwind for the broader retail sector, REAL benefits from three unique offsets:
    - Luxury Resilience: Even during the height of the Great Financial Crisis, the global luxury market fell by only 9%, with leaders like Hermès and LVMH delivering flat-to-positive growth.
    - Generational Preferences: Younger demographics (Millennials through Gen Alpha) place a strong emphasis on status signaling. Buying an $8,000 Chanel bag in excellent condition for $4,000 offers aspirational consumers value while maintaining status appeal.
    - Counter-Cyclical Supply & Demand: Financial stress incentivizes consumers to become consignors to raise cash (boosting REAL's supply pipeline) while attracting value-seeking buyers looking for discounted luxury goods.
3. Take-Rate Compression (38.6% in Q1 2025 to 35.9% in Q2 2026) → Management deliberately chose to lean into higher-priced categories, such as fine jewelry and watches. Because these items carry significantly higher GMV than core leather goods or apparel, lower percentage take-rates are offered to compensate high-value consignors. Crucially, these higher-ticket sales generate more gross profit dollars on an absolute basis, making the shift net-accretive to the business.

The RealReal (REAL) Quarterly AOV & Take-Rate





We're very pleased with the continued execution by management and believe that the various levers the company is actively pulling will lead to further operational leverage improvements backed by strong, industry changing tailwinds.

While excited for the future of REAL, at this current point in time, we believe that the company is trading well below its implied intrinsic value of ~$24/share.

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