REPRINTED FROM FEBRUARY 13, 2017

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

A Bottom-Up Strategy Focused on Capital Structure Catalysts

ERIC GREEN, CFA, is Senior Managing Partner, Director of Research and Senior Portfolio Manager at Penn Capital Management Company, Inc. He is the Portfolio Manager for the firm's Small Cap and Mid Cap equity strategies, chairs the firm's Equity Strategy Committee and is a member of the firm's Executive Committee. Mr. Green began his career with Penn Capital Management Company, Inc. in 1997. Before, he worked at the Royal Bank of Scotland, and the Securities and Exchange Commission, where he was a Financial Analyst in the Division of Investment Management. He also is on the board of directors and the Executive Committee of the ADL, MidAtlantic Region. Mr. Green received a bachelor's degree from American University and received an MBA from the Yale School of Management.

SECTOR — GENERAL INVESTING

TWST: Could you please identify yourself?

Mr. Green: My name is Eric Green. I'm the Director of Research at Penn Capital Management. I've been with Penn Capital for 20 years. I'm also a Senior Managing Partner and Senior Portfolio Manager with portfolio management responsibilities for our small-cap and midcap strategies.

TWST: Could you tell me a little bit about the firm?

Mr. Green: Penn Capital is a $5 billion firm founded in 1987 by Richard Hocker, who serves today as our Chief Investment Officer and Chief Executive Officer. Our guiding principle is that we believe understanding a company's entire capital structure is the best way to identify misunderstood opportunities and find mispricings of securities. All of our portfolio managers and analysts have coverage responsibility for the bank debt, bonds, converts and equities of the companies that we follow.

TWST: Does your firm have unique investment philosophy?

Mr. Green: Yes, our philosophy is that we approach our research on equities like a credit analyst by focusing on the balance sheet and the cash flow statement. We look for opportunities within the capital structure that create equity value. We attend both high-yield and equity conferences, and we listen to bank loan calls. By covering the entire capital structure of the companies we follow, we can find discrepancies in pricing between the bonds, stocks, converts, bank debt and preferred securities.

TWST: It sounds like it's more a micro strategy than following macro trends?

Mr. Green: Yes, it's a bottom-up strategy that focuses on individual company catalysts which we call capital structure catalysts. We buy stocks that we believe have attractive valuation, and we look for 30% to 50% upside from every company to our estimate of their private market value.

TWST: Why does that approach make sense with the market the way it is now and the economy the way it is now?

Mr. Green: Free cash flow and deleveraging matters to companies with complicated capital structures. As a company improves their capital structure and moves toward a more appropriate capital structure, its valuation tends to increase. There is also a transfer of the debt value to the equity value of that company enabling the stock price to improve. By improving the capital structure, companies can lower their cost of capital and create long-term value for the stock.

TWST: You said that you work on both small cap and midcap among the responsibilities that you have. Could you tell me why with what's going on right now? Why is it a good time to look at those funds?

Mr. Green: We believe it's a great time to look at small-cap and midcap investments. The last few years have been difficult for small cap relative to large cap. However, since the election and since interest rates bottomed in July, small caps have started to outperform large caps. Historically, when there is an accelerating economic environment, which we expect going forward, small-cap stocks tend to outperform large-cap stocks by a very wide margin.

TWST: Do you think also that from a macro point of view, if the Trump administration were to put in some kind of protectionist policy or take steps to encourage the growth of smaller companies that largely deal with domestic sales, that this would be a good time to look at these kind of companies?

Mr. Green: Absolutely. The majority of our companies only do business in the United States. They're generally not hurt by the dollar rising or international trade deals. In fact, if part of the tax package includes a repatriation of funds, we expect many large-cap companies to use that money to buy smaller companies.

TWST: And then that way they can grow over the next few years?

Mr. Green: Small-cap companies grow faster in general than large-cap companies, and can adapt more quickly to a changing economic environment. We expect accelerated economic growth going forward.

TWST: Did you want to mention a company that you find interesting right now?

