MARAN CAPITAL MANAGEMENT

April 2024

Dear Partners and Friends,

In the first quarter, the partnership returned +3.4%, net of all fees and expenses.[1]

In 2018, I wrote, "Headlines highlight risks regarding interest rates, the Fed, China, house prices, auto sales, trade wars, and more. Uncertainty abounds."

In 2022, I wrote, "The world is awash with problems: war, pandemic, inflation, and the knock-on effects of each."

There is always plenty to be worried about, and today is no different. Most of the above risks, fears, and problems are still evident. I don't intend to dismiss these risks; the world confronts many challenging problems.

But what are we supposed to do? Sell our stocks and pull the covers up over our heads?

No.

As a reminder, our job is not to try to guess when the market is going to have a 10% or 20% correction, sell our positions, and then try to buy them back lower. Instead, we acknowledge that volatility is an element of a sensible, long-term investment approach, and attempt to position ourselves so that we can thrive in a variety of economic conditions.

"Position, don't predict."[2]

If you are going to sail around the world, you can't hope to zig and zag around every storm. You will instead take a strong boat, and an experienced crew, and be prepared for anything.

Our approach is unconventional on many fronts, and I believe our portfolio positioning is meaningfully differentiated compared to the market and most funds across a number of vectors. Each of these components contributes to margin of safety, and I believe set us up to generate attractive risk-adjusted returns over the long term, despite the fact that there are, and always will be, risks and uncertainty.

[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] I'm walking well-trod ground in embracing this concept. While the roots of the idea probably date back millennia, recent authors adjacent to our domain who have addressed it are Nassim Taleb in various writings including *Antifragile* ("Invest in preparedness, not prediction"); Shane Parrish ("Prepare don't react. Position don't predict."); and Howard Marks ("You can't predict. You can prepare.").

Positioning: Growth, Leverage, Valuation, Catalysts

- **Growth**

  As a self-proclaimed value investor, some may look askance at my inclusion of growth on this list. Of course, growth is an input to valuing a company, and all else equal (especially the capital intensity of the growth), I prefer to own companies that are growing over those that aren't. I just don't want to pay too much for expected growth.

  In the **Portfolio Update** section that follows, focus on the rates at which some of our companies are growing or should grow. They aren't too shabby.

- **Leverage (or lack thereof)**

  Only a quarter of our capital is invested in levered companies; most of our holdings have meaningful net cash positions. This makes them less fragile and enables them to invest for growth and buy back stock.

  Further, the fund doesn't utilize any margin or leverage; instead, it typically operates with a comfortable net cash position that positions us to take advantage of opportunities when they arise.

- **Valuation**

  As I have said before, one of the best hedges to a market sell-off is owning cheap stocks. Our portfolio companies may not always screen cheap on trailing earnings—as they may be going through various types of change—but I believe our holdings are universally undervalued when utilizing the correct valuation methodologies for the situation. These can include normalized earnings power, private market value, future cash generation, asset value, comparable transaction value, etc.

- **Catalysts**

  While our partnership is structured to be patient while compounding works its magic, we still have many companies that have upcoming catalysts that should help the market appreciate their value. Our portfolio companies typically have good capital allocators at the helm, and indeed many of them are actively buying back stock.

This type of positioning is nothing new. I almost always seek well-financed, solid, growing businesses with asymmetric risk-reward profiles and numerous catalysts. Many of our special situation trades are uncorrelated to the market. I believe this has helped us generate solid results with less risk. Quantitatively, it is reflected in our portfolio data: We have generated our 7.4 percentage points of annual alpha over the Russell 2000 since inception without the use of leverage and with a correlation of just 0.7 and a beta of 0.6.

***

"Good fortune often happens when opportunity meets with preparation."[3]

While we must be positioned to thrive in a variety of macroeconomic and market environments, we also must be constantly preparing to find the next great investment idea.

This preparation can take many forms. It typically looks like the intense research and study of businesses, but it can also appear less structured: talking to lots of companies and businesspeople; reading broadly (from trade rags to nonfiction; psychology to philosophy to science to biography; tweets to Reddit threads to blog posts to research papers; EDGAR to PACER); following my nose; going down rabbit holes; learning different industries and business models; touring facilities; and following companies for long periods of time waiting for the stars to align on fundamentals, and valuation, and risk, and reward.

