April 2023

Dear Partners and Friends,

In the first quarter of 2023, Maran Partners Fund returned +5.2%, net of all fees and expenses.[1] Over the past five years, the partnership compounded at a rate of approximately 12% per year, net.

I would have expected more market fireworks in a quarter that contained the failure or rescue of several large banks. But the market absorbed these events with barely a hiccup.

Of course, regulators acted swiftly to stem contagion and inject additional liquidity into the market, which has obviously helped calm investors. Too much calm, though, may equal complacency. Despite headlines about failing banks (and the impending debt ceiling breach), the CBOE Volatility Index (VIX) is essentially at post-Covid lows, which implies a lack of fear by market participants.

I remain wary of macro risks while staying focused on the fundamentals of our portfolio companies and new potential investments. As always, my hunt for value in inefficient corners of the market continues. I always remind myself: There are amazing opportunities out there all of the time—10-baggers, companies whose earnings power will grow multi-fold over several years, the next Monster Beverage, the next LVMH. My job, regardless of the macro backdrop, is to continue to search, to be as prepared as possible to form unique insights and variant perceptions, and to be ready to act with conviction when I do. Real insight is rare and requires a combination of knowledge and creativity.

When I was in engineering school, my peers were always walking around saying things like, "We engineers aren't creative; the creative students are over in the art or poetry or music composition departments." It drove me crazy. Sure, engineers are typically highly analytical, but what are engineers if not problem solvers, designers, and inventors? Each of these requires a creative leap – a step from zero to one.

The same is true in investing. Data is not information, and information is not insight. Insight comes from the marriage of information or knowledge, on the one hand, and an element of creativity on the other (physicist David Deutsch defines creativity in the scientific domain as the creation of new explanations). And insights—whether about business quality, leadership, competitive advantage, valuation, growth, or some other factor—allow for conviction and ultimately are one of the key ingredients in our quest for generating superior returns.

I remain excited about our core positions, and I have continued to allocate time to searching for special situations and other asymmetric set-ups with catalysts (which have frequently been the source of both new core positions as well as shorter-term trades). While continuing to concentrate our portfolio in my top ideas, we have run with a conservative net exposure profile so far this year. Given our small size, I can continue to be nimble and act with conviction when I believe it is warranted.

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[1] Individual partner returns may vary based on share class and timing of investment, among other factors. Please refer to individual account statements for more detail. Please see page 4 for important disclaimers, and our investor presentation for complete monthly results since inception.

**Portfolio Update**

At the end of the first quarter, our top five positions were API Group (APG), Cadre Holdings (CDRE), Correios de Portugal (Euronext Lisbon: CTT), Vistry Group (LSE: VTY), and an undisclosed position.[2] We continue to hold our position in Clarus Corp, but it was just outside of the top five at quarter's end.

I have provided updated thoughts on our top positions in recent letters; let's examine a few smaller positions to which we have added recently.

**Delek US Holdings (DK) – Special Situation**

Delek is a holding company that owns four refineries, about 250 gas stations, and 34.3 million shares of publicly traded Delek Logistics Partners, LP (NYSE: DKL), its captive master limited partnership, which owns a series of oil pipelines and infrastructure assets.

Delek has 67 million shares outstanding and recently traded at $21.50 per share, putting its market cap at just over $1.4 billion. I estimate it has around $300 million in net debt (thought the balance sheet is opaque because DK consolidates DKL's financials), so its enterprise value is $1.75 billion. What are investors getting for $1.75 billion? Well, for starters, DK's position in DKL, which recently traded at $48/sh, is worth $1.65 billion. So, the adjusted enterprise value (or "stub value" in special situation parlance), taking into account net debt as well Delek's DKL position, is approximately $100 million.

The gas stations are likely worth $300-$400 million, based on recent comparable transactions. And I think the refineries could be worth another $1.5 to 2 billion or more ($22- 30/sh), triangulating from a number of valuation approaches. All in, DK appears to be a fifty-cent dollar, with essentially all of its market cap covered by its ownership position in DKL, little debt at the parent company, and significant free cash flow.

We have all seen "sum of the parts" stories trade at large discounts to intrinsic value for long periods of time. Importantly, there is a catalyst to unlock the value in this case, and it doesn't rely on activists or other outside factors. The company has made it clear through its actions and messaging that it is focused on unlocking this sum-of-the-parts value on its own.

Consider some of the recent messaging by the company:

- "Evaluating opportunities across Delek US business segments to unlock value for shareholders" – April 2023 investor presentation
- "CEO transition completed - Shareholder friendly actions taken immediately…Near term focus on centered around unlocking 'Sum of the Parts' disconnect" – December 2022 investor presentation

While working to unlock this value (likely through a transaction to take their ownership of DKL below 50% so they can cease to consolidate it and an outright sale of the gas station portfolio), the company is utilizing a further lever to increase shareholder value, which is to repurchase shares with cash flow.

There are some risks and red flags, including recent management turnover, fears about capital allocation outside of the SOTP-unlocking strategy (the company has indicated it might purchase another refinery to bulk up the core once they divest some of the ancillary parts), and lower-than-hoped-for share repurchase

[2] Listed alphabetically.

guidance for 2023. I believe we are being well-compensated for these risks in the form of DK's current valuation.

My friend Andrew Walker of Rangely Capital recently wrote up Delek, and he closed his write-up with the following, which I think is a clever and illuminating way to put this situation into context.

> *At DKL's current dividend level, DK is getting [just over] $2/share annually in dividends from their DKL shares. That's.... just kind of crazy? Again, DK has almost no net debt at this point and is gushing cash flow, and at current prices we're buying them at a low double digit multiple to their dividends from DKL. Obviously "price to dividends from your controlled subsidiary" is not a valuation metric, but it is pretty crazy!*

**Ranger Energy Services (RNGR)**

I have previously described Ranger as a company that provides proverbial "picks and shovels" to the energy industry. It is an onshore domestic oil services company that helps E&Ps service their wells, once drilled. While energy is a volatile, commodity-driven business, Ranger is a small, well-run, now unlevered company that should stay pretty busy as long as oil stays above, say, $50-60/barrel, which is a reasonable long-term assumption. Last year, Ranger generated $100 million of EBITDA on $700 million of sales, and it should do better this year. The business requires some capex, so the free cash flow of the business is around $70 million. Ranger has paid down its debt from over $75 million a year ago to almost zero today.

