Message from the Chairman
Sept 2018

Concierge's gain in net worth for the 12 months ended June 30, 2018 was $3.8 million, which increased the per-share book value of our stock by 28.6%. Since January 2015 (when present management took control), per share book value has grown from $0.26 to $0.57(1), a rate of 25% compounded annually. Our goal is to have the growth of book value and stock price exceed the growth of the FTSE Global All Cap index on average over time.

Concierge's Performance vs. the FTSE Global All Cap Index

Fiscal Year Ending June	CNCG Book Value Per share (1)	CNCG Book Value % Change	CNCG Stock Price (1)	CNCG Stock Price % Change	FTSE Global All Cap Index with dividends included % Change
2016	$0.27		$1.05		
2017	$0.45	67.9%	$1.77	68.5%	18.91%
2018	$0.57	28.6%	$0.70	-60.5%	11.46%

(1) Adjusted for splits.

We had five goals last year:

1- Increase shareholder liquidity.
2- Perform a reverse stock split.
3- List on a major exchange.
4- Buy more private firms but don't aggressively look for them.
5- Focus more on the existing businesses and see how fast they can grow.

We succeeded on three of the goals and failed on two.

Increase shareholder liquidity; perform a reverse stock split; and list on a major exchange.

The two I failed on were liquidity and listing on a major exchange. Turns out these two goals are intertwined. To get listed on a major exchange any public company must meet certain minimum listing standards, such as minimum number of shareholders, pre-tax income, market capitalization, shareholder equity and daily trading volume. After the 30-for-1 reverse stock split in December 2017, Concierge met all the listing standards except for two, minimum stock price and daily trading volume.

To be listed, we will need our stock price per share to be above $2.00 and our daily volume to be above 2,000 shares on average over time. As of June 30, 2018, our stock price was $0.70, and our volume for the month on average was just over 1,300 shares per day, which included most days where the stock did not trade at all.

Increasing liquidity is important because it means that when you, the Concierge shareholder, want to sell, you can without adversely moving the stock price against yourself. Right now, even a small buy or sell order of 1,000 shares can easily move our stock price 20-30%. So, even though Concierge had a good year from an operating perspective and increased our intrinsic value, our market value went down because someone sold shares right before the fiscal year end. You should be able to sell almost any amount of shares you want any time you want without moving the stock price much. This goal remains on my ‘to do’ list.

We have actually put into place a few new plans to help accomplish the liquidity goal this fiscal year. Among other things, they include engaging PondelWilkinson Inc., a respected investor relations and strategic public relations firm based in Los Angeles, to help us get the word out, identify venues where we can attract new investors, advise on a host of day-to-day corporate communications and governance issues as we continue to grow plus attending investor conferences. We have a great story and people should know about it. We have answered the age-old question- if a tree falls and no one from Wall Street is in the forest to hear it, did it make a sound? Time to populate the forest.

Buy more private firms but don’t aggressively look for them.

David Neibert gets an ‘A’ for goal #4- Buying more private firms. I took one look at Original Sprout’s products, people and history, and said yes to the price. It then took David over five months of real work to make sure the deal closed properly. Due diligence on a new firm is a necessary and important part of our job. It means asking hard questions, following up on seemingly unimportant details and asking others who have no direct role in the deal to provide information. It often gets delayed, is costly and then gets delayed again. I also give an ‘A’ to Michael Ambacher, the head of Original Sprout, who was immensely helpful in pulling together information and making a home for David. Literally, David’s main office and our new HQ mailing address is now at the Original Sprout location in San Clemente, California.

Original Sprout makes all-natural ingredient, vegan, shampoos, skin care products and reef-friendly sun screen. It was founded by Ingra Tritt in 2003 when she discovered there were no good hair care products for her new baby daughter Maya. Out of necessity came invention. Inga is still helping us grow the business and recently appeared on *Modern Living with kathy ireland®* to tout our products. You can see highlights of the show on YouTube at https://www.youtube.com/watch?v=3Gwu9Ws_pzk. Inga did a great job, and we are very happy she and her partner chose Concierge as new owners. In a bit I will talk about some of the things we look for during a new acquisition search using Original Sprout as the example.

