1 MAIN CAPITAL

July 2018

Dear Partners,

Since launching on February 1st of this year, 1 Main Capital Partners, L.P.[1] (the "Fund") has returned 6.3%[2] net of fees and expenses through the end of June. Over the same period, the S&P 500 Index (SPX) returned (2.9)%[3]. The Fund was able to outperform the index by 8.7%[4] despite being weighed down by an average cash balance of ~40% of assets. While it is nice to show positive absolute and relative performance during the period, it is important to note that five months is too short a period by which to judge the Fund's success. Instead, my goal is to generate strong long-term performance while minimizing the risk of permanent capital loss; this will hopefully be accomplished over 3, 5 and 10-year periods, and should similarly be judged over such multi-year time frames. Since this is my first letter, my objective is to provide as much color as possible on the Fund's strategy and portfolio, though I expect future letters to be shorter due to low expected turnover.

**Top 5 Winners**

The Fund's year to date performance has been driven by the rapid appreciation of several of my high conviction theses; in a few of these instances, the realization of an appropriate exit price occurred more quickly than initially anticipated. Of the top 5 contributors, only one remains a top 5 position, two have been reduced, one was exited entirely by choice, and one has unfortunately been taken private at what I believe to be a great value for the buyers.

| Top winners | | |
|---|---|---|
| Mastech Digital | 2.6% | Reduced |
| Tandem Diabetes | 1.9% | Exited |
| MCBC Holdings | 1.5% | Reduced |
| CommerceHub | 1.1% | Taken private |
| RCI Hospitality | 1.1% | Core position [5] |

**Mastech Digital (MHH)** is a ~$100 million market cap IT services company that I discovered through one of my frequent insider buying screens. Public filings revealed that the co-founders and controlling shareholders of MHH each purchased $3 million of stock from MHH to help fund the acquisition of InfoTrellis, a data management and analytics company offering project-based consulting services in the areas of Master Data Management (MDM), Data Integration, and Big Data.

The InfoTrellis purchase agreement filed with the SEC showed that a significant portion of the purchase consideration was subject to the business hitting certain profitability targets within two years following

[1] 1 Main Capital Partners, L.P. commenced trading in February 2018.

[2] Performance data is presented for the Fund's Class A Interests, and is net of any accrued incentive allocation, management fees and other applicable expenses (as disclosed in the Fund's Confidential Private Offering Memorandum), include the reinvestment of dividends, interest and capital gains, and assume an investment from inception. Returns for month-end and year to date 2018 are estimated, and un-audited. For investor specific returns, please refer to your capital statements. Due to the format of data available for the time periods indicated, net returns are difficult to calculate precisely. Please see the last page for important disclosure information.

[3] Source: Bloomberg

[4] Outperformance is calculated net of management fees, expenses, and incentive allocations.

[5] Top winner attribution is presented gross of management fees, expenses, and incentive allocations.

the completion of the acquisition. Out of curiosity, I ran the accretion math using those profitability targets as a base case for the earnings power of InfoTrellis. The results were surprising. I had to recheck my math several times to make sure that my calculation of ~100% EPS accretion was accurate. If my assumptions were correct, the acquisition increased the pro forma earnings of MHH to ~$1.50 per share from $0.75 per share, while the stock was trading for less than $10 per share.

When I first spoke to management, they made it clear that they do not give guidance, but confirmed that the earn-out targets were achievable rather than just aspirational. Importantly, the business they acquired had higher margins and a significantly faster growth profile than the core MHH business; InfoTrellis has been growing ~20% annually with operating margins in the mid 20's, while MHH has been growing mid-single digits with mid-single digit operating margins. This seemed too good to be true. How was MHH able to buy a business with these characteristics at this price?

Over the coming months, I performed extensive diligence on MHH and InfoTrellis. I attended the MDM Institute Conference where I met a handful of InfoTrellis employees, customers and competitors. Through these interactions, I confirmed the business's strong reputation and growth prospects. I also learned that there were many potential acquirers who could have been interested in the asset, but that it was sold to MHH for reasons beyond just price. Ultimately, the InfoTrellis founders saw MHH not only as an ideal strategic fit, but also a good steward of the business they had built over many years. Finally, I had multiple in-person meetings and phone calls with MHH management and was able to learn how the core business was performing and how integration of InfoTrellis was progressing.