Ranger's market cap is $300 million, so the business is trading at 3x EBITDA and just over 4x Free Cash Flow. Now that its balance sheet is clean, it will start to buy back shares. At the current pace of FCF generation, it could buy back approximately 2% of its shares every month. With a low float and high insider ownership, it may not take much for the stock to re-rate.

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**Conclusion**

Despite the uncertain macro backdrop (n.b., it's always uncertain), I am excited by researching a number of attractive investment ideas. The bar for inclusion in our portfolio is high, as it always is, and we have made several new additions to the portfolio. Many of our core positions as well as our special situation investments have catalysts, which I expect will increase their likelihood of generating solid returns regardless of the path of the market.

I continue to have the majority of my family's investment funds invested alongside yours in the partnership. I appreciate you—our great group of limited partners—who have trusted me with your precious capital. Your alignment allows me to invest in the manner that I believe will maximize our long-term returns.

I look forward to updating you again in the summer. In the meantime, don't hesitate to reach out if you have any questions or if you would like to catch up about the portfolio.

Thanks,

Dan Roller

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In 1Q 2023, the return of the S&P 500 was 7.0%, and the return of the Russell 2000 was 2.7%. The S&P 500 and Russell 2000 are indices of US equities. They are included for information purposes only and are not representative of the type of investments made by the fund. The fund's investments differ materially from these indices. The fund is concentrated in a small number of positions while the indices are diversified. The fund return data provided is unaudited and subject to revision.

None of the information contained herein has been filed with the U.S. Securities and Exchange Commission, any securities administrator under any state securities laws, or any other U.S. or non-U.S. governmental or self-regulatory authority. No governmental authority has passed on the merits of this offering or the adequacy of the information contained herein. Any representation to the contrary is unlawful.

July 2023

Dear Partners and Friends,

In the second quarter of 2023, Maran Partners Fund returned +0.9%, net of all fees and expenses; year to date, the fund returned +6.1%, net.[1] Over the past five years, the partnership compounded at a rate of approximately 12% per year, net (compared to approximately 4% for the Russell 2000).

Inflation has waned, and investors have begun looking to the end of this Federal Reserve rate-hike cycle. While it is unclear how long the fed funds rate may stay near current levels, the consensus expectation is that it won't move materially higher. This has caused animal spirits, at least in narrow pockets of the market, to reemerge. A handful of darling tech stocks and perceived "Artificial Intelligence" beneficiaries skyrocketed in the first half while most of the market treaded water.

Almost the entirety of the S&P 500's move in the first half was driven by eight stocks (and yes, they are the usual suspects: Facebook, Apple, Amazon, Netflix, Google, Microsoft, Tesla, and Nvidia). In other words, as some have joked, the "S&P 492" was approximately flat in the first half.

Should I have seen this coming and repositioned the fund into this FAANGMTN basket to capture its great first-half move? It would have been nice, but it is an unreasonable expectation. Attempting to make predictions about short-term stock price movements is not the foundation of a sound investment strategy.

As a reminder, to have results that are different (in other words: better) than those of the market, our portfolio must look different than the market. Our approach is to focus on a concentrated portfolio of companies we have researched deeply, which are typically smaller, off the beaten path, and generally less expensive than the market as a whole. We are seeking asymmetric risk-reward profiles with large margins of safety and catalysts—typically via special situations—where we can get them.

While there are times when our approach has been and will continue to be out of sync with the market, our idiosyncratic strategy has served us well over the long term. Since inception, our fund's alpha relative to the Russell 2000 is almost 7% annualized, and it is almost 3% annualized relative to the S&P 500.[2]

I have re-underwritten our portfolio, and I believe it is poised to deliver attractive results. We own many companies whose stock prices have not kept up with improving fundamentals, and for which I think it is only a matter of time before they catch up. I think we have a portfolio that fits my general underwriting target of being *three-year doubles* or better.

**Peak on Peak and Trough on Trough**

It should come as no surprise to you that momentum is a pervasive feature of the stock market. Frequently, investors linearly extrapolate recent trends or corporate performance. When things are good, they assume things will remain good or keep getting better. And when things are bad, they assume things

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[2] Annualized alpha since inception vs. Russell 2000: 6.71%; vs. S&P 500: 2.76%.

will remain bad or keep getting worse. This can lead to investors paying high multiples for companies when profits are abnormally high, and low multiples when profits are depressed.

At the extremes, investors have been known to pay peak multiples on what may be peak earnings, and conversely, trough multiples on trough earnings.

I have cautioned against simplistic first-order thinking in past letters (i.e., this is a good company so it must be a good stock *at any valuation*); the corollary applies with respect to valuations: low multiples alone don't necessarily mean something is a good investment. At times, I have bought stocks that appeared to be trading at infinity times earnings, because the cycle was terrible, and the companies weren't making any money. And then I have sold stocks at six- or eight-times earnings because it was the absolute peak of the cycle and things would never be that good again.

If simplistic valuation metrics aren't a reliable guide, where are we to turn? Of course, the answer is nuanced. Deep research and taking a multifaceted approach to valuation is critical. A few examples of additional valuation approaches, among many, that we may turn to are normalized earnings, asset value, replacement cost analysis, and private market value.

