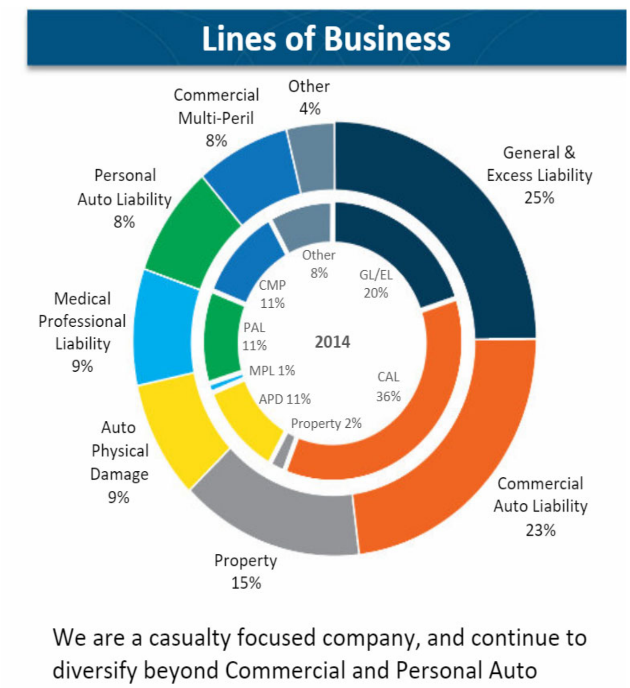
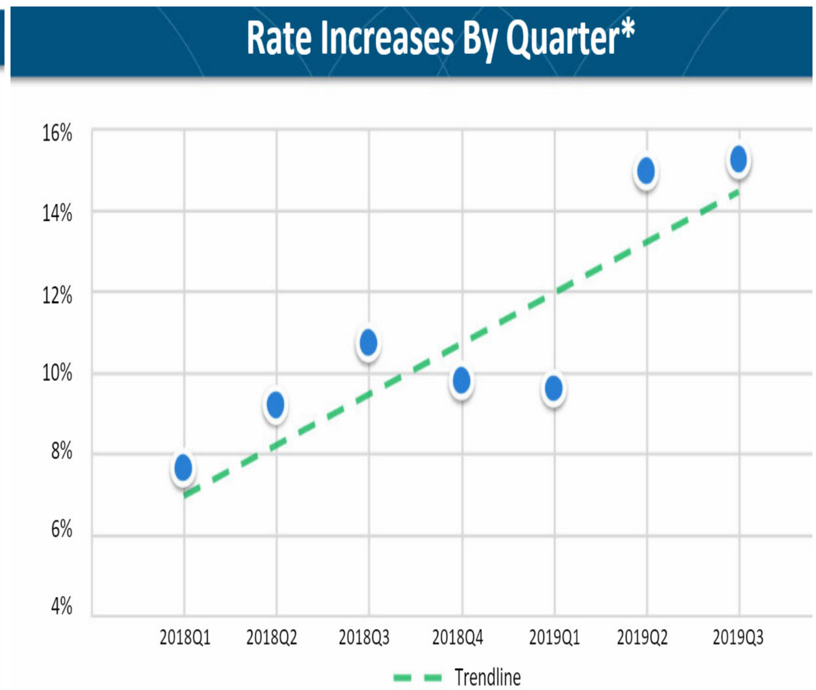
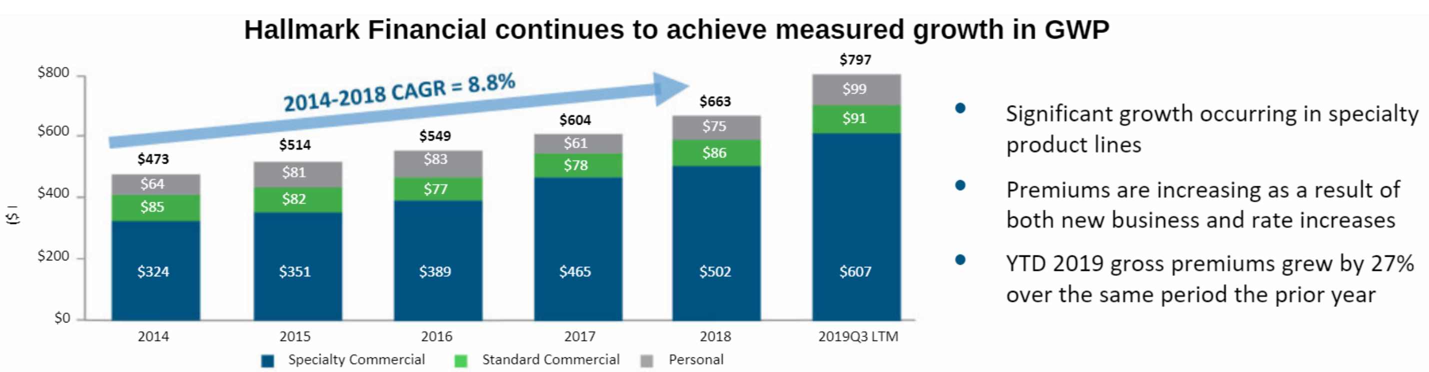
Five Small Cap Growth Stocks with Big Potential