Mr. Green: Sure. We find **Gray Television** (NYSE:GTN) very interesting. **Gray** is one of the largest broadcast affiliate companies, with stations throughout the country that have mainly number one and number two-rated news programming. The company trades at an extremely low multiple at 20% free cash flow yield. We believe that changes at the FCC, with the new administration, will allow ownership rules to be relaxed and lead to additional consolidation in the broadcast sector. The additional consolidation should improve the multiples of all of the companies in that sector.

On top of that, we believe the content fees television stations receive from the cable companies and satellite companies should continue to increase over time. These noneconomically sensitive recurring fees should allow the affiliate companies to trade at higher multiples.

TWST: And the fact that there are so many options for content right now, given the internet and various other forms of media, does that in any way negatively impact the regular television stations?

Mr. Green: We believe there is a perception that all of those options have impacted the value of television, but people are watching television as much today as they watched it 25 years ago. In fact, statistics show the average person in the United States watches television almost five hours per day. The local stations carrying **ABC**, **CBS** (NYSE:CBS), **NBC** and **FOX** (NASDAQ:FOX) still garner over 40% of the viewing audience in the United States, and we expect that will continue. There is still no substitute for football and other sports programming. Also, when the local news is top-rated in its market, the station tends to garner a larger audience and higher advertising dollars.

"The last few years have been difficult for small cap relative to large cap. However, since the election and since interest rates bottomed in July, small caps have started to outperform large caps."

Highlights

Eric Green talks about managing his firm's small-cap and midcap strategies. Mr. Green says the firm's guiding principle is the belief that understanding a company's entire capital structure is the best way to identify misunderstood opportunities. He says the firm approaches research on equities like a credit analyst by focusing on the balance sheet and cash flow statement. Ultimately, it is a bottom-up strategy that focuses on individual company catalysts. Companies discussed: Gray Television (NYSE:GTN); CBS Corporation (NYSE:CBS); Twenty-First Century Fox (NASDAQ:FOX); Dynegy (NYSE:DYN); Fairmount Santrol Holdings (NYSE:FMSA) and Red Rock Resorts (NASDAQ:RRR).

TWST: And those are some of the strengths with the Gray Television stations, local news and the network sports that they carry?

Mr. Green: Yes.

TWST: Can you mention another company?

Mr. Green: Dynegy (NYSE:DYN) is a very good deleveraging story. **Dynegy** is an independent power producer that increased debt by making acquisitions. When its leverage became too high, the market sold off the stock believing the leverage was too high for that company. However, over the next two years, it will substantially deleverage its balance sheet and take its leverage down to levels that are much more acceptable to the market.

We believe power assets, which have been depressed in the public market, are worth a lot more in the private market, and that **Dynegy** will sell assets at values well above where their assets are currently trading in the public markets. Ultimately, it's a good acquisition candidate, and the deleveraging will create significant equity appreciation over the next few years.

TWST: Do they as a company have to worry about the regulatory bodies, and what do you think has been going on with them if they do?

Mr. Green: Going forward, we believe the regulatory requirements will be less onerous on almost every company. There are some standard industry regulations they will have to abide by. They also have coal plants, which have been severely hampered by regulatory pressure.

We believe there will be some relief. They have the lowest-cost natural gas and coal plants of any power producer in the country. We don't see adverse regulation in the near term affecting them. If anything, less regulation will be a tailwind.

1-Year Daily Chart of Gray Television, Inc.

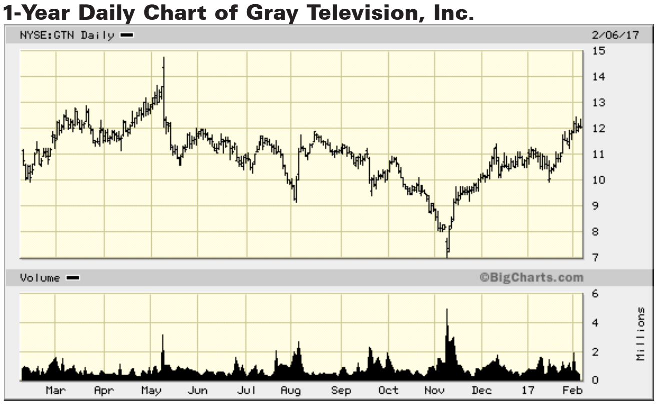

Chart provided by www.BigCharts.com

allow them to transport the sand to the oil or gas well efficiently and cheaply. We believe the demand for sand continues to increase, and pricing for sand will increase as the rig count increases. **Fairmount Santrol** is undervalued relative to some of the other names in the industry and has a very promising future.