Is the market offering a world-class, brand-new semiconductor fabrication plant (that happens to not be profitable yet because it is just ramping up production) for half of what it cost to build? That's worth a look. What about a company trading at half of what private buyers would line up to pay tomorrow, but for which margins have been squeezed due to a temporary rise in input costs? Sure, let's dig in. Or a cyclically depressed company that is trading at a bargain on what the normalized earnings power of the business should be a few years out? Yes, let's investigate.

While these are hypothetical examples, they are indicative of some of the setups I try to seek out. I am generally looking for situations where things may not screen well, but when viewed through a different lens, opportunities are revealed that others have missed.

While maybe not completely "trough on trough," I believe investors are assuming challenges persist, and applying depressed valuation multiples as a result, in several of our core positions.

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**Portfolio Update**

At the end of the first quarter, our top five positions were API Group (APG), Cadre Holdings (CDRE), Clarus Corp (CLAR), Correios de Portugal (Euronext Lisbon: CTT), and Vistry Group (LSE: VTY).[3]

**APi Group (APG)**

APG has quietly quadrupled since our first purchase in April 2020, and doubled since we added to the position in September 2022, when we brought it into our top five positions. It has executed exceptionally well, demonstrating the quality of its business through Covid and since. Obviously, my mistake has been to have this position sized too small over our holding period.

[3] Listed alphabetically.

That said, I believe it can double again over the next few years. By 2026, with EBITDA at over $1 billion, a 15x multiple would take the enterprise value north of $15 billion and the market cap to around $13 billion, or about $55 per share.

**Cadre Holdings (CDRE)**

Cadre Holdings, which we purchased just under two years ago at its IPO, has continued to execute well. The business' "mission critical products with recurring demand characteristics" set the backdrop for the company to maintain a favorable price/cost spread; margins have expanded and should continue to do so. Cadre rhymes a bit with APG in that I think it can quietly generate exceptional returns as it steadily grows, expands margins, and executes accretive acquisitions.

**Clarus (CLAR)**

Clarus is an example of a situation in which I believe the market is incorrectly extrapolating recent challenging results far into the future. While perhaps not exactly trading at "trough on trough," the current approximate 7x EBITDA multiple on depressed earnings (in at least two of its three segments) puts it close. Black Diamond Equipment, Clarus' largest segment, may only generate $10-15 million of EBITDA this year, as the US wholesale market is soft (REI and its peers entered the year with too much inventory), but I believe its normalized earnings power is in the 10-16% EBITDA margin range on $250 million of normalized sales, or $25-40 million of normalized EBITDA.

I believe Clarus remains a highly asymmetric stock. Downside is perhaps around $7/sh, while upside could be to well over $20/sh over the next few years. I think you really have to make punitive assumptions to get to the current stock price, while reasonable assumptions about the value of the business yields upside of 50-100%+. Private market value, which I believe is a solid benchmark for valuation, is probably twice where the stock is trading.

I think Clarus' bullet business is worth $200-300 million. Rhino Rack and the overlanding businesses could be worth over $200 million. And Black Diamond is probably worth somewhere in the range of $250-$500 million. This gets us $600 million on the low end and $1 billion on the upper end, or $13 to $24 per share.

**Correios De Portugal, S.A. (Euronext Lisbon: CTT)**

I wrote the following about CTT six months ago:

> CTT is our Portuguese conglomerate that owns the monopoly postal business in the country, a pan-Iberian parcels business, a growing, profitable bank, and a large portfolio of excess real estate. CTT started to monetize its non-core assets and repurchase stock with excess cash last year. During the fourth quarter, CTT announced that it sold a 10% stake in its bank at a valuation of €285mm, or 1.1x book. Many investors had feared that the bank might only be worth one half of book value or less, so this transaction went a long way towards removing those fears. CTT continues on its path towards real estate monetization via both a yield vehicle and a development vehicle (which together have book value of €135mm and market value well north of that, in my opinion).
>
> As I have discussed in recent letters, I think CTT's bank and excess real estate value more than cover its recent market capitalization (€450mm at year-end), while its core postal/parcels business more than covers it as well. As value is growing in each division, I believe this still sets up as a potential "three-year double."

> Yes, CTT is far off the beaten path, and I occasionally get questions about whether investors will ever start "to care" and give the business a more appropriate valuation. In other words, they ask, "isn't this a value trap?" While many sum-of-the-parts stories in smaller markets may be, I gain comfort in the aligned management team who have clearly demonstrated that they are doing the right things to unlock and grow value. Absent the plans to monetize the bank, monetize the real estate, buy back shares, cut costs, renegotiate the company's government postal contract to allow for inflation passthroughs and volume decline offsets, and commit to a long-term plan predicated on double digit EBIT growth, this could be a value trap. But given all of those catalysts in place, I'm not worried about this stock being ignored for too long.
>
> Yet while it continues to be ignored, the company will likely continue to utilize capital allocation as a tool to increase value per share. After repurchasing 5% of the shares outstanding last year, the company will likely continue to repurchase shares this year, as its balance sheet is clean.

CTT has made additional progress on many fronts this year. In May, it announced solid 1Q results well ahead of expectations and raised its full-year guidance. 1Q EBITDA was €40 million, and full-year guidance, which appears conservative, implies EBITDA of €140 million. Again, this EBITDA compares to a roughly €500 million market cap, and enterprise value, adjusting for the bank and real estate, of close to zero. Also in May, CTT formalized its real estate monetization plan, entering into a series of agreements to sell assets. It started by announcing a €40 million-plus asset sale at valuations in line with my estimates for the portfolio (€200 million).

In June, CTT announced the resumption of its share buyback program. CTT has been buying back approximately 10% of the daily trading volume in its stock, every day, since then. The company has also seen recent insider buying.

And just this week, it announced another solid earnings report in which it announced that first half EBITDA came in at €80 million and first half free cash flow was approximately €50 million. Yes, this company is trading at around a 10% free cash flow yield on just <u>first half</u> results! And that is despite having almost all of its market cap covered by its real estate and bank holdings.