Hallmark Financial (HALL) is a new small cap discovery, the $320M P&C insurance company trades 10.85X Earnings, 1.06X Book and has a 12.8% ROE. HALL growth surged in 2019 with 25% topline and 44.5% EPS growth as the year comes to a close and expects 11%/9.5% respectively in FY20. HALL is considered a specialty P&C company and in 2019 net premiums written rose 37% and its combined ratio was 95.6%. Rates are also showing steady growth in its specialty businesses the last two years and its expense ratio compares very favorable to peers due to its efficiency gains via technology and process improvements. Its investment portfolio has high liquidity and short duration with 76% of debt securities with maturities of five years or less. It is based on Dallas, TX and targets Excess & Surplus lines for small and mid-sized enterprise risks in niche markets. It has been using data & analytics to lower its expense ratio which is well below its peer average. Texas accounts for 30% of its revenues and California at 10% but it has business in all 50 states. HALL's President and CEO bought 6500 shares in August at $16.38/share. Shares have been forming a weekly bull wedge since September and above $19 can make another trend move higher. In an insurance industry where growth is hard to come by, HALL really stands out as an excellent operator and attractive investment while its digital transformation efforts are likely to continue to bear fruit.

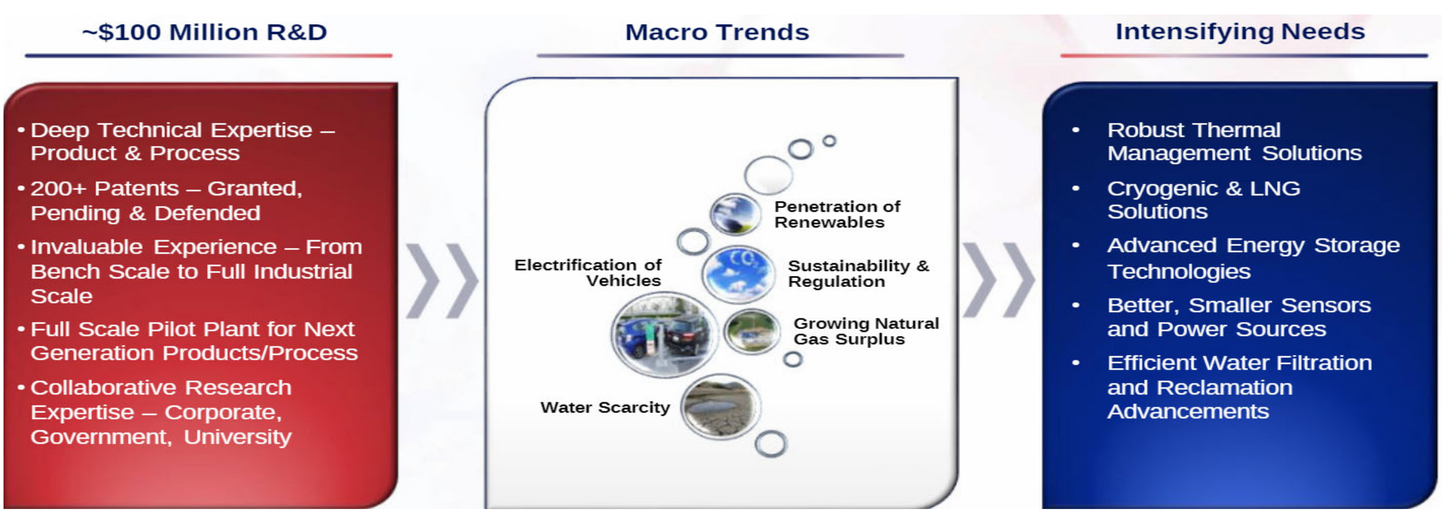






Aspen Aerogels (ASPN) is a $230M company making aerogel insulation products used in energy infrastructure and building material markets. Shares have climbed 185% over the past year and the CEO was an active buyer of shares last May. ASPN is focused on high performance Aerogel products and targeting large-scale energy infrastructure facilities, a $3.1B insulation market, and secondly the building materials market where it is partnered with BASF. Its main targeted end-markets are Refineries, Petrochemical, LNG/Gas, Oil Sands, Offshore and Power. Revenues from USA/Canada represent 44% and it has 34% exposure to Asia Pacific. ASPN's Cryogel is being used at LNG and FLNG facilities and has been adopted at 35 liquefaction and gasification facilities. Aerogel materials have unique advantages to traditional insulation with a leading thermal performance, reduced corrosion, more durability and fire protection and compact design and faster installation. It sees demand growing with intensifying needs for robust thermal management solutions, Cryogenic and LNG solutions, Advanced Energy Storage, Smaller/Better Sensors and Power Sources, and Efficient Water Filtration advancements. Macro trends such as water scarcity, electrification of vehicles, growing