TWST: Is most of their work here in the United States, or is it more of a global company?

Mr. Green: All of their mines are in the United States.

TWST: And so they stand a benefit to from the approach of the Trump administration when it comes to oil and natural gas?

Mr. Green: They stand to benefit from an increase in oil and gas drilling, which has been embraced by the Trump administration.

TWST: Did you want to mention another company?

Mr. Green: Red Rock Resorts (NASDAQ:RRR) is a gaming company with the majority of their properties in the Las Vegas locals market. They own the real estate and are the operator of these facilities. The Las Vegas locals market is growing faster than any other gaming market in the country. The demographics are very attractive in the region.

"One of the biggest beneficiaries of the Trump administration is the energy sector and all the peripheral industries that indirectly benefit from an improving energy sector."

TWST: And I would think they'd be helped too given the Trump administration appears to be energy friendly with things like coal and natural gas?

Mr. Green: Absolutely. One of the biggest beneficiaries of the Trump administration is the energy sector and all the peripheral industries that indirectly benefit from an improving energy sector. The regulatory environment has been severe for many of the pipelines that were expected to be built. They were delayed or cancelled, and we believe they will all start up again. Trump is very interested in creating jobs and making the country more energy independent.

TWST: And I understand that Dynegy and Energy Capital Partners formed a joint venture which has acquired some fossil portfolios. Can you talk a little bit about that, if you're familiar with it?

Mr. Green: We believe the acquisitions **Dynegy** has made are prudent acquisitions that should allow the company to have substantial free cash flow growth in the future. In the short run, they have to increase their debt. This has been the main negative recently but, going forward, I believe the properties they've acquired will generate enough free cash flow to pay down the debt rapidly.

TWST: Did you want to mention another company?

Mr. Green: Fairmount Santrol (NYSE:FMSA) is one of the largest providers of sand, also called proppant, used in the oil and gas industry. We're using about five times as much proppant in oil and gas wells as we used a few years ago. As the number of rigs working and drilling for natural gas and oil increase, which we believe will happen, more proppant will be used in those wells. The increased use of proppant improves the efficiency of oil and gas wells, allowing the producer to extract more oil and gas much quicker than in the past.

Fairmount Santrol has outstanding logistics capabilities that

1-Year Daily Chart of Dynegy Inc.

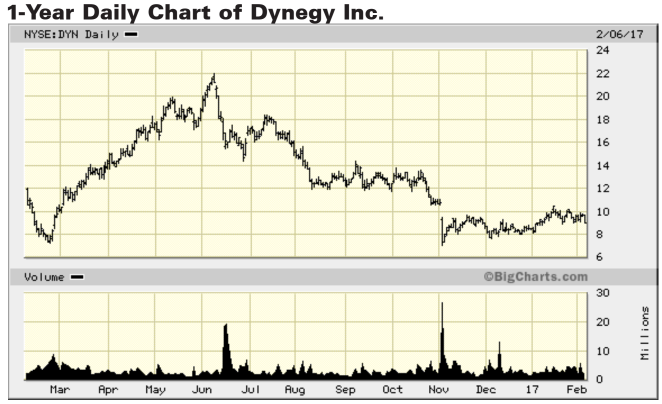

Chart provided by www.BigCharts.com

Red Rock is one of the best-run companies in the locals market in Las Vegas. The valuation is attractive, and we expect them to create additional value by building new properties, one in Reno and possibly another one in the Las Vegas locals market. They've recently acquired the Palms in Las Vegas, which was neglected by the previous owners for many years. We believe that property has significant upside under their management.

TWST: What is allowing them to be successful when maybe compared to some of the other companies?

Mr. Green: They figured out the locals market. They know their customer, and they know how to adjust their promotions. They keep their slot floor extremely fresh with the newest games and most attractive odds. That brings customers back to their properties. They also have outstanding service, and very good restaurants and amenities within their properties.

