



GATE CITY CAPITAL – MICHAEL MELBY

Prepared by:



President: Mike Pruitt

Analyst: Adam Allen

Analyst: Sam DiFiore

Gate City Capital Management is a long only microcap fund that is focused on US Based Companies. Its founder, Michael Melby, is an investor built in the Graham-Dodd image of value, with Michael and his team looking for deep, value-oriented companies that are able to provide a large margin of safety. After starting his career at Deutsche bank and spending time in the Notre Dame Investment Office, Melby launched his own fund and subsequently has been ranked in the [top five analysts on SumZero in six different ratings](#). Gate City places a heavy emphasis on understanding the business models of companies they invest in and develop high convictions on intrinsic value that often manifests in a favorable price-to-book ratio. Gate City Capital has a concentrated portfolio of 15 positions which allows for proper research, maintenance and conviction for the companies he purchases.

Like many of the best investors, Mr. Melby thinks about the company as a whole rather than a stock when considering a position in a company. This process generally entails careful attention paid to the real assets a company owns (land, buildings, and water rights) as this can often be a protection against the inflationary pressures in the current low interest rate environment. Further, Melby places emphasis on a DCF valuation to determine the intrinsic value of the stock and liquidation value to protect against downside, with a 50% margin of safety hurdle rate used to determine the worthiness of an investment. Additionally, the evaluation of a firm's management is critical to Melby's process. In order to do this, Melby meets with management groups and evaluates them based on the criteria of intelligence, ethics, and hard work. In 2018 Gate City filed a [Schedule 13-G form disclosing a 17.5% ownership in Optex Systems Holdings Inc. \(OPXS\)](#), an optical sighting system company primarily for the Department of Defense. When Optex reported their quarterly earnings less than a month later, the stock rose 50%. Gate City Capital knew that the Optex's valuation provided them with limited downside and potential for substantial upside.

One of Gate City Capital's largest holdings is AMREP Corporation (AXR), in which he holds [17.4% of the company](#). AMREP Corporation is largely a land holder in Rio Rancho, New Mexico which is a rapidly growing community outside of Albuquerque that is an attractive area for retirees with appreciating property rights. Mr. Melby discusses his AMREP Corporation position on "[Yet Another Value Podcast](#)" with Andrew Walker. Gate City Capital also has a position in Pico Holdings (PICO), which owns water rights and assets through a wholly-owned subsidiary and owns a majority stake in a major home builder in the American southwest. Both of these companies hold high levels of valuable tangible assets in inherently scarce resources with long term expected values. These factors coupled with strong management present strong upside potential whereas the high, tangible, appreciating asset value provides considerable downside protection. These investments demonstrate the wisdom of Michael Melby's investment approach. SumZero, the world's largest professional investor community, has also been a helpful part of Mr. Melby's research process. Feedback provided by SumZero members was important in identifying parts of the thesis which could have been missed. This high-quality tool has also helped with idea generation and networking with likeminded investors. Overall, Mr. Melby is a wealth of knowledge in the micro-cap space. He provides his recommendations those interested in the industry and serves as an inspiration to many investors.