Focus more on the existing businesses and see how fast they can grow.

This goal is easy (for me). We have Bryce Cole (CEO Gourmet Foods), Rob Ast (CEO Brigadier Security) and John Love (CEO USCFInvestments) to thank for accomplishing the final goal of last year: focus more on the existing businesses and see how fast they can grow. We are very lucky to have three outstanding individuals running these companies, who treat the businesses and their employees as if they were their own. This is fine with me, as our headcount at corporate headquarters now stands at three full-time employee equivalents (Carolyn, our General Counsel, and Stuart, our CFO, split their time between Concierge and USCFInvestments), and we have no plans on adding more people, strategic planning departments or other nonsense that eats up capital and does not help the CEOs do their job.

This coming Southern Hemisphere Summer will be an interesting one for Gourmet Foods as they begin their own diversification by distributing Original Sprout products in New Zealand. Original Sprout had no New Zealand distribution, yet Gourmet Foods sells to hundreds of grocery and convenience stores. How nice to already have these established distribution channels in place! Gourmet Foods envisions using its existing channels to market shampoos and skin care products. Synergies seem to exist where we least expected them and we're anxious to see how it turns out. Meanwhile Brigadier Security's second location, Elite Security, in Regina has moved to newer and larger facilities. The old location was just that, old. With no public parking and little room to house the growing fleet of service vehicles, it was time to modernize. Congratulations to Rob for finding a nice location.

In short, Gourmet foods and Brigadier had increases in sales and profits and good returns on capital employed. Original Sprout also did well but was part of Concierge for only about half the year. Their bright numbers, however, did not offset the decrease in sales and profits from USCFInvestments. John and crew at USCFInvestments did an outstanding job last year, accomplishing everything they could control, which included launching more funds in one year than ever before; restructuring the portfolio managers and operations roles to accommodate double the number of funds with the same number of people; spending more time in front of conferences and TV interviews than ever; and getting recognized and awarded 'most innovative fund' by leading industry publications. These are the things John, Kevin, Katie, Andy and Darius can control. What they cannot control are flows of money into and out of the various funds or asset level, especially oil. Our oldest and largest fund attempts to track the daily movement of oil as represented by the front-month price on a futures exchange.

What we have discovered over the years is that people are smart and act as you would expect them to when it comes to commodities like oil. When the price of a commodity like your T-bone steak goes up, you buy cheaper cuts, substitute chicken, or eat less. In other words, when price goes up, demand goes down. We have seen this same phenomenon several times in our oil fund. When the price of oil goes up, asset levels in our fund go down. Last year, the price of oil went up from about $50 to $70 a barrel. Conversely, asset levels on average went down about a billion dollars, which meant less revenue derived from assets and less profits from management of those funds.

One of the reasons USCFInvestments came out with so many new funds last year was to diversify away from being largely dependent on one single segment or fund. It is also the same reason why I like buying businesses away from ETF money management. We make Concierge stronger by having multiple independent revenue and profit sources. We are slowly getting there, but for today I'm still not happy with the reliance placed on one fund for the lion's share of our operating profits. The upside is that this is still a good business. We've seen these swings in assets-under-management many times, and down times have always been followed eventually by up times.

As chief capital allocator, I try to invest the profits the underlying businesses make in productive ways. There are only a few things I can do with our money:

- Reinvest the money back into the business that made them.
- Take the money from one subsidiary and invest it in another.
- Purchase public stock or bonds.
- Do nothing, save for a rainy day.
- Buy back Concierge shares.
- Pay out a dividend.
- Buy other private firms.

My overwhelming preference is the last item, buy other private firms. Last year, we bought Original Sprout. We look at many factors when presented with a new investing opportunity, one of which is to try and figure out how strong a business is. Increasing sales and good margins give the first hints as to strength but using the Porter Model gives a more in-depth view.

