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December 18, 2020

Dear Fellow Collectors Universe Shareholders:

Pembroke Management Ltd. ("Pembroke", "our", or "we") is an institutional shareholder of Collectors Universe ("Collectors", "CLCT", or the "Company"), with ownership of over 312,000 shares representing an approximate 3.5% equity interest in the Company. We believe the recently announced $75.25 per share tender offer, a mere 3.7% premium to the closing price of Collectors' shares prior to the announcement of the proposed transaction, significantly undervalues the Company. At this price, we have high conviction that shareholders would be better served to see Collectors continue as a public company and proceed with the strategic and operational initiatives that are delivering strong financial results and stock price appreciation. Therefore, we will not be submitting our shares into the tender offer as proposed.

Three key considerations lead us to oppose the proposed transaction:

[1] We believe recently reported financial results, while strong, still markedly understate the future earnings power of the Company.

[2] We believe the Company has the potential for a public market valuation re-rating that is not captured by the offer.

[3] We have reservations about the Board of Directors' decision to recommend approval of the tender offer, as well as the process used to entertain and evaluate the offer.

We will elaborate on each of these points in the addendum which follows this letter.

We acknowledge the collective acumen of the buyer group in the realms of finance, business, sports, and collectibles. In baseball terms, we believe they recognize an opportunity to steal a base against Collectors shareholders, and they have a large lead-off and a good jump on the base path with the support of the Company's Board of Directors. As shareholders with fiduciary duties to our own investors, however, defensive indifference is not an option. We must deliver a hard, accurate, and timely throw from the plate to challenge the steal attempt.

Sincerely,

Stephen Hui
Partner

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Addendum

Point 1: Recently reported financial results understate the future earnings power of the Company.

While the Company's quarterly results for the period ended September 30, 2020 were strong, we feel that they do not fully reflect Collectors' prospects on both a near and long-term basis. Pertinent points are as follows:

- The Company is undergoing a facility expansion that will be operational early in 2021. This buildout, announced on October 5, 2020, doubles the facility's size to 125,625 square feet and will "accommodate the Company's continuing growth and expansion plans". Moreover, the release describes "plans… for the future addition of automation solutions that would enable rapid image recognition and capture to increase the efficiency and volume of authenticating and grading trading cards and coins". We believe this expansion will have a materially positive impact on the company's future revenue growth and profitability.

- The Company has embarked on a hiring campaign to increase trading card grading capacity. Specifically, as detailed in a customer update circulated on November 2, 2020, Collectors' grading staff has grown by 20% in a span of a few months, with recruiting continuing to take place. We believe the increased headcount will directly translate into higher revenues, margins, and market share gains.

- The Company has implemented a series of pricing increases to its trading card grading services. These changes, announced on October 1, 2020, feature price hikes in the Company's PSA value service as well as a temporary suspension of its economy service, which will drive customer submissions to higher-priced service tiers. We believe that these actions will have a materially beneficial impact on revenues and margins.

- The Company's most recent quarterly results were negatively impacted by activist defense costs, board search costs, and COVID-19 disruptions. The one-time governance expenses totaled $2.235MM, or $0.19 per diluted share on an after-tax basis. Adjusting for these costs, earnings per diluted share for the quarter ended September 30, 2020 were $0.84, representing annualized earnings power of $3.36 per diluted share. Additionally, the Company referenced operating inefficiencies due to the implementation of COVID-19 safety measures, and headwinds from the cancellation of trade shows and Expos in both the coin and card businesses. As the pandemic resolves, we expect these headwinds to similarly abate and boost the company's earnings power.

- Interest in the trading card market is booming. This is evidenced by Collectors' own backlogs and submission levels, but is also anecdotally supported by trading card prices, social media buzz, and commentary from industry players. This recently produced CNBC video, which includes an appearance by a member of the buyer group, Nat Turner, highlights the momentum enjoyed in the trading card industry and the emergence of trading cards as an alternative asset class gaining traction with accredited investors. We feel that while recent Collectors results have been strong, they fail to reflect a future in which trading cards become investment vehicles that can be traded, bought, sold, or fractionally owned online.

- Marketplace players are embracing authentication as standard practice in similar verticals. eBay recently outlined the expansion of its Authenticity Guarantee program to the sneaker category, with the expectation that all collectible sneakers valued at more than $100 will be vetted and verified by third party authenticators. While such a program is not in place for the trading card or coin market, the policy highlights the growing role of third party authenticators in the collectibles e-commerce ecosystem. We believe that players such as Collectors are poised to benefit in a world where buyers and sellers increasingly transact on digital platforms, which will require independent arbiters of authenticity and condition. We do not believe historical financial results encapsulate this growing trend.

- The Company is well positioned to drive adoption of digital marketplace solutions in the trading card and coin collectibles markets. Grading and authentication are key elements of enabling such marketplaces to be trusted by participants and to ultimately build liquidity. Recent board additions were meant to bolster the company's capabilities to potentially expand into this arena. We believe digital marketplace opportunities provide substantial long-term optionality to Collectors' shareholders, and that this optionality is not captured by the tender offer.

Summarizing all points above, **we believe the near-term annual earnings power of Collectors Universe is between $4-5 per share, and we believe that the company is well positioned for dynamic long-term growth from this level.** The tender offer is anchored on historical financial results that do not reflect the emerging earnings and growth profile of the business.

Point 2: The Company has the potential for a public market valuation re-rating that is not captured by the offer.

