# THE MICROCAP Update

May 2026

## May Overview

May was a strong month for the markets, and a decent month for us. The Deupree James Microcap SMA gained just over 2%, bringing our year-to-date return to just over 17%. We trailed the Russell Microcap this period, but over the past three years, we'd rank in the top 1% of small cap core managers in the Morningstar small core category.

Last month, markets shrugged off poor consumer sentiment and sticky inflation and cheered strong S&P 500 earnings and rumors of a peace deal. The National Association of Active Investment Managers just reported the highest member equity exposure of the year. That makes contrarians like us a little nervous.

We're watching two macro events that could inject some volatility: a new Fed chair and the midterm elections. We think investors who use that volatility to rotate out of large caps and into small stocks will be rewarded in the long run.

Our strategy gave back some ground in late May after a short report was published on Innventure (INV), our largest holding, and their portfolio company Accelsius. The author raises some interesting points — we won't dismiss them. But we believe Accelsius has technology that's been validated by the people who matter: strategic investors Johnson Controls and Legrand. We bought most of our shares below $4 and have been trimming for the past six weeks as the price ran ahead of the story. If we get the chance to buy those shares back at a discount, we won't complain.

## Top Performers in May

### VELO (+71.38%)

Velo3D is a metal additive manufacturing company serving defense, space, and semiconductor customers. We first entered the position around $5 in November of last year, believing that the new CEO and balance sheet offered an opportunity for a turnaround. We believe VELO is making meaningful progress toward profitability under new leadership. The manufacturing-as-a-service pivot is working, and key customers like SpaceX and Anduril create a halo effect — and potential IPO excitement in that ecosystem is drawing fresh attention to the supply chain. We sized up early, trimmed into strength, and we still hold a core position. The stock is breaking out to new highs and, if they hit profitability milestones in the quarters ahead, this story has more room to run. Our largest concern at the moment is a very large shelf offering, which could limit upside.

### CLFD (+52.76%)

Clearfield makes fiber optic equipment and infrastructure solutions for broadband networks. They surged on the back of insatiable demand as the AI data center buildout accelerated. They're right in the path of the connectivity needs that hyperscale computing creates. This is the same secular tailwind we've been riding in data center cooling and ambient IoT, however we´ve moved on for now as the stock is getting too expensive.

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**ELMD (+46.71%)**
Electromed, Inc. develops and manufactures airway clearance therapy devices, including the SmartVest system used to treat patients with bronchiectasis, neuromuscular diseases, and other chronic lung conditions. It rounded out our top performers with solid gains driven by continued market penetration, physician adoption, reimbursement stability, and strong clinical outcomes. The company’s focus on patient-friendly home-use devices, high gross margins, a direct-to-patient model, and positive cash flow generation is a hallmark of the kind of durable, underfollowed compounders our models love.

# Bottom Performers in May

**IDN (-46.27%)**
Intellicheck provides identity verification and fraud prevention solutions with exclusive access to DMV databases — a key competitive moat. On May 12, the company reported record first-quarter results: revenue up 13% year-over-year to $5.52 million, a swing to net income of $636,000, record Adjusted EBITDA of $935,000, and gross margins of 91%. The stock sold off anyway. The CEO flagged year-over-year declines in ID scanning volumes tied to consumer belt-tightening, and Craig-Hallum downgraded IDN from Buy to Hold on the macro concerns. We think the market overreacted. Their banking business — which dwarfs the consumer side — remains strong. And consumer pressure should ease as oil prices normalize. We had a small position into earnings and we used the selloff to add to our position. Our models still like it here.

**BODI (-26.87%)**
The Beachbody Company is a digital fitness and nutrition platform offering subscription-based workout programs, wellness content, and connected fitness solutions. You probably know Beachbody from P90X. Today it's a very different company. After years of multi-level marketing drag and hardware losses, management executed a disciplined pivot to a direct-to-consumer model built around nutrition supplements and digital subscriptions — and it's working.
On May 12th, BODI reported $54.3 million in revenue, down 25% year-over-year, but that decline is mostly the final unwind of legacy MLM revenue. What matters: they swung to $2.3 million in net income versus a $5.7 million loss a year ago; their third consecutive profitable quarter. The company has dramatically restructured its cost base — breakeven is now around $180 million in annualized revenue versus over $900 million in 2022. They entered the period with $36.6 million in cash against roughly $25 million in debt.
The valuation is hard to ignore. At a market cap of roughly $79 million and an enterprise value around $68 million, you're paying about 0.3x trailing sales. Digital retention is running near 96% month-over-month. Management is expanding into the much larger nutrition market with recent wins at Sprouts, Vitamin Shoppe, and through the Kahi distributor. Revenue will stay lumpy through Q3 as the old model fully laps out — but that's also when we get the first clean year-over-year comparison under the new structure. That's when operating leverage starts to show up in earnings.
The stock remains well ranked in our model. We think the post-earnings selloff was a gift and have significantly increased our position.

**OKUR (-22.59%)**
OnKure Therapeutics is a clinical-stage biopharmaceutical company developing precision oncology therapies. May was a tough month — the company reported a net loss of $15.2 million, or $1.11 per share, and announced they're discontinuing independent development of their lead candidate OKI-219. That's a significant setback. The pipeline may still have long-term merit, but we'd rather put that capital to work in names with clearer near-term catalysts. We exited the position.

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