natural gas surplus, penetration of renewables and sustainability/regulation are seen as positive tailwinds. It sees a major opportunity in building materials with buildings responsible for 40% of global energy consumption and can replace high-performance combustible insulation. Its Aspen Battery unit is also interesting targeting a $100B energy storage opportunities and its platform stabilizes higher energy density battery materials while maximizing the driving range. ASPN is expanding its partnership with BASF and leveraging its Aerogel Tech Platform with new partners as it enters new markets while also optimizing its cost structure and balance sheet to set the stage for stronger profitability in 2020. A stronger pricing market, lowered costs, and capacity expansion put ASPN in a good spot moving forward.

ASPN share currently trade 1.7X EV/Sales and revenues jumped 26.6% in 2019 with 17.8%/20.7% growth seen for FY20/FY21, and positive EBITDA expected in FY20. In ASPN's latest quarter it noted "Revenue growth accelerated to 48% versus last year. We increased our gross profit by a factor of 5 versus last year, and we expanded our gross margin by nearly 2x relative to the first half of 2019." ASPN also has signed two agreements in the battery materials segment with significant global companies for its carbon aerogels, though not likely to drive meaningful revenues until 3-5 years from now. It shows validation of its platform and positions it as a unique growth name positioned for the secular growing trend of electric vehicles.



Exagen (XGN) is a $270M commercial-stage diagnostics company that came public in late 2019 with a focus on patient affected by rheumatic diseases. Physicians face significant difficulties in making a definitive diagnosis of a specific ARD because patients with different diseases often present with a common set of symptoms. XGN currently markets nine products under its Avise brand. Avise SLE+CT, is a proprietary diagnostic test that provides an enhanced solution for patients presenting with symptoms indicative of a wide variety of ARDs such as Systemic Lupus Erythematosus, or SLE, Rheumatoid Arthritis, or RA, Sjögren's syndrome, scleroderma and other disorders that mimic ARDs such as fibromyalgia. ARDs are a group of approximately 30 chronic disorders which create a significant burden on the healthcare system. These chronic diseases can cause lifelong inflammation in the joints, tissues and internal organs, resulting in serious complications, such as irreversible organ damage. It is estimated that 11 million patients in the United States suffer from ARDs, and patients afflicted with fibromyalgia and autoimmune thyroid disease have many of the same clinical symptoms as patients with ARDs.