CTT is making progress executing on its operating and capital allocation plans, yet the market seems to be snoozing. Ongoing buybacks, the closing of the first real estate transaction, and continued operating improvements are all potential catalysts for the stock in the second half of the year.

**Vistry Group PLC (LSE: VTY)**

The entire UK homebuilder sector has been very out of favor, as stubbornly high inflation readings gave rise to fears of continued high interest rates and suppressed homebuyer activity. Despite evidence that inflation had subsided in most of the world, investors were once again linearly extrapolating the recent past in the UK through June. Since mid-year, inflation readings in the UK have declined, and homebuilders, Vistry included, have started to rebound.

Vistry has had industry-best performance, showing growth where most competitors have seen significant declines. Its partnerships business is the key driver of this, which remains a relatively hidden gem of a business. I believe the stock price is certainly not giving it credit for the business' quality (asset light, long growth runway, recession resistant).

The company recently added Jeff Ubben, of Inclusive Capital, an activist investment firm, to its board, as well as Paul Whetsell, who was previously on the board of US homebuilder NVR. NVR is notable for its tremendous long-term stock price return as well as its savvy capital allocation (capital light growth and meaningful share buybacks).

Vistry should see 20%-plus annual profit growth over the next few years; its trading multiple could expand (and still be very cheap); and its share count could shrink meaningfully as it applies excess free cash flow to share buybacks. This could set up for a multifold increase in the stock price over our investment horizon.

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**Conclusion**

We're off to a solid start in the third quarter, and I look forward to writing to you again in the fall. Thank you for your continued trust. I have the majority of my family's investment capital invested in the fund alongside yours. I continue to believe our contrarian and idiosyncratic approach will serve us well over the long term.

As always, please don't hesitate to reach out if you have any questions or if you would like to discuss the fund in more detail.

Thanks,

Dan Roller

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October 2023

Dear Partners and Friends,

In the third quarter of 2023, Maran Partners Fund returned +3.4%, net of all fees and expenses, bringing the fund's year-to-date return to +9.7%, net.[1]

As a portfolio manager, I'm always supposed to like our portfolio. I get to shape it, so I should always be able to look at it and say, "This is the best I can do right now; it is as optimal as I can get it." Of course, conditions are constantly changing, and sometimes the opportunity set is better than at other times. We have been cautiously positioned with a decent-sized cash buffer for most of the last year or so. But given recent market declines—and yes, against the backdrop of inflation, war, risk of impending recession—I believe the opportunity set has improved further. Existing positions I know well have gotten cheaper (indeed—extremely cheap) even while their fundamentals have improved, and I have found a few new positions at valuations that seem too good to be true.

These opportunities have not materialized in a vacuum. The Russell 2000 small-cap index has declined over 17% since the end of July. Some stocks have fallen significantly more. There has been much written recently about how cheap small-cap value is and its abysmal recent relative performance compared to larger-cap stocks.

Some of this commentary is compelling, but I'm also reticent to put too much weight on index-level analyses. There is lots of garbage in small-cap land, and we don't own anything like an index worth of stocks. What I can opine on is the value and opportunity I see in our dozen or so core holdings and special situations.

I frequently underwrite for three-year doubles, and right now I think our entire portfolio meets this bar, or indeed a higher one. I think some of our stocks could triple or even increase four to five times in the next few years. Of course, as always, I don't have a view as to what the market or our stocks might do in the near future. But looking out over a multiyear time horizon, I am as excited about our portfolio as I have been in quite some time.

Many of our core holdings continue to share a number of characteristics that I believe help tilt the odds in our favor:

- Aligned management teams / high inside ownership
- Actively buying back shares
- Strong balance sheets
- Secular tailwinds driving growth
- Catalysts / Value-unlocking transactions
- Low valuations on a variety of metrics, including large discounts to private market values

[1] Individual partner returns may vary based on share class and timing of investment, among other factors. Please refer to individual account statements for more detail. Please see page 8 for important disclaimers, and our investor presentation for complete monthly results since inception.

**Framing Investments: How's the View? What's Implied?**

I have touched on each of these frameworks before in past letters, but there are two mental models that I tend to use frequently in my analysis: *Inside view vs. outside view* and *the price asks the question*.

The first, *inside view vs. outside view* traces its roots to Thomas Bayes and his famous theorem, with further advancement by Kahneman and Tversky (who came up with the inside view and outside view terminology), and others. And *the price asks the question* is simply a reframing of the age-old mental model of reverse engineering as applied to valuation in investing.

I was recently having dinner with a friend of mine, and he told me that he thought he had just gotten over a bout of Dengue Fever. His symptoms were fever and a bad headache that lasted a few days. While I was sympathetic to his ailments, I'm not sure my first guess for their cause would have been Dengue. He had not traveled outside of the US, and Colorado sees perhaps 10-20 Dengue cases annually. With headache and fever as the primary symptoms, Dengue is far from one of the most likely diagnoses.

His inside view took him from a list of symptoms to a specific potential self-diagnosis. The outside view would have asked, if 10,000 people in Colorado had these same symptoms, how many of them would have Dengue? This framing quickly highlights the low likelihood of that malady and the much higher odds that it was something else. As the saying goes, "when you hear hoofbeats, think horses, not zebras." In other words, don't neglect to think about the base rate.

When you ask a CEO what his company's margins will be in two or three years, he might tell you about the exciting growth plan the company has in place coupled with the cost savings measures it plans to take and come up with a nice forecast for future profitability. This is an example of utilizing the inside view to come up with a forecast. The contrasting outside view might be that the average company in this industry has margins of half of his forecasted level or that the company's prior margins over the last decade or two averaged half of the forecasted level.