Given that everything continued to check out, MHH became one of the Fund's largest holdings at ~6% of assets with an average cost of $12 per share, or ~8x my 2018 earnings estimate. My basic thesis was that once the pro forma growth, margin and earnings power of the business became apparent, the stock would trade in-line with other similar IT services businesses and that the stock had a credible path to $20+ per share in the coming year. Since then, the stock has appreciated significantly and currently sells for $17 per share. While I still view MHH to be marginally undervalued relative to peers, and believe it is likely a target for industry consolidation in the coming years, I have reduced the size of the position in the Fund such that it is no longer a top holding.

**Tandem Diabetes (TNDM)** is a $1.3 billion market cap medical device company specializing in insulin pumps for diabetics. I started digging in when I learned of two interesting developments: (1) Dexcom, a large diabetes device peer that designs and sells glucose monitoring systems that work with TNDM's pumps, had participated in the company's most recent equity offering taking a ~5% stake; and (2) Animas, a J&J subsidiary, had recently announced its plans to discontinue its pump products, leaving TNDM and Medtronic as the two remaining scaled durable pump players in the market, along with Insulet's patch pumps as an alternative.

During diligence, it quickly became clear that TNDM was a strong player in an attractive industry and had an exciting set of new and innovative products in its pipeline. Some of the findings that I found compelling included:

(1) Once a patient starts to use a pump, they generally continue using it for life. Of the 3 million diabetics in the US who are candidates for pump therapy, only ~600k are currently using these types of systems, while the rest are still making multiple daily injections (MDI). The conversion of MDI to pumps has been progressing at a pace of about 5-6% of the addressable market per year.

(2) TNDM had recently started selling its own infusion sets, which in addition to its cartridge sales, would allow it to capture an increasingly larger portion of the recurring revenue stream associated with its pump sales.

(3) TNDM was expected to accelerate its share gains both from J&J, due to its exit from the space, and Medtronic, due to pump functionality that TNDM brought to the marketplace that Medtronic had not yet matched.

(4) TNDM was just starting to benefit from its first full replacement cycle, which typically begins approximately 4 years after a pump is sold to a user.

(5) TNDM had just begun credibly pursuing international markets with its products for the first time.

(6) TNDM's management team had aggressively begun posturing that it could achieve significant topline acceleration in 2018, guiding to 30%+ growth in 2018 vs 16% in 2017, while also targeting cash flow breakeven in 2H'19.

(7) TNDM's CEO is taking a salary of just $1 per year until the company reaches profitability.

Given all the positives, I found it interesting that TNDM was being valued by the market at just over 2x its expected 2018 revenue. Public diabetes peers DXCM and PODD were each being valued at nearly 10x sales despite growing at a slower pace. Additionally, the stock was still 97% below its 2014 high despite an apparent growing interest in the company from a large strategic peer and while the risk of further equity dilution was low.

Putting all this together, I was willing to have the Fund underwrite a small ~2% investment in the company at an average cost of $7 per share. My thesis was that although management wouldn't provide profitability targets at maturity, TNDM should be able to earn 25%+ EBITDA margins over time, compared to larger mature peers like MDT who earn >30% margins, and should be valued at 13x EBITDA, in line with MDT's EBITDA multiple. Looking out two years, TNDM was expected to generate ~$200 million of revenues, which at 25% EBITDA margins and a 13x multiple would lead to the company being worth $650 million, or double the Fund's entry valuation. The stock appreciated to my target price quickly as the market woke up to this dislocation. While my target valuation implied a revenue multiple that was still significantly below that of TNDM's closest fast-growing peers, the upside opportunity of the investment became less asymmetric, leading me to exit the Fund's position entirely in the mid-teens. Unfortunately, this decision cost the Fund potential gains, as the stock currently trades for around $28 per share.

**MCBC Holdings (MCFT)** is a $500 million market cap manufacturer of MasterCraft branded waterski and wakeboarding boats. The company, along with peer Malibu Boats, is tied for a leading market share in the performance sports boat (PSB) market with each holding ~22% share. This segment of the market has in recent years experienced strong growth relative to the broader powerboat industry due to the proliferation of tow sports and recreational activities, as well as increased innovation that has led to improved performance, functionality and versatility of these boats compared to other recreational powerboats.

These trends have helped the PSB market take