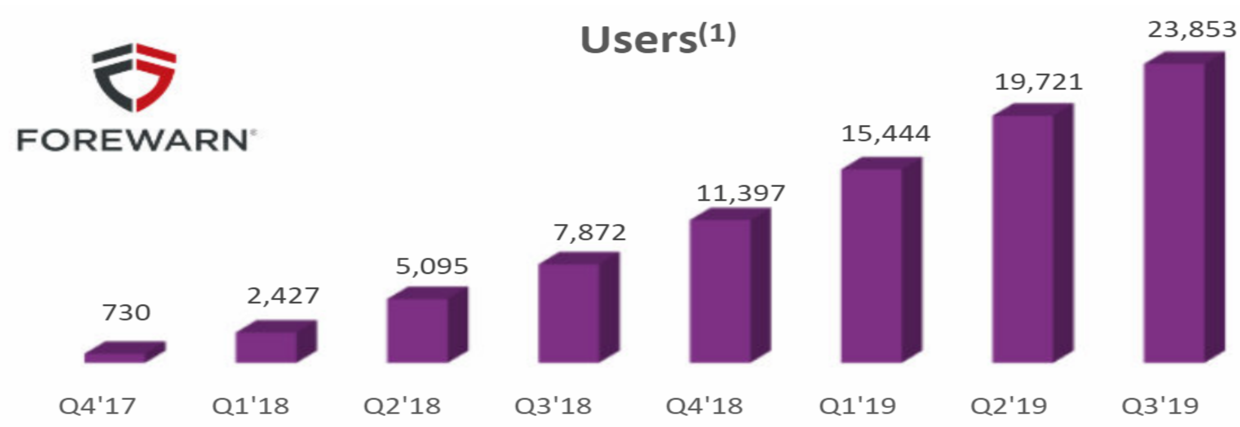
Since the launch of AVISE® CTD in 2012, XGN has delivered over 326,000 tests, representing a compound annual growth rate of 87% through December 31, 2018, with limited incremental investment in its commercial infrastructure. Approximately 83,000 AVISE® CTD tests were delivered in 2018, representing 18% growth over 2017, and the number of ordering physicians in the fourth quarter of 2018 reached 1,298, representing 18% growth over the same period in 2017. In the first half of 2019, 50,792 AVISE® CTD tests were delivered, representing approximately 30% growth over the same period in 2018, and the number of ordering physicians in the first half of 2019 reached 1,711.

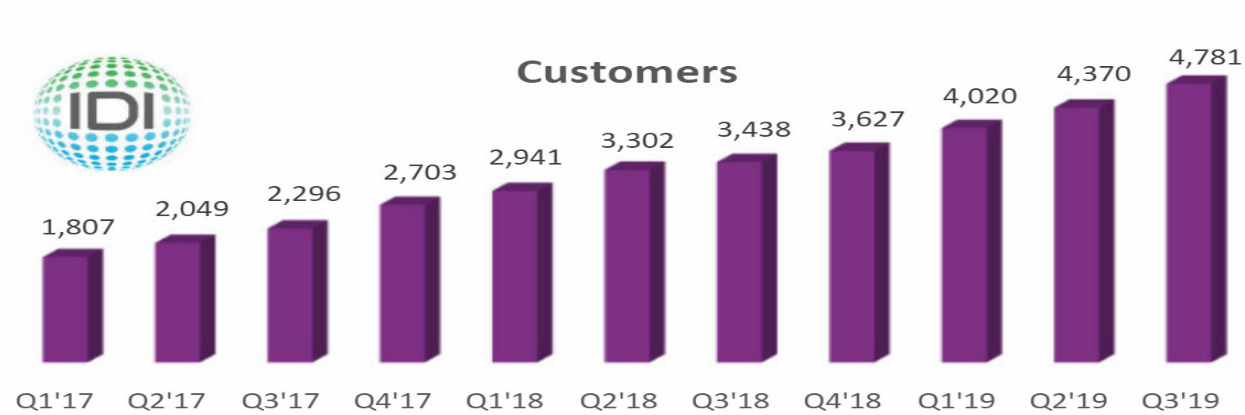
XGN has been expanding its salesforce after its December 2018 agreement with Janssen to exclusively promote SIMPONI in the US for RA treatment. Revenue increased $5.2 million, or 35.4%, for the six months ended June 30, 2019 compared to the six months ended June 30, 2018, primarily due to an increase in the number of diagnostic tests delivered and an increase in the average reimbursement per test. The number of AVISE® CTD tests, which accounted for 83% and 86% of revenue in the six months ended June 30, 2019 and 2018, respectively, increased to 50,792 tests delivered in the six months ended June 30, 2019 compared to 39,134 tests delivered in the same 2018 period.