I'm excited about the latest meaningful addition to our portfolio. It is a company that I know well—having followed it for almost a decade—that finally became compelling again. I've been adding to it almost every day of late; it will likely become a top-five position shortly. It has a strong moat, a low valuation (double-digit free cash flow yield), and a solid growth outlook (the core business growing mid-to-high single digits and an emerging business is growing much faster). It is highly cash generative and has reduced its share count over time. If we could buy the whole company today at its current valuation, I believe the company could return our entire purchase price in free cash flow by 2030. We'd then get to own the business outright "for free" for the subsequent decades.

The outcome space seems very asymmetrically skewed to the upside. I think this company can hit our bar of being a three-year double or better, and I believe downside is limited by the quality of the business, its cash generation profile, and its low valuation. This business also has a "hidden lottery ticket" in that it has a chance to grow an emerging business line into something worth the company's entire market cap over the next few years.

***

Portfolio Update

Our top five positions were unchanged from year-end: API Group (APG), Clarus Corp (CLAR), Correios de Portugal (Euronext Lisbon: CTT), Scott's Liquid Gold-Inc. (SLGD), and Vistry Group (LSE: VTY).[4] Along with the addition described above, our top six positions account for approximately two-thirds of our capital.

APi Group (APG)

APi grew adjusted EBITDA 16%, net income 20%, and free cash flow 30% last year, deleveraging in the process. APi continues its evolution towards more recurring inspection and service revenue, expanding its

[3] I have seen versions of this quote attributed to both Thomas Edison and Seneca.
[4] Listed alphabetically.

margins in the process. It is positioned for further acquisitive growth this year and beyond as it pursues its “buy and build” strategy.

Clarus (CLAR)

At the end of February, Clarus closed on the sale of its Precision Sport segment for $175 million. This brought the company to a net cash position of over $1 per share. With its stock price hovering around $6, Clarus’ enterprise value is approximately $185 million. At its recent analyst day, the company laid out a path to generating ~$50 million of EBITDA in 2026, more than 100% growth from 2024’s expected level.

Obviously, investors don’t believe this guidance is likely to be attained.

If Clarus hits the 2026 forecast, the stock could perhaps triple. If it doesn’t, I believe we still have a large margin of safety at the current price. After all, Clarus has a fortress balance sheet and a history of realizing value for its brands when warranted (including the sales of POC, Gregory, and recently, Sierra and Barnes). This stock is out of favor to an extreme degree. I believe the set-up is highly asymmetric. Upside is perhaps a double or triple over a few years, while I believe the risk of permanent capital loss is limited.

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

CTT, our “sleepy” Portuguese conglomerate, grew recurring EBIT by 36%, free cash flow by 40%, and its “Express and Parcels” segment revenue by 32% in 2023. Maybe not so sleepy after all.

After beating and raising guidance several times last year, the company guided for further growth in 2024. 2024 EBITDA should exceed €150 million, while 2025 guidance is for €175 million at the midpoint. These figures compare to the current enterprise value of around €600 million, putting valuation at a very cheap sub-4x level. The company continues to monetize non-core assets such as its excess real estate while repurchasing shares daily.

In a few years, this business could generate €200 million of EBITDA and have 125 million shares outstanding. At a highly conservative 6x multiple, that would put the stock at ~€10, more than double the current price. At a more appropriate 8x multiple: €13 per share (almost a triple).

Scott’s Liquid Gold-Inc. (OTC: SLGD)

Scott’s is working on closing its previously announced merger with Horizon Kinetics. I hope to have more to share on this in my next letter.

Vistry Group PLC (LSE: VTY)

Vistry, our UK Partnerships business (dubbed by some the “NVR of Europe”), grew revenue by 30% and completions by 35% in 2023. Vistry continues to guide to a near doubling of adjusted operating profit over the medium term, from last year’s £490 million to greater than £800 million (60%+ cumulative growth) in the next several years. And let’s not forget, the company is in the midst of returning £1bn to shareholders via buybacks and dividends by 2026, which is over 25% of the current enterprise value.