Michael Mauboussin summarizes these contrasting approaches to forecasting in his book *Think Twice*:

> An inside view considers a problem by focusing on the specific task and by using information that is close at hand, and makes predictions based on that narrow and unique set of inputs. These inputs may include anecdotal evidence and fallacious perceptions. This is the approach that most people use in building models of the future and is indeed common for all forms of planning…
>
> The outside view asks if there are similar situations that can provide a statistical basis for making a decision. Rather than seeing a problem as unique, the outside view wants to know if others have faced comparable problems and, if so, what happened. [2]

The applications to investing span sectors (the base rates for certain types of drug trials, gold prospecting, and electric vehicle battery companies aren't great), asset classes (SPACs), acquisitive companies (base rates on acquisitions are poor as a class, as Mauboussin points out) and general forecasting of company margins, growth rates, market penetration, and more.

[2] Think Twice p. 3-4

The outside view helps us improve our forecasts by utilizing base rates. Reverse engineering, or t*he price asks the question*, helps us understand what expectations are embedded in a stock price, alleviating the need for explicit forecasts altogether.

I discussed this mental model a few years ago in my 3Q 2020 letter, where I summarized the concept as follows:

> "As an alternative to attempting to value a company in the traditional manner utilizing a variety of inputs and forecasts, analysts can and should invert the process, and ask what expectations are embedded in a stock at its current price."

In that letter, I compared the embedded expectations in a stock trading at eight times cash flow vs. one trading at "35x sales, 360x EBITDA, and 420x earnings." The market's *embedded expectations* of the former were dramatically lower than that of the latter.[3] By reverse engineering what assumptions the market holds to justify a given valuation, it can help shed light on how realistic those assumptions may be.

As I wrote at the time, "I prefer the prices of our stocks to ask easy questions, perhaps those even a kindergartener could answer." We have numerous stocks where the prices are asking very easy questions right now.

Of course, these frameworks and models are just tools in our toolkit and provide additional perspectives through which to evaluate companies and investments. Sometimes "this time really is different" and the outside view could lead us astray. But used as a part of a comprehensive analysis, they can frequently be enlightening.

***

**Portfolio Update**

In addition to several new investments, we continue to own the same core handful of positions we have discussed in recent letters, although their weights have shifted based on relative risk-reward levels.

**Clarus (CLAR)**

Clarus received an offer of $160 million for its bullet and ammunition segment from Clarus' chairman, Warren Kanders. A situation like this obviously requires a thoughtful approach to managing the conflict of interest, but this transaction would lift the ESG overhang that accompanies businesses of this type and would bring Clarus to a net-cash position, highlighting the extremely cheap valuation of the remaining segments.

[3] Unfortunately, the former stock, which I believed had low embedded expectation (Whole Earth Brands – ticker FREE), still managed to perform poorly given a risky and ill-advised acquisition spree. Whole Earth's management team should have taken the outside view on the success of M&A transactions. As I wrote in that letter: "As I see it, the biggest risk to FREE is that it rushes to do an outsized acquisition before the market has recognized the company's potential." FREE was still a profitable trade for us as we exited our position after the company levered up; the biggest risk I foresaw came to pass.

Clarus' market cap is $210 million, and the company should have net debt of around $105 million at year-end, before contemplating the aforementioned transaction. Post-transaction, the company would have net cash of approximately $55 million (~25% of the market cap) and an enterprise value of $155 million.

**The Outside View**

Investors and analysts frequently extrapolate recent results, whether they be positive or negative. Just as our hypothetical CEO in the example above was too optimistic about his results given his inside view, the market can frequently get too negative about a company by utilizing an inside view approach. I believe that may be the case with Clarus today. This myopic approach seems to be leading the market to say that the consumer is weak and Clarus' recent margins have compressed, and therefore that its margins will be low forever.

What are normalized margins for Clarus' remaining businesses? The outside view would have us look at a large number of companies in similar industries and examine their average margins over time.

Through this lens, I think that it is not unreasonable to assume that Black Diamond can generate double digit EBITDA margins at midcycle profitability. While the company targets 15-20% margins long term (a level that may be informed by too much inside view optimism), in looking at a number of comparable companies, both private and public, we think 10% normalized margins are a reasonable statistical bet. Clarus' brand, category leadership, and product lines, which includes many products that "save your life" (I don't think anyone wants to save ten bucks by buying an off-brand climbing harness), give further weight to the fact that it should be able to earn this fairly pedestrian midcycle margin.

If in the next few years Black Diamond can generate this double-digit EBITDA margin on ~$225-250 million of sales, that segment would produce around $25 million of EBITDA. Similarly, Rhino Rack could potentially generate $18-20 million of segment EBITDA, as it approaches a 20% margin on ~$100 million of sales.

Less cash corporate expenses, Clarus would generate ~$40 million of EBITDA in this scenario. This implies the stock is trading for less than 4x normalized EBITDA (and under 0.5x sales). This seems far too low.

As with margins, so too with valuation. Rather than using an inside view to come up with a valuation, we can also turn to the outside view—in this case, over a decade's worth of comparable transactions in the outdoor industry.

Since 2010, the average comparable transaction in the outdoor industry occurred at greater than 2x revenue. At this rate, Black Diamond Equipment would fetch more than $450 million and Rhino Rack, around $200 million. Together, along with the ~$55 million of net cash that the pro forma company should have, we're looking at greater than $700 million of value. If Clarus' remaining brands are just worth the industry average transaction valuation, it would be valued at $19/sh (more than three times the current stock price).

If Clarus' brands are worth the **lowest** revenue multiple paid in the table below, CLAR would be valued at $14/sh (more than twice the current stock price).