One-way Concierge looks at a business's strength (This part can be skipped if you don't like company analysis)

Michael E. Porter is a renowned teacher and author at Harvard Business School. In 1979, he came out with a way of describing competition affecting a business called Five Forces Analysis, but better known as The Porter Model. It basically looks a firm vs. its suppliers, customers, existing and new competitors, and substitutes. For example, if I am a small corn farmer (a notoriously bad commodity- type business) then my suppliers are seed firms, fuel to run my equipment, rain, and sun. None of which I can control or switch if I don't like. The sun is reliable, but rain is not. Also, only a few large seed firms exist, so I don't have much wiggle room there either. My customer is the local grain operator, which has a natural near-monopoly unless I want to ship my corn, but then costs go up. My competition is fierce since all my neighbors grow corn, too, and have the exact same cost of inputs (the suppliers) as I do. I also have many competitors in the form of substitutes. If the price of corn goes up, people can use wheat or rice instead. In other words, as a small corn farmer, the best I can ever hope to do is make enough money to equal the cost of money (interest rates) over time plus my own labor. This scenario may be acceptable for someone who loves farming, but it is not what we look for in a business.

Ideally, Concierge would like to buy businesses that have many suppliers of our inputs, little competition, no substitutes, and many small customers. In other words, a natural monopoly where we can just sit back, raise prices whenever we want and rake in the profits. Unfortunately, this scenario does not exist, but we got close to it with Original Sprout.

Original Sprout operates in the cosmetics and personal care industry, which is huge and highly fragmented. It is usually divided into five main segments: skincare, haircare, color (make-up), fragrancies and toiletries. Original Sprout operates in the haircare market, whose size is $88 billion globally and $15 billion in the USA. Shampoo is the largest segment of haircare, worth about $4 billion in the USA. While the largest industry participants control over 60% market share, no one product has sales over 5% of the market.

Fitting the Porter Model into Original Sprout we can see that there are many suppliers of our ingredients (good), there are many small customers (good), we have many existing and always new competitors (bad), but Original Sprout was one of the first truly vegan, all-natural, baby products and has a devoted following (very good). About 20% of U.S. consumers buy only “organic” shampoo (good). Right after we closed on Original Sprout, I gave one of our directors of the ETF funds a bottle of hand cream, which he tried on himself and his young daughter, who loved it. When the daughter ran back into the house with the new bottle, the mom was horrified and snatched it away. “Why are you allowing her to play with such an old bottle!?” She yelled at my director. It turned out they had used Original Sprout for years when the daughter was a newborn, and the mom thought the new bottle was somehow one from years ago. So, while we have many competitors, we don’t have many direct ones (kind of good), and we don’t have many well-known substitutes (good). While larger national cosmetic firms may elect to enter the all-natural market at some point, someone working hard in a Silicon Valley garage or in an overseas tech lab will not make an App that can wash your hair.

Of course, increasing sales, good margins and the Porter Model are only a few things we look at when evaluating possible new additions to Concierge. The primary factors are still buying a good business at a fair price, which means being profitable, sustainable, and with established management in place. Original Sprout had all these and more, making it an attractive addition to Concierge. So, goal #4 from last year’s list- “Buy more private firms but don’t aggressively look for them” was accomplished.

Summary

In general, it was a good year. We added a nice new firm to Concierge, and the existing subsidiaries managed their businesses well. The price of oil went up, which meant less assets for some of the funds, but that is a business risk outside our control. The only failing grade within our control was item was “Try and increase shareholder liquidity through a reverse stock split and listing on a major exchange.” Which means this goal gets renewed for this fiscal year and we apply the motto- if at first force does not work, apply more force.

To increase value for our shareholders, the forces we will apply include: continuation of profitable operations, execution of an effective investor awareness campaign, source additional capital to use for acquisitions, target more good firms to acquire at fair prices, and elevate our stock listing to a major exchange. I have not made these into bullet points because they are one goal. Go big or go home.

Also, please go to our annual shareholders' meeting November 9th at Paradise Point near San Diego. Additional details will follow in a formal notice to all shareholders.

As always, feel free to email me directly at ngerber@conciergetechnology.net anytime about anything.

Thank you for being a shareholder of Concierge Technologies Inc.

Nicholas D. Gerber
Chairman of the Board
Chief Executive Officer

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