The proposed transaction values Collectors at 21.6x annualized latest quarter earnings per share of $3.36, adjusting for activist defense/board search costs and for $2.64/share of net cash on the balance sheet. We believe that by remaining as a publicly traded company, Collectors would attain a higher P/E multiple than the one implied by the tender offer. The rationale behind our thinking is as follows:

- Comparable business models traded in the public market garner premium valuations.
    - Moody's, a financial markets research provider best known for its credit rating services, trades at 27.7x calendar 2020 EPS estimates. The value-add provided by Moody's rating services to debt issuers and investors is analogous to the value-add provided to card and coin collectors by CLCT, and the brand strength of both organizations is unassailable. The two companies also share similarities in that they are both high return on capital, strong free cash generating businesses. From a growth perspective, Collectors has a significantly more dynamic profile given its much smaller revenue base and the relative maturity of Moody's businesses.

- Sotheby's, an auction house specializing in fine art and luxury objects, was taken private in 2019 at 22.2x estimated EPS for the year. Sotheby's importance in the art and luxury object ecosystem is analogous to PSA's and PCGS' role in the trading card and coin markets respectively. Unlike Collectors, however, Sotheby's was struggling to generate revenue growth as a public company and was ceding market share to competitors such as Christie's. We believe that Collectors' superior growth, profitability, balance sheet strength, and competitive position argues for a meaningful premium to the 22.2x implied P/E multiple that succeeded in taking Sotheby's private.

• Private company valuations in comparable businesses are notable. StockX, a digital marketplace for the resale of sneakers, apparel, electronics, accessories, and collectibles, recently raised $275 million at a post-money valuation of $2.8 billion. A key facet of the StockX operation is authentication; after recent expansions, StockX now has 9 authentication centers in operation worldwide. While StockX's financials are not publicly available, based on disclosures in press releases we estimate that it is processing an annualized run rate of over $3 billion in gross merchandise value. Assuming a 12% commission level implies a $360MM annualized revenue run rate, and a post-money price-to-sales multiple of 7.8x. This compares to Collectors' EV/Sales multiple of 5.3x on annualized latest quarter results. StockX's CEO has publicly spoken about plans for an eventual IPO; such an event would highlight to investors the gap in valuation between the two companies.

• The Company has only recently initiated efforts to bolster its capital markets profile, and is still early in the process of being discovered by investors. As part of its settlement agreement with Alta Fox Capital, the Company agreed to make efforts to obtain research coverage by at least one sell-side analyst by March 2021 and to attend two small-cap investor conferences in calendar 2021. Moreover, the company retained Shelton Group to bolster its investor relations efforts in September 2020. We believe that these initiatives, in tandem with the Company's attractive fundamentals and financial results, would be highly conducive to an expansion of the company's trading multiples.

• The Company is well positioned as a scarce, "pure play" on the collectibles industry. As public equity market investors become increasingly aware of the burgeoning growth of the collectibles market, they will seek to invest in companies with exposure to the theme. Collectors has scarcity value as perhaps the only way to attain this thematic exposure in a direct and meaningful manner. In our experience, scarce, "pure play" stocks have a tendency to garner premium valuations in the marketplace.

In summary, **we believe that Collectors shares could see its P/E multiple expand to the 25-30x range if it is allowed to remain a public company.** Put simply, the growth profile and high quality of the business justify a premium valuation, and both public and private market comps are supportive of this dynamic.

Point 3: We have reservations with both the Board's decision to recommend acceptance of the tender offer and the process through which the offer was evaluated.

• The 30% premium to the 60-day VWAP of $57.88 referenced in the press release announcing the transaction is a totally irrelevant measure. The Company announced its Q1-2021 results on November 2, 2020 after market close. Collectors shares then moved materially higher in the 18 trading days following the earnings release and prior to the announcement of the tender offer. Investors, including Pembroke, bought shares of the Company at prices significantly higher than $57.88 based on the new fundamental information that was gleaned from Q1-2021 results. Clearly, the 60-day VWAP figure is meaningless given that it includes 42 days of stock prices in which the evident and material acceleration in Collectors' business was not yet known to investors.

The adequacy of the takeout premium should have been evaluated based on share prices from trading days following the Q1-2021 release. The Company's use of the 60-day VWAP measure leaves us skeptical as to whether the adequacy of the premium was assessed by the board in an appropriate manner.

• The reference to a 7.7% premium to the Company's closing price on "the last full trading day before the public announcements of the execution of the merger agreement" is disingenuous. This reference was made in the Tender Offer Statement filing, and simply ignores the half day of trading that took place on November 27, 2020, following the Thanksgiving holiday but preceding the announcement of the offer. The last trade that occurred before the acquisition was announced was at $72.55 per share, so the premium offered to this close price was 3.7%, not 7.7%.

• We do not believe that the sale process was conducted in a competitive, marketed manner. As shareholders, we would have benefited from a more thorough price discovery process, particularly given the dynamic period during which the negotiations took place.

• It is unclear if Board recommendation of the deal was unanimous. In press releases and regulatory filings pertaining to the proposed transaction, no references are made as to the unanimity of the Board's decision to approve the deal. In our experience, language regarding the unanimity of board decisions is boilerplate in public company filings, and the absence of such language can be indicative of dissent. Dissenting opinions from within the board regarding the tender offer would give us serious pause as to the merits of the transaction for existing shareholders.

Conclusion:

We estimate that Collectors' near-term earnings power is in the range of $4-5/share, and we believe that as a public company, a P/E multiple of 25-30x is attainable. These assumptions yield target prices ranging from $100-150 per share. Moreover, we feel that Collectors has ample opportunity to drive significant organic growth over the medium-to-long term, given the burgeoning interest in collectibles markets and the Company's enviable position within them.

We believe that the tender offer of $75.25/share fails to reflect the quality of the Collectors business and the attractive growth opportunities ahead. As such, we strongly disagree with the Board of Directors' endorsement of the transaction, and we will not tender our shares into the offer.

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