XGN is currently trading 4.8X EV/Sales and just 3.5X cash. Forecasts are calling for 35.6% topline growth in FY20 and 30% growth in FY21 while profitability may come as soon as FY22. It is an intriguing niche player in a hot diagnostics industry and could attract a strategic buyer at this cheap valuation.

Red Violet (RDVT) is a $250M software company with its proprietary platform called CORE which serves industries within risk management including law enforcement, financial services, government, insurance and corporate risk/compliance customers. Its mission is to transform data into intelligence, utilizing its proprietary technology platform to solve complex problems for clients.

RDVT's business model has a fixed-cost model and subscription based with 66% of revenues on customer contracts. It estimates a $10B serviceable market as of today and a total $100B addressable market according to IDC for Big Data and Analytics spending. RDVT has tremendous operating leverage and an experienced management team that has precious built companies that were acquired. New customer adoption followed by further penetration for increased customer spend including custom solutions and also expanding into new products, markets and channels leaves a vast growth opportunity for RDVT.





RDVT shares trade just 3.6X FY18 EV/Sales, a year that saw revenues climb 90% which followed 87% revenue growth in 2017. RDVT has 94% net revenue retention. It is a niche software name with impressive growth, attractive valuation, and overall a strong financial profile. It has impressive operating leverage and a business model that can rapidly scale. The CEO has over 20 years of experience in the data and analytics industry and has sold companies for nearly $1B in his career.

PowerFleet (PWFL) with a strong move to start 2020 is moving out of a narrow decade-long trading range. The $220M company provides subscription-based wireless Internet of Things and Machine-to-Machine solutions. Its solutions are used in the transportation and logistic industries. It was formerly known as I.D. Systems before a name change last year. It bought CarrierWeb, a provider of real-time in-cab mobile communications technology, electronic logging devices, two-way refrigerated command and control, and trailer tracking allowing for it to offer a fully integrated logistics technology offering. It then bought Pointer Telocation to position the company as a provider of IoT and M2M technology in its markets.

PWFL shares trade 3X EV/Sales and seeing rapid revenue growth recently with 52.7% growth in 2019 and 83% growth expected in 2020 while also turning profitable in 2019. PWFL is positioning itself in an emerging large market opportunity for global IoT and connected vehicle markets. The global logistics market is expected to grow at a 7.5% CAGR through 2023. The global warehouse management systems market is seen at a 15.2% CAGR and Connected Vehicles at 14.2% CAGR, two of the more exciting growth opportunities. PWFL has 55% of revenues as services/recurring and 15% adjusted EBITDA margins. It sees a clear path to $200M in revenues and $50M EBITDA. As a small player in a rapidly growing large market with strong financials and a stable balance sheet, PWFL could be a long-term winner in the logistics tech space.

Global Logistics Market Growth

$8.1T	$15.5T	7.5%
2015	2023	CAGR

Transparency Market Research Report 2018

Global Asset Tracking:	$32B by 2024
Global Cold Chain:	$447B by 2025
NA Cold Chain:	$142.5B by 2024