

This article by Jim Roumell is excerpted from a letter of [Roumell Asset Management](#).

Liquidity Services (LQDT) reported fourth quarter numbers significantly better than what investors anticipated, sending its shares materially higher. It was a quarter marked by double-digit revenue growth in the two divisions on which RAM has hinged its investment thesis - GovDeals and Retail. The company's Capital Assets Group (CAG) declined as a result of the loss of the Department of Defense (DoD) surplus and scrap contracts. LQDT was outbid for a DoD contract in the fourth quarter as it was unwilling to accept pricing terms it deemed wholly uneconomic. We applauded the company's willingness to walk away from its DoD business and focus on the areas in which it has clear competitive strengths - GovDeals and Retail.

GovDeals' revenue grew 27% year-over-year, while maintaining a 93% gross margin. This is a particularly attractive business - it's growing rapidly and it has increased its operating margins over the past two years (the best of both worlds). We continue to reach out directly to the company's GovDeals clients and have thus far been unable to find one rating their satisfaction at less than an 8 on a scale of 1 to 10, with 10 being the highest. As a reminder, GovDeals is the leading online auction site (by a factor of 2x) for municipalities throughout North America to sell no longer needed hard goods. Recently, RAM contacted twelve customers, including ones in Utah, Alabama, Georgia, South Carolina, Arkansas, and six of them rated GovDeals a 10.

We believe LQDT's GovDeals platform is worth more than the company's total enterprise value, i.e., at \$7/share, the market cap is \$225 million, less \$106 million (cash and ST Note), leaves an enterprise value of \$119 million. GovDeals is a pure commission model at roughly 10% of gross market value (GMV) of goods sold, with no logistics overhead, and 90% plus gross margins. At a current revenue run rate of \$30 million, growing at over 15% annually, we believe the value of this one asset is likely to be \$150 million.

LQDT just recently rolled out a self-serve commercial platform mirroring its GovDeals offering for corporate clients. Like GovDeals, this platform will be a pure fee commission model without all the heavy logistics expenses associated with its traditional liquidation model. We believe the company's commercial self-serve platform is the most exciting free option buried inside our LQDT investment.

LQDT's retail division grew GMV by 17%, but revenue was down slightly. The tailwinds for retail are strong as more goods are purchased online, and as a result, more goods are returned and need to be placed with a reverse supply chain company. To be clear, this is a very competitive business with modest margins. We consider it a reasonable free option.

We remain highly suspect of the company's Capital Assets Group's ability to generate profits and have made our concerns clear to management. It will be important for LQDT to allocate capital to business lines with demonstrated success while resisting the urge to be in markets that, while sizable, remain elusive in terms of profitability. We are cautiously optimistic that Bill Angrick, Founder and CEO and the company's largest shareholder at

roughly 16%, will be disciplined in his spending. The company's willingness to walk away from two separate DoD contracts are good signs.