



Why We Own Kornit Digital (KRNT)

Investment Philosophy

At Taylor Frigon, we adhere to an investment philosophy which declares that most of the great fortunes in this country were made by individuals holding shares of:

- well-run businesses ,
- positioned in front of fertile fields for future growth,
- and continuing to own them as long as those two conditions still applied to that business (well-managed, and positioned in front of a paradigm shift or narrative which would drive long-term growth).

This philosophy was derived from one of our namesakes, Richard C. Taylor, and his mentor T. Rowe Price. Any list of the world's wealthiest individuals (Forbes 400, for example) demonstrates that this maxim remains true to this day. Those who owned shares in businesses positioned in front of fertile fields for many years (sometimes decades), and who concentrated on the health of those businesses ended up doing well for themselves, their families and future generations. They did not constantly trade their businesses based on some misguided attempt to guess the next move of the Fed or the next change in direction of the economy. ***The focus was on the business, not what that business was worth on any given day.***

TFCM Research

Narratives & Paradigms The above means that researching and analyzing the underlying narratives and paradigm shifts taking place in an industry, and in society, is equally important to performing due diligence and careful research on the company. It's like the difference between analyzing an individual sailboat and analyzing the underlying currents and wind patterns that will be at least as important as the boat itself in determining how fast and how far it will go. You can spend all month analyzing the sailboat itself and determining that it is seaworthy, but if it is sitting in a terrible location with unfavorable winds and currents that are not likely to improve any time soon, then that boat is not likely to go anywhere fast. Very much the same thing for companies, and yet many investors spend virtually all of their time talking about the boat and not thinking about the current -- talking about the company itself and not analyzing the narratives and themes and paradigm shifts that are taking place in the industry and in the wider society at large.

Disciplined Process We look for well-run businesses in front of paradigm shifts, and when those companies have to steer themselves in front of a paradigm shift, the process can take time (possibly years) before seeing results.

A good example is Nvidia (NVDA), which we have owned for our clients since 2007. Our original thesis included the conviction that parallel processing which characterizes GPUs (graphic processor units, as opposed to CPUs, Central Processor Units) would become more and more necessary in the changing tech landscape, and that founder and CEO Jensen Huang was a dynamic leader who was capable of taking on formidable competitors including Intel, and steering his company towards the opportunities where the GPU added the most value. At that time, GPUs were still primarily tied to gaming and PC sales -- but over the years, we watched as Jensen steered his company in front of numerous growth fields where NVDA's core strengths would be most valued by customers (artificial intelligence, machine



learning, autonomous driving, computer graphics rendering, digital art and content creation and high speed processing in data centers).

If you look at a longer-term chart of NVDA, you will see that it spent several years below \$35 per share before breaking out between 2016 and 2018. We believe the primary growth drivers, and the company's exceptional leadership, remain intact, which is why we are still owners of the business. But the bigger lesson here is the pattern of finding a business with differentiated technology, led by dynamic management capable of positioning the company to serve markets which are being created and are expanding due to paradigm shifts in the industry or the wider society.

Total Addressable Market (TAM) We are biased towards smaller-cap companies, but more important than the current size of the company is the assessment of the total addressable market (TAM) which that company can serve, and the ratio between the present revenue run-rate of that company versus the potential run-rate suggested by the TAM. A small-cap name with a small TAM is typically not an attractive investment opportunity. That said, smaller-cap names in general usually have a better ratio between existing business run-rate and potential addressable market. We believe this is a far more valuable "valuation" measure than traditional techniques most often used such as a price to earnings ratios, etc.

Kornit Digital (KRNT) An example of a smaller-cap business we own, which typifies the concept of "potential-TAM-to-present-run-rate", is Kornit Digital (KRNT), with a market cap of about \$1.2 billion. The company designs digital printers for the textile industry, enabling a true paradigm shift in the clothing business, which previously required very large production runs in order to offset costs. Estimates for 2019 revenues for Kornit are for approximately \$181 million. The TAM, however, is enormous: the textile industry is a more than \$1 Trillion per year market, and while all of that will not switch from traditional printing to digital printing, a much larger percentage than is presently using digital printing is likely. This company exemplifies some of the concepts discussed above, including the "paradigm shift", "fertile fields for future growth" and the concept of "TAM-to-present-run-rate."