**Comparable Transactions**

| Brand | Category | Acquirer | Revenue | Valuation | Revenue Multiple | Year |
|---|---|---|---|---|---|---|
| Gregory Packs | Packs | Clarus | 27 | 45 | 1.7x | 2010 |
| Gregory Packs | Packs | Samsonite | 35 | 85 | 2.4x | 2013 |
| PrAna | Apparel | Columbia Sportswear | 100 | 190 | 1.9x | 2014 |
| POC | Helmets | Dainese | 34 | 65 | 1.9x | 2015 |
| CamelBak | Packs/Hydration | Vista Outdoor | 159 | 413 | 2.6x | 2015 |
| Hydroflask | Hydration | Helen of Troy | 68 | 210 | 3.1x | 2016 |
| 5.11 Tactical | Apparel | CODI | 293 | 400 | 1.4x | 2016 |
| Helly Hansen | Apparel | Canadian Tire | 460 | 1,035 | 2.3x | 2018 |
| Peak Performance | Apparel | Amer Sports | 145 | 255 | 1.8x | 2018 |
| Altra | Footwear | VF Corp | 50 | 135 | 2.7x | 2018 |
| Osprey Packs | Packs | Helen of Troy | 158 | 414 | 2.6x | 2021 |
| Igloo | Coolers | Dometic | 401 | 800 | 2.0x | 2021 |
| Rhino-Rack | Overlanding | Clarus | 90 | 206 | 2.3x | 2021 |
| Simms Fishing | Fishing | Vista Outdoor | 110 | 193 | 1.8x | 2022 |
| Fox Racing | Cycling/Motorsports | Vista Outdoor | 350 | 565 | 1.6x | 2022 |
| **Average** | | | | | **2.1x** | |

## The Price Asks the Question

What is implied by Clarus at a ~$155mm pro forma enterprise value?

There are many ways of answering this question. Using the average revenue multiple from the table above, Clarus' current valuation implies that its sales (again, pro forma for the contemplated sale of the bullet and ammo segment) would be just $74mm (rather than the $300mm+ that they are). We can also look at what the overall valuation implies regarding the valuation of the segments. Here are a few possibilities:

| | Embedded |
|---|---|
| Black Diamond | 155 |
| Rhino Rack | 0 |
| EV | 155 |
| Net Debt (Cash) | -55 |
| Equity Fair Value | 210 |
| **per share** | **5.61** |

or

| | Embedded |
|---|---|
| Black Diamond | 0 |
| Rhino Rack | 155 |
| EV | 155 |
| Net Debt (Cash) | -55 |
| Equity Fair Value | 210 |
| **per share** | **5.61** |

or

| | Embedded |
|---|---|
| Black Diamond | 78 |
| Rhino Rack | 78 |
| EV | 155 |
| Net Debt (Cash) | -55 |
| Equity Fair Value | 210 |
| **per share** | **5.61** |

I'll be blunt. Each of these seems absurd. Any of them highlight the deeply discounted valuation. Take the first box, for example. Buy Black Diamond for well less than 1x revenue and get Rhino Rack and Max Trax (recent purchase price: >$200 million) for free.

We don't use price targets here at Maran. I think they can be too rigid and can lead investors to fail to update their beliefs as often as they should. Instead, I tend to think about probability clouds with respect to intrinsic valuations. There are many possible future sets of growth rates, margin profiles, economic backdrops, and investor sentiment profiles that we could live through over the next few years. It is not a good use of time to specifically guess which path will unfold. But the key is that the starting point positions us so that the vast majority of these paths yield substantial upside.

We already saw that applying the average historical comparable valuation to Clarus' recent results can yield a triple in the stock price. If Clarus grows Black Diamond revenue to $300 million and Rhino Rack revenue to $150 million over the next three-to-five years, upside is into the high $20s or low $30s.

And while no one wants to think about real upside scenarios during a time like this, let's not forget that Clarus' medium-term targets for Black Diamond and Rhino Rack are revenues of $400 million and $200-$300 million, respectively; if they achieve these targets, we could see valuations in the $40s and beyond. Any of these outcomes would be fantastic, but the key is that none of them are close to priced into the current stock price.

Clarus has a history of opportunistic share repurchases, including buying back 10% of the company below $6/sh in 2015-2016 and tendering for stock at $8 in 2018. If Clarus enters 2024 with 25% of its market cap in cash and a stock price anywhere close to where it is now, I wouldn't be surprised to see it utilize this tool again.

Finally, recall we still have a few hidden lottery tickets in this investment. Clarus' lawsuit against HAP Trading continues; a legal victory or settlement could prove meaningful relative to Clarus' current valuation.

**Vistry Group (LSE: VTY)**

Vistry reported its first half results and provided a strategy update during the quarter. Vistry announced that it will transform itself into a pure-play partnerships business, which is what the activist investors involved with the company were fighting for. Notably, approximately £1.3bn will be freed up and utilized to eliminate debt and for buybacks and dividends. The company is targeting £450mm of adjusted operating profit in 2023 with growth to £800mm in the medium term.

Remember, the market capitalization of Vistry is just £2.4bn and the enterprise value is approximately £2.7bn. If Vistry can buy back one quarter of its shares while doubling operating profit and eliminating its debt over the next three to five years, I think very good things will happen to the stock price. If Vistry trades at an £8bn market cap (10x operating profit of £800mm, a multiple that we hope will prove conservative given the quality of the business; comparable transactions have occurred at 11-13x operating profit) and reduces its share count to 260mm shares, the share price would be 3100p, over four times the price at which the stock currently trades.

**Correios De Portugal, S.A. (Euronext Lisbon: CTT)**

CTT was victorious in its arbitration proceedings against the Portuguese government and was awarded approximately €25mm, or 6% of CTT's market cap. This is a meaningful windfall, especially in light of CTT's ongoing share buyback, which it continues to execute daily. Given my belief that the company's enterprise value, after considering the value of its bank and excess real estate, is close to zero, share buybacks are extremely accretive. This windfall will only increase the amount of capital CTT can apply toward buying back its shares.

**Beyond the Top 5**

We recently invested in a few additional new positions, including a special situation that we think will have a catalyst in the next six months that could lead to upside of 50-100%. Downside seems limited in the meantime. I expect to share more detail about some of these positions over time.