Simply put, Vistry could generate £1.50-2.00 of earnings per share in a few years. Given the quality of the business, should probably trade at 15-20x earnings. There is a reasonable case this stock could triple over the next few years.

Beyond the Top Five | Special Situations

- We exited Delek (DK) as the stock appreciated and the company has taken much longer than expected to announce any kind of concrete value-unlocking strategy.
- The delisting I mentioned last quarter did indeed delist, giving us an opportunity to acquire shares from what I believe were motivated sellers who couldn't or didn't want to own an OTC-listed security. This trade has been nicely profitable thus far, and we continue to hold the position given expected further catalysts.
- The up-listing I mentioned continues to plan to uplist, and its business continues to improve while we wait.
- We established a small position in an off-the-beaten-path, well-run royalty company. It has attractive growth ahead of it. I believe that if this company were to be acquired today, the price would be meaningfully higher than where it currently trades.

***

Conclusion

Buffett and Munger have spoken about this extensively, but the longer I have been doing this—over 20 years at this point, approximately half my life—the more I appreciate the importance of temperament in the domain of investing. If investors' Scylla is outright fear, then their Charybdis is "FOMO"—*fear of missing out*.

If you'll allow me to mix my Homeric metaphors, consider me tied to the mast. I'm aware of risks but am focused on what I can control. Avoiding panic. Avoiding temptation. Exercising patience but, when warranted, acting decisively. Yes, there will be the occasional rough seas along the way, but I believe our principled approach has demonstrated its merit and should continue to do so.

I continue to have the majority of my family's investment capital invested in the partnership alongside yours.

Thank you for your continued trust.

Sincerely,

Dan Roller

Disclaimer

This document is not an offer to sell or a solicitation to buy any interests in any partnership ("Fund") managed by Maran Capital Management, LLC ("MCM"). Any such offering will be made only in accordance with the Fund's Confidential Offering Memorandum (the "Offering Memorandum"). The Fund may not be eligible for sale in some states or countries, nor suitable for all types of investors.

Prior to investing, investors are strongly urged to review carefully the Offering Memorandum and related documents, including the risks described therein associated with investing in the Fund, to ask additional questions and discuss any prospective investment with their own advisers. Additional information, including detailed Fund performance report, will be provided upon request.

The statements of the investment objectives are statements of objectives only. They are not projections of expected performance nor guarantees of anticipated investment results. Actual performance and results may vary substantially from the stated objectives. Performance returns are estimated pending the year-end audit.

An investment in the Fund involves a high degree of risk and is suitable only for sophisticated and accredited investors. Investors should be prepared to suffer losses of their entire investments. The Offering Memorandum contains brief descriptions of certain of the risks associated with investing in the Fund.

Certain information contained in this document constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "intend," "continue" or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance of the Partnership described herein may differ materially from those reflected or contemplated in such forward-looking statements.

This document and information contained herein reflects various assumptions, opinions, and projections of MCM which is subject to change at any time. MCM does not represent that any opinion or projection will be realized.

The analyses, conclusions, and opinions presented in this document are the views of MCM and not those of any third party. The analyses and conclusions of MCM contained in this document are based on publicly available information. MCM recognizes there may be public or non-public information available that could lead others, including the companies discussed herein, to disagree with MCM's analyses, conclusions, and opinions.

Funds managed by MCM may have an investment in the companies discussed in this document. It is possible that MCM may change its opinion regarding the companies at any time for any or no reason. MCM may buy, sell, sell short, cover, change the form of its investment, or completely exit from its investment in the companies at any time for any or no reason. MCM hereby disclaims any duty to provide updates or changes to the analyses contained herein including, without limitation, the manner or type of any MCM investment.

Prices for securities discussed are closing prices as of April 26, 2024 unless otherwise noted and are not representative of the prices paid by the fund for those securities. Positions reflected in this letter do not represent all of the positions held, purchased, and/or sold, and may represent a small percentage of holdings and/or activity.

In 1Q 2024, the return of the S&P 500 was +10.6%, and the return of the Russell 2000 was +5.2%. 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.