TWST: And it looks like a large number of Americans and tourists are going to continue to visit Las Vegas for both conferences and just plain tourism?

Mr. Green: Yes. Most of their business is from the locals market. As business on the Las Vegas Strip improves, workers have more disposable income to spend in local casinos. The other aspect is that construction of new properties in Las Vegas is just starting, and many of **Red Rock's** customers are construction workers. As the local economy improves, and construction and worker pay increases, their properties benefit disproportionately relative to other regional markets.

TWST: Overall, in the next few years, it looks like the Las Vegas market will be doing better?

Mr. Green: Yes. Before the recession, operators overbuilt the market with too many rooms. Demand went down due to the recession while supply went up. Over the last several years, there have been very few new rooms added, and demand has caught up with supply. The market is growing very nicely today. There is also the possibility of an NFL team moving to Las Vegas. The Oakland Raiders are close to deciding whether to move the team to Las Vegas. If they do, there will be a new stadium built, and that will benefit both the strip and the locals' properties.

TWST: Looking at 2017, when you talk to investors, are there certain issues that seem to come up and certain concerns that they have, and what would you say to these concerns?

Mr. Green: Valuation of the overall market seems to be a concern. We've had a nice run in the overall market. I would argue that while we've had somewhat of a run, we've had almost no economic expansion over the last eight years. As the economy expands, multiples can increase while earnings accelerate. We don't believe valuation ends bull markets. We believe valuations are fair and are likely attractive because forward earnings will likely be higher than most expect.

Other pushbacks include the new administration and the uncertainty surrounding it. There is a large wall of worry that has been built regarding the new administration. We are more positive. We believe the new administration will enact tax reform, both corporate and individual. The regulatory burden on many companies should decrease considerably. We've seen consumer and business confidence at 10-year highs. With higher business confidence, it is more likely that companies will grow again and increase their spending.

TWST: And in terms of institutional investors, do you think they have some particular concerns, and what precautions might they want to take as they look at 2017?

Mr. Green: The main concerns I hear from other institutional investors are that the market has had a large move since the election, and nothing has really changed yet. We need to see if the president executes on many of the promises he made during the campaign. The market may be unfairly reflecting too much enthusiasm.

My response is the same as it is to all investors. We believe there could be a pause in the market, but as the economy accelerates and we see evidence of that acceleration, we believe we are going to see a very strong small-cap market.

TWST: And do you get the feeling too that the Millennials are ready to start investing more in the market as a generation — and in any particular way that they might approach that, that might be different from other generations?

Mr. Green: The upper end of the Millennial generation is approaching the age where they will invest money. The lower end does not invest money. We expect that the upper end will start to invest money; however, they have seen some pretty nasty bear markets in their lifetime. If we have a sustainable recovery in the markets, we expect the Millennials as well as other age groups to add to their equity investments.

A significant amount of money has been on the sidelines and in bonds for many years. As we see a recovery in the equity markets, and a weaker bond market with higher rates, we expect money to rotate from bonds to stocks. The Millennials as well as other age groups will be adding money to the market.

TWST: And some of those Millennials who maybe a little less affluent — as their job situation improves and they start doing the things that some other past generations have done, like buy homes and buy cars and those kinds of things, might they also get more involved in the stock market for their long-term savings?

Mr. Green: As their financial situation improves over time, they'll be putting money into 401(k) plans and 529 plans for their kids. These funds will likely go into the stock market and equity mutual funds as they are long-term investments.

TWST: And as far as the Baby Boomers and those people that are either retired or ready to retire, do you see them continuing to have interest in the stock market just because of where interest rates have been and for some other reasons?

Mr. Green: As rates move higher, the principal on bond portfolios declines. They will need to put money in areas outside of the bond market. The equity market over time has provided inflation-beating returns, and we expect money to flow from the bond market to the equity market for the Baby Boomers as well as others.

TWST: Thank you. (ES)

ERIC GREEN, CFA
Senior Managing Partner, Director of Research and Senior Portfolio Manager
Penn Capital
The Navy Yard Corporate Center
1200 Intrepid Ave.
Philadelphia, PA 19112
(215) 302-1500
www.penncapital.com