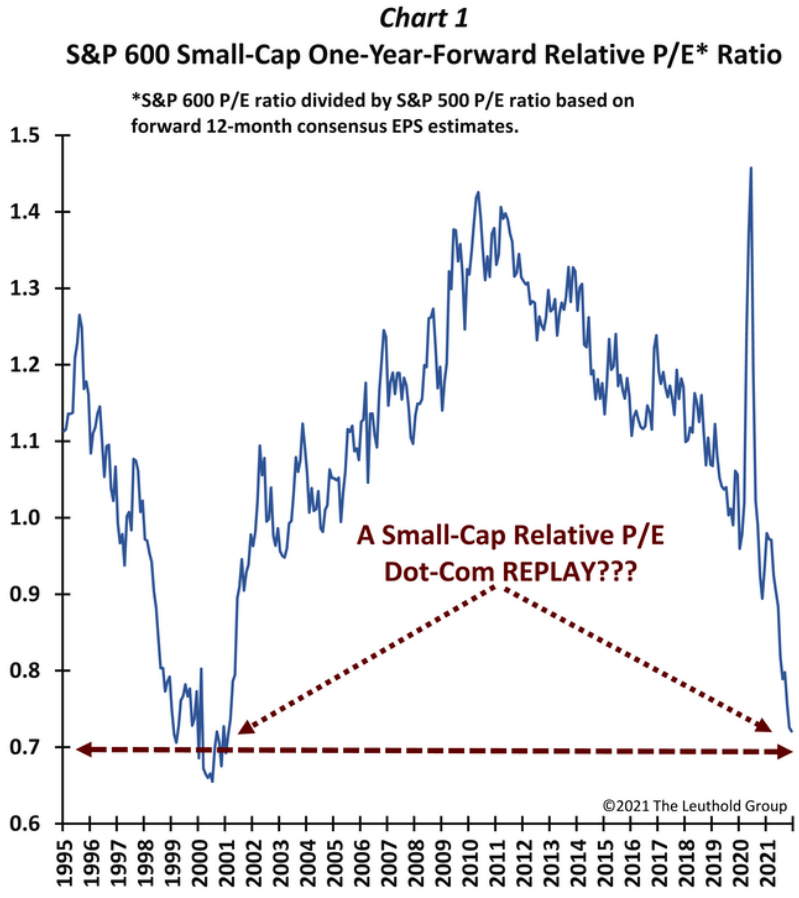


Valuations and Earnings Power Suggest the Time for Small Caps Is Now!

As we kickoff 2022, we believe the small cap market, has rarely, if ever, been as attractive as it currently is. While the small cap market underperformed when compared to large cap stocks during 2021, we believe there are multiple reasons for optimism and an improving landscape for investments in small cap equities as 2022 unfolds.

One traditional method of assigning relative value to companies is by comparing their price to earnings multiple ("P/E"). When viewed this way, and seen in the below chart credited to The Leuthold Group, the relative value of small cap companies to large cap companies is nothing short of remarkable. Specifically, the ratio of P/E multiples for the small cap S&P 600 compared to that of the S&P 500 is at just north of 0.7, a level not seen since 2000 during the dot.com bubble.



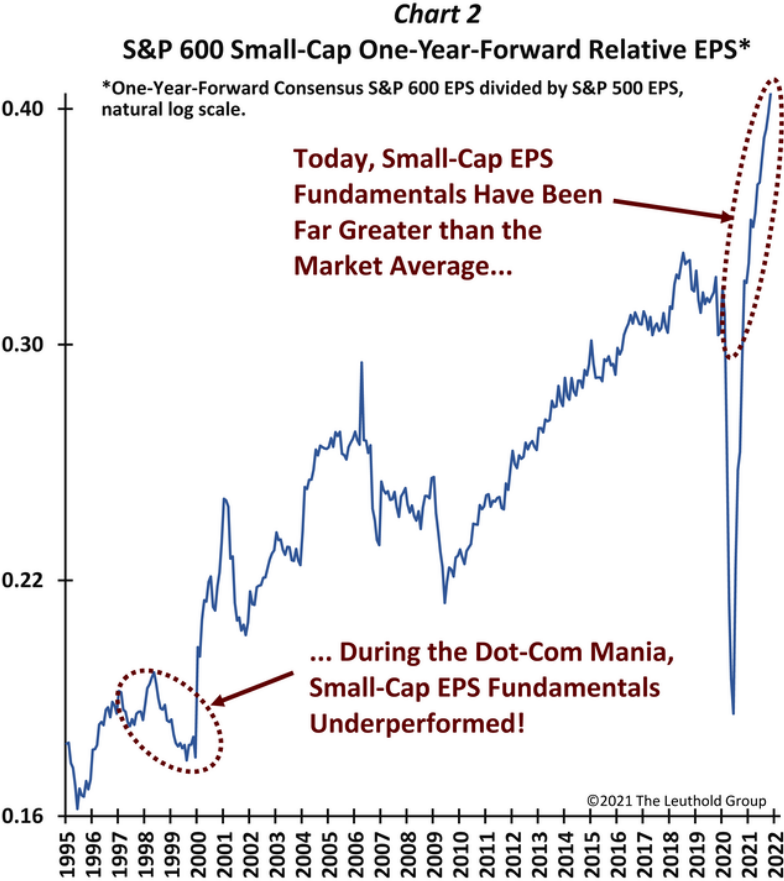
A deeper dive into the numbers depicted on the chart above provides additional context. In 2000, the market was in the midst of the dot.com bubble, which burst not long after. Tech stocks at the time were trading at high P/E multiples that had never been seen before. This, of course, translated to an inflated

P/E multiple for the S&P 500 as a whole. While small cap stocks were significantly undervalued to the S&P 500 on a relative basis, they weren't necessarily as undervalued in absolute terms.

One further point is that it wasn't just small cap stocks that were undervalued relative to tech stocks and hence the S&P 500 P/E multiples across every market sector were significantly lower than those for tech stocks during this period. In other words, nearly the entire stock market was mispriced based on P/E multiples--not just the small and micro-cap markets.

This stands in sharp contrast to the current market. Whereas nearly every market was undervalued on a P/E multiple basis in 2000, in the current market, nearly every sector is overvalued compared to the small cap market on a P/E multiple basis.

What makes this current opportunity in small caps even more compelling is that it is not just driven by attractive relative P/E multiples. Back in 2000, one argument and justification for lower P/E multiples for small caps was that the forward earnings per share ("EPS") consensus was lower than that for the S&P 500. In the current market, however, the situation is the exact opposite. Currently, the consensus forward EPS estimates for the S&P 600 are the highest they have been relative to the S&P 500 going back to 1995. The chart below shows this relationship:



So unlike 2000 when small cap stocks traded at depressed P/E multiples due at least in part to underperforming earnings, the current small cap market is trading at these same depressed levels despite superior expected earnings.

180 Degree Capital is bullish on the investment opportunities in our microcap/small cap universe over the coming months, and we are excited to take advantage of what we currently think is indiscriminate selling. The Russell Microcap Index has declined 21% in less than three months, which, when analyzed with the data presented above; we believe has created some exciting investment opportunities as we move through 2022.

Note: The information discussed above is solely the opinion of 180 Degree Capital Corp. Any discussion of past performance is not an indication of future results. Investing in financial markets involves a substantial degree of risk. Investors must be able to withstand a total loss of their investment. The information herein is believed to be reliable and has been obtained from sources believed to be reliable, but no representation or warranty is made, expressed or implied, with respect to the fairness, correctness, accuracy, reasonableness or completeness of the information and opinions.