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**Conclusion**

There has been much attention placed on the fact that the Nasdaq, S&P 500, and Russell 2000 are all in the middle of double-digit drawdowns from intra-year highs, and that the Russell is down by a third from its all-time high. Drawdowns are a normal part of equity investing. 10% drawdowns occur in approximately two thirds of all years. 25% drawdowns occur in almost one out of every four years.

We are set up to weather these storms and to take advantage of this normal, expected volatility. I touch on it in most letters, but I truly believe our structure (the vast majority of partners have made three- or five-year commitments) and our limited partners (aligned, patient, with strong understanding of the strategy) are crucial to our ability to outperform.

This means we can be on offense right now while other funds are selling in the face of fear or due to redemptions.

Thank you for your continued trust. Please don't hesitate to reach out if you have any questions or if you would like to discuss the fund further.

Thanks,

Dan Roller

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In 3Q 2023, the return of the S&P 500 was -3.6%, and the return of the Russell 2000 was -5.1%. The S&P 500 and Russell 2000 are indices of US equities. They are included for information purposes only and are not representative of the type of investments made by the fund. The fund's investments differ materially from these indices. The fund is concentrated in a small number of positions while the indices are diversified. The fund return data provided is unaudited and subject to revision.

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January 2024

Dear Partners and Friends,

In the fourth quarter, Maran Partners Fund returned +13.4%, net of all fees and expenses, bringing the fund's full-year 2023 return to +24.4%, net.[1] 2023 was a solid year for the partnership, but as I frequently like to remind you—following both good short-term results and bad—our concentrated approach means that we should expect volatility in our results. I remain focused on the long term and not on our results in any given month, quarter, or year.

Over the past five years, the partnership compounded at a rate of approximately 16% per year, net (slightly better than a five-year double). Since inception, we have generated +7.5% of annualized alpha vs. the Russell 2000, and we have outperformed it cumulatively by 45 percentage points over the last five years and by 38 percentage points over the last three years.

As I have written before, we typically try to underwrite for three-year doubles (26% compounded returns), realizing that this is a very high bar. If we miss this aggressive target but still achieve 20%+ gross returns, and therefore mid-to-high teens net returns (which represents five-year doubles), I'll be happy. As a reminder, thirty years of five-year doubles (six doublings) turns $1 million into $64 million. Tack on just three more years at that rate and we're at $100 million. I'm pleased we have generated these kinds of results over the last five (and eight) years[2] despite the seemingly persistent headwind that small cap stocks and value stocks have faced. Should any of these headwinds turn into tailwinds in coming years, I believe we are well positioned to benefit further.

Our strategy is to invest in smaller cap stocks, off the beaten path companies, and special situations because we believe these are frequently less efficient corners of the market where we can find an edge. We are looking for mispricing—*value*—with some kind of event or catalyst that will rectify the mispricing. These catalysts come in the form of a variety of special situations, event-driven situations, or in companies otherwise undergoing various types of change. We prefer asymmetric set-ups where we see the potential for multi-fold returns on the upside and limited risk of permanent capital loss on the downside.

Our concentrated approach, in which large positions can comprise a mid-teens percentage of capital, allows us to reap the rewards of being correct (when we are correct), while also hopefully not jeopardizing the long-term performance of the partnership when we inevitably get some wrong. We accept volatility in our quest for superior long-term performance and have a patient and disciplined mindset. Good research—a practice that was drilled into me when I worked for both a "Tiger Cub" fund and a firm that was seeded by Steve Cohen (founder of SAC/Point72)—remains a bedrock of our investment process; simply put, I try to know our companies better than anyone else.

Our portfolio is full of companies with wide moats, strong balance sheets, low valuations, large share buybacks, high inside ownership, and numerous upcoming catalysts. Core holdings are complemented by a handful of special situations that I expect will resolve relatively quickly at high rates of return.

[1] Net returns based on the fund's highest fee share class. Individual partner returns may vary based on share class and timing of investment, among other factors. Please refer to individual account statements for more detail. Please see page 6 for important disclaimers, and our investor presentation for complete monthly results since inception.
[2] There have also been periods where our returns have been lower than this; as always, past performance is not indicative of future results.

Last quarter I wrote:

> What I can opine on is the value and opportunity I see in our dozen or so core holdings and special situations….I frequently underwrite for three-year doubles, and right now I think our entire portfolio meets this bar, or indeed a higher one. I think some of our stocks could triple or even increase four to five times in the next few years…Looking out over a multiyear time horizon, I am as excited about our portfolio as I have been in quite some time.

This still holds true.

**Value Investor Insight**

Maran Capital was recently profiled in Value Investor Insight, a highly respected industry publication that was launched almost 20 years ago and is read by tens of thousands of investors. It was an honor to be asked to participate in a "Feature Interview" in the year-end 2023 edition. I discussed elements of our process and philosophy as well as the value that I see in our portfolio—not only in core positions Clarus, CTT, and Vistry, but also in our smaller holdings. Here is a link to the complete interview:

Value Investor Insight

Through a Different Lens: Dan Roller of Maran Capital Management

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**Portfolio Update**

As of year-end, our top five positions were API Group (APG), Clarus Corp (CLAR), Correios de Portugal (Euronext Lisbon: CTT), Scott's Liquid Gold-Inc. (SLGD), and Vistry Group (LSE: VTY).[3] I discussed many of these companies in the aforementioned interview, so I have kept additional comments below brief.

**Clarus (CLAR)**

Following the offer that Clarus received from its chairman to purchase its Precision Sport segment for $160 million, Clarus ran a formal sales process, which resulted in an even better price. In late December, it entered into a definitive agreement to sell the segment for $175 million of gross cash proceeds to an unrelated financial buyer.

As a reminder, Clarus purchased the components of this segment for $110 million (~$80 million for Sierra in the summer of 2017 and ~$30 million for Barnes in late 2020). These businesses then generated approximately that entire purchase price in cash flow since, and Clarus is now selling the brands for $175 million. This was clearly a successful investment, with an IRR that we estimate was greater than 20% over six to seven years.

