

November 3, 2017

Dear clients and colleagues,

Doing extensive research on high-quality investments has always been the approach at Global Alpha. We buy names that further enhance the overall quality of our portfolio. We always look for a near-term catalyst that will confirm our thesis after we initiate a position, which also helps increase our conviction. Sometimes, however, the catalyst gets delayed and the market begins to misprice a business.

As Benjamin Graham, said: "In the short run, the market is like a voting machine — tallying up which firms are popular and unpopular. But in the long run, the market is like a weighing machine — assessing the substance of a company." For the moment Technicolor is not the flavour of the month for investors, despite management's focus on growing the business for the long term.

Technicolor is a world leader in digital production solutions and services. It provides advanced services to content creators, distributors, pay-television and over-the-top service providers. Half of its revenue comes from the US while the remainder of the business is split between Europe and the rest of the world. The company has three separate segments: Technology, Entertainment Services and Connected home. The Technology segment focuses on licensing the group's intellectual property (IP). The Entertainment Services segment develops and offers content-related technologies and services for the media and entertainment industry. The Connected home segment provides solutions for pay-TV operators and network service providers for the delivery of digital entertainment data, voice and smart home services. For the last twelve month period, Technicolor reported revenue of €4,616M and EBITDA of €400M.

Market size

- The set-top box rental market in the US represents \$20B.
- The Technology segment is driven by innovation and the number of consumer electronic devices, which is expected to grow 4.1% per annum.
- The Entertainment Services segment is driven by the creative market that serves the movie, gaming and advertising industries. That market is estimated at \$14B.

Growth strategy

- With the migration of the DOCSIS 3.1 protocol over the next two years, there will be a new cycle of product upgrades within set-top boxes.
- Expanding the business with existing customers and attracting new customers for the Entertainment Services and the Connected Home segments.
- Monetizing patents within the Technology segment.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

Strengths

- Technicolor enjoys a strong position in the media and entertainment industry with 40% market share.
- Technicolor maintains a very strong technology pipeline with 40,000 patents. In 2014 the company filled for 696 priority patents.
- Technicolor is the fifth largest player globally in terms of revenue licensing generation after Qualcomm, Ericsson, Dolby and Nokia.
- Technicolor benefits from a strong reputation in the industry (MPC studio won an Oscar for best visual effect in The Jungle Book).
- Following the acquisition of Cisco Connected Devices, the company is now strongly positioned to supply upgraded set-top box technology in the US.

Opportunities

- The latest DOCSIS 3.1 standard in the telecom industry will enable higher data speeds for high-definition television and video on demand services. Cable operators will be able to deliver gigabit speeds to consumers for 70% less than the cost of delivering fiber-to-the-home.
- Growing demand for visual effects in the entertainment and advertising industries.
- Competition in the set-top box drives more content and better quality.

Risks

- Although Technicolor has been gaining clients, the DVD market could begin to deteriorate more rapidly.
- Lack of revenue visibility for its Technology segment.
- Set-top box total units could decline in the mid-term.

Small cap companies are not always known by name, but they invariably touch our daily lives in important ways. The next time you switch on the set-top box, are just streaming Stranger Things on Netflix, or playing games like Call of Duty by Activision, you have experienced how Technicolor technology provides that immersive experience.

Have a good weekend.

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.