Capital Executive LLC

Portfolio Management
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Global Perspective

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Leadership

What is leadership? For the DHI Group, Inc. (DHX), the CEO should possess the ability to accurately…

- Define the target market
- Assess the "needs" of the target market
- Develop a viable strategy to sustainably penetrate the target market.
- Simplify the strategy - for better understanding.
- Teach the organization to understand the strategy, execute the strategy – and derive the significant benefits from the strategy.
- Unify the organization to pull in one direction – executing the mission of the organization.
- Create significant value for each stakeholder, especially the shareholder – representing the ownership of the organization.

Please examine the following table, which illustrates the managerial ability of the CEO leadership at DHX:

Performance Comparison CEO Leadership			
9/30/2013 - 10/22/2017	DHI Group, Inc. (DHX)		Peer Group
	Mkt Cap	**Share Price**	**Industry**
Beginning Value	$ 502.46	$ 8.51	9,459.19
Current Value	$ 110.90	$ 2.20	22,661.06
Rate of Return	(78%)	(74%)	**140%**

Since 09/30/2013, the CEO leadership of DHX has destroyed **78%** of the Mkt Cap and **74%** of the Share Price – whereas the Industry (S&P 1500 Composite – Internet Software and Services) appreciated in value by **140%** during the same period. Why?

With a performance deviation of this magnitude, it's either the strategy or the execution of the strategy. And failure for either reason remains the primary responsibility of CEO leadership. As a result, the shareholder (ownership) faces a Corporate Governance crisis at DHX. Should the DHX shareholder accept the divestiture strategy as well as the "tech first" strategy?

The CEO has either been the CFO or the CEO at DHX since 2000. During this period, the CEO has tried desperately to develop a viable strategy to sustainably penetrate the market. However, if the CEO leadership hasn't figured out a viable strategy in 17 years, what makes this latest iteration the Holy Grail for DHX?

Examine the competitive landscape. Indeed is owned by Recruit Holdings Co., Ltd., which has a Mkt Cap of $40B. LinkedIn is owned by Microsoft (MSFT), which has a Mkt Cap of $608B. Google has a Mkt Cap of $691B, whereas DHX has a Mkt Cap of $111m. Who really has the "resources" to serve the target market?

The CEO leadership built DHX on a flawed investment thesis. Acquisition after acquisition never yielded the growth sold by the CEO to the Capital Markets. All the Goodwill – all the intangibles – given away – impaired – beautifully illustrates the flawed investment thesis.

The acquisition, growth strategy of the CEO leadership should have produced meaningful synergies within DHX. Instead, the CEO leadership failed to integrate the acquisitions. And by leaving the acquired organizations to self-surviving agendas, the CEO essentially created an identity crisis within DHX.

The following table effortlessly illustrates the argument:

Performance - CEO Leadership			
DHI Group, Inc. (DHX)	12/31/2013	LTM	% Change
Sales (Revenue)	$ 213,482	$ 215,601	1.0%
Cost of Sales	$ 23,429	$ 30,577	30.5%
Selling & Marketing	$ 68,799	$ 77,953	13.3%
General & Administrative	$ 36,129	$ 42,288	17.0%
	Acquisitions	Impairment	% of Total
Over the Last Five Years	$ (116,404)	$ 79,068	67.9%

The strategy of the CEO leadership increased annual sales by 1%. But the corollary, the CEO leadership spent more than $116 million on acquisitions over the last five years. And making matters worse, the CEO leadership has already impaired $79 million over the last five years, representing 68% of the acquisition value.

The Cost of Sales increased by 31% because the CEO failed to integrate the acquisitions, assimilate the systems and unify the employees. In other words, the CEO failed to create meaningful synergies within DHX. As a result, the CEO built a conflicted organization, because the acquisitions were essentially left to their own self-surviving agenda. And most self-serving agendas are detrimental to the long-term viability of any organization. In fact, this type of organizational culture destroys the incentive to create shareholder value. How? Because creating shareholder value often requires a procedural change that runs counter to vested, self-serving agendas within the organization.

Selling & Marketing expense increased by 13% because the CEO didn't integrate the selling function from the acquisitions and create a productive message / service for the market to consume. Basically, the market position remains misdirected because too much emphasis is placed on the employer (enterprise) and not enough on the job seeker (consumer).

On a positive note, however, many internet software / service organizations fail to recognize the relationship between the consumer and the enterprise. Specifically, how this relationship can maximize shareholder value. And this disconnect in the market presents a unique opportunity to redefine the relationship for DHX – and maximize the shareholder value of DHX.

General & Administrative expense increased by 17% because (without unification and integration) it's harder to manage separate organizations with self-surviving agendas. In addition, NOT basing executive compensation on creating value for the shareholder destroys the incentive to produce, perform and perfect.

For the last 17 years, the CEO leadership tried to buy growth with an acquisition strategy. But the CEO failed to integrate the operations and create real synergy between the organizations. Now, the CEO wants to buy growth with the next, great user-interface. The strategy will never produce the business development the CEO sold to the Capital Markets, because the strategy doesn't correctly address the "**life blood**" of the organization.

As a result, the CEO strategy fails to define a sustainable position in the market – and the operative word for DHX is sustainable, given the competitive landscape.

Truly considering the history of the CEO leadership at DHX, how can you *honestly*, *ethically* sell the argument to the DHX ownership? "The strategy of the CEO leadership will maximize the long-term, shareholder value of DHX."

Granted, there remains solid, intrinsic value within the DHX organization. The mission of the organization remains altruistic and provides guidance to the organization. But the writing is on the wall. If the CEO doesn't nail the divestiture strategy and the "tech first" strategy, DHX will cease as a going concern.

If ownership really wants to maximize the long-term, shareholder value of DHX, then ownership must change the CEO leadership at DHX.

For 17 years, the CEO leadership tried to create value for the shareholder by chasing the glitzy acquisition or the pretty interface. But the strategy of the CEO leadership destroyed **78%** of the market capitalization of DHX – and destroyed the DHX shareholder value when its closest peer group appreciated in value by **140%**.

Any way you slice it, the magnitude of this performance deviation indicates a significant malfunction in not only the strategy but its execution! The ownership of DHX must change the CEO leadership at DHX.

Under §240.14a-8 of the Securities Exchange Act of 1934 – Shareholder Proposal, I plan to exercise my legal right as a long-term shareholder of DHX.

The Capital Markets – eventually – demand accountability. The *Efficient Market* Theorem!

Accordingly, I present my opening argument to the Corporate Governance, Shareholders (Ownership) and Credit facility of DHX.

Sincerely,
Ken Copley
Capital Executive LLC