[3] Listed alphabetically.

After the transaction closes, which it is expected to do this quarter, Clarus will have a completely de-risked balance sheet with net cash of perhaps $1.35-1.50 per share (on a sub-$6 stock).

I still believe the market is embedding low valuations on Clarus's remaining businesses. The pro forma enterprise value of Clarus is approximately $170 million, and I think that its two primary brands, Black Diamond Equipment and Rhino Rack, are each worth more than that on their own. There are paths in which Clarus could double or triple in the next three to five years, and I believe there is an excellent margin of safety (especially with the de-risked balance sheet) at recent prices.

A number of catalysts remain:

- Clarus has a history of opportunistic share repurchases. Once the Precision Sport sale closes, I would not be surprised to see the company take advantage of the current stock price by repurchasing shares.
- Clarus continues to pursue claims against HAP Trading. I don't think the market is currently ascribing any value to this, but if the effort is successful, Clarus could recover tens of millions of dollars (perhaps over $1/sh).
- Clarus has discussed hosting an analyst day this year in which it is expected to introduce the new operating leadership team and update the market on its multiyear plan. I believe that as investors start to look out beyond the next quarter or two, they will see significantly more opportunity.

**Correios De Portugal, S.A. (Euronext Lisbon: CTT)**

Our Portuguese conglomerate. I believe the real estate is worth €200+ million and is actively being monetized (the first €32 million of proceeds have been received); the bank is worth €250+ million; and the core business is worth €500+ million (and growing) on €60+ million of forward operating profit (with a path to €100+ million in the next few years). All in, fair value is at least twice the current €500 million market cap, and the company keeps unlocking value and buying back shares every day (recently, it has increased its pace of buybacks to one million shares per month, on a base of approximately 140 million shares).

**Scott's Liquid Gold-Inc. (OTC: SLGD; "Scott's")**

As you may recall, I joined the board of Scott's in early 2021 and became its chairman in May of that year. Since then, Scott's has sold the majority of its brands (eight out of ten), taking the company's balance sheet from levered to one with a net cash position.

Last month, Scott's announced it was embarking on a new strategic direction and entered into a definitive merger agreement with Horizon Kinetics LLC, a privately owned investment management company led by Murray Stahl. Once the merger closes, the pro forma combined company is expected to have hundreds of millions of net tangible assets on its own balance sheet and an asset management business with approximately $6-$7 billion of assets under management (AUM). We are thrilled to be partnering with Murray Stahl and the Horizon Kinetics team on this transaction.

For more information on this transaction, please see the press release and form 8-K filed in late December.

**Vistry Group PLC (LSE: VTY)**

Our U.K. housebuilding partnerships business. Over the next few years, operating profit ("EBIT") should double from ~£400+ million to £800+ million, and the multiple could double from ~5-6x EBIT to 10-12x EBIT (on a pro forma enterprise value basis). That's how we could get a 4x or greater return in the share price from here. The company is actively monetizing its legacy homebuilding assets and has been buying back shares every day.

**Special Situations**

We have a few special situations in the portfolio right now, including a delisting and an uplisting.

The delisting:

- Some investors were forced to sell ahead of the delisting because they can't or don't want to own OTC stocks.
- We believe the company has the intention of unlocking the significant hidden value on its balance sheet in the coming years.

The uplisting:

- A security that we believe is likely to uplist to a national exchange this year, which could increase investor awareness, liquidity, and the valuation.

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**Operational Matters**

As usual, we expect to have K-1s prepared and distributed by the end of March and the partnership's annual audit to be completed shortly thereafter.

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**Conclusion**

Music producer Rick Rubin[4] has talked about the idea that "the audience comes last." In his domain, he urges musicians to write first and foremost for themselves and not worry about how the audience will react to the work. Steve Jobs had a similar philosophy when it came to design; he eschewed focus groups and market research and instead set out to design the best products he could from the ground up.

"We think the Mac will sell zillions," he once said, "but we didn't build the Mac for anybody else. We built it for ourselves. We were the group of people who were going to judge whether it was great or not. We weren't going to go out and do market research. We just wanted to build the best thing we could build."[5]

[4] According to Wikipedia, Rubin has produced for bands as diverse as the Beastie Boys, Run-DMC, LL Cool J, Metallica, Red Hot Chili Peppers, the Strokes, Weezer, Aerosmith, and Johnny Cash, among many others.
[5] The source of this quote is this article, which also contains a few other great quotes from Jobs, including the fantastic, though possibly apocryphal, "Our task is to read things that are not yet on the page."

A similar philosophy has guided my approach with Maran. Many in the investment industry start with a purely commercial approach, thinking first about what is marketable; about what *product* allocators may be looking for; or what *style box* they will target. Unfortunately, little thought is given to maximizing risk-adjusted returns in many of these approaches.

In contrast, I have focused exclusively on creating a structure that I believe will allow us to have the best odds of generating the best returns over the long term. This has included decisions on choosing our "hunting ground," on creating alignment with our investors, and on our approach to research, portfolio management, fund size, managing (and accepting) volatility, and numerous other factors.

Essentially, I built Maran to manage capital the way I would want my own capital to be managed—after all, the majority of my family's investment capital is invested in our partnership. I expected that over time a like-minded "audience" would find our approach attractive and join us for the ride. Thanks to those of you that have done so, and I welcome anyone else for whom the approach resonates to get in touch.

Sincerely,

Dan Roller

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In 4Q 2023, the return of the S&P 500 was +12.0%, and the return of the Russell 2000 was +14.0%. For the full year 2023, the return of the S&P 500 was 26.6%, and the return of the Russell 2000 was 16.9%. The S&P 500 and Russell 2000 are indices of US equities. They are included for information purposes only and are not representative of the type of investments made by the fund. The fund's investments differ materially from these indices. The fund is concentrated in a small number of positions while the indices are diversified. The fund return data provided is unaudited and subject to revision.

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