August 2026

THE MICROCAP Update

August Overview

August brought a welcome rebound after July's decline. The Deupree James Microcap SMA gained 2.79%, net of fees, compared with a 3.04% gain for the Russell Microcap Index. Through the end of August, the strategy gained 11.05% year to date, net of fees, compared with 23.48% for the Russell Microcap Index.

Earnings season showed why the details matter in this part of the market. AVITA Medical raised its revenue outlook and outlined a path to cash flow breakeven. Innventure withdrew near-term financial expectations for Accelsius. Both operate in markets with considerable potential, but their August updates gave investors very different information about the path ahead.

We are also moving closer to the midterm elections. Our historical research shows that the final months before Election Day have often brought more volatility and weaker small-cap returns. August's recovery is encouraging, but patience remains useful as we move into the fall. We will continue to evaluate opportunities based on the businesses, their financing needs, and the prices available.

Top Performers in August

RCEL (+129.55%)

AVITA Medical, Inc. makes wound-care products, including the RECELL system, which uses a small sample of a patient's skin to create Spray-On Skin cells. In March, we described this as a turnaround requiring patience. August brought tangible progress. On August 6, AVITA reported record second-quarter revenue of $21.7 million, up 18% from a year earlier, while operating expenses fell 6%. Gross margin remained high at 81.9%.

Management raised its 2026 revenue outlook to $86-89 million, from $80-85 million, and said it expects to reach cash flow breakeven in the fourth quarter. That remains a forecast, but the combination of better sales and lower spending made the path clearer. Cash, equivalents, and marketable securities were $11.1 million at quarter-end, so execution still matters.

EDRY (+85.08%)

EuroDry, Ltd. owns dry-bulk vessels that move commodities around the world. Its August 6 earnings report showed a sharp improvement in the shipping business. Second-quarter net revenue rose 57% to $17.7 million. Income attributable to controlling shareholders was $6.6 million, compared with a loss of approximately $3.1 million a year earlier. The fleet's daily time-charter-equivalent rate, a measure of vessel earnings, increased to $20,398 from $10,428.

You might think that shipping stocks would be hurt by the Iran war and the interruptions in the Strait of Hormuz, but ships have been forced to re-route, increasing their distance and reducing the capacity of ships as they spent more time at sea. Stronger freight rates can produce substantial earnings growth when much of the operating cost base is already in place. That sensitivity also works in the other direction, which makes valuation and position sizing important. We trimmed the position on August 31.

MATV (+43.77%)

Mativ Holdings, Inc. makes specialty materials used in filtration, adhesives, and other applications. On August 5, the company reported second-quarter sales of $531.8 million, up just 1.2%, but adjusted EBITDA increased 12% to $75.0 million. Operating cash flow rose 18% to $67.9 million, and the company returned to a GAAP profit.

The improvement came largely from stronger margins and cost discipline rather than rapid sales growth. With nearly $1 billion of debt, cash generation remains important to the investment case. We sold the position on August 14.

Advisory services offered through NewEdge Advisors, LLC, a registered investment adviser.

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Bottom Performers in August

INV (-59.94%)

Innventure, Inc. builds businesses around commercializing new technologies. We have previously highlighted its interest in Accelsius, which develops two-phase liquid cooling for data centers. August brought a significant setback to the near-term financial outlook. On August 13, Innventure suspended Accelsius's previously communicated 2026 revenue and cash flow targets.

Management cited constraints affecting smaller early customers, including access to power and GPUs and the timing of data-center deployments. The company shifted its emphasis toward technical and commercial milestones needed for larger-scale adoption. Those constraints made the timing of revenue much less certain. The potential market for cooling remains substantial, but getting customers into operation and funding the business through that process are material risks.

BODI (-36.81%)

Beachbody Company, Inc., now marketed as BODi, sells digital fitness programs and nutrition products. We have discussed its cost restructuring earlier this year. The August 10 results showed continued progress on expenses, with a fourth consecutive quarter of net income. Revenue was $49.6 million, compared with $63.9 million a year earlier, while net income improved to $1.4 million from a $5.9 million loss.

The challenge remains stabilizing sales as the business changes its distribution model. Digital subscriptions were down 19% year over year, and management projected third-quarter revenue of $44-48 million with results ranging from a $3 million net loss to breakeven, before certain unpredictable adjustments. We sold the entire position on August 21.

ELMD(-31.33%)

Electromed, Inc. makes the SmartVest airway-clearance system for patients with chronic lung conditions. Its August share-price decline came despite continued improvement in the reported business. On August 25, the company announced record fiscal fourth-quarter revenue of $19.4 million, up 11.6%, and record operating income of $3.8 million, up 25.8%.

For the full fiscal year, revenue reached $73.8 million, and net income increased to $11.3 million from $7.5 million. The company also ended the year with $20.5 million in cash. Those results provide a stronger operating picture than the monthly stock return suggests, although a good business still needs to be purchased at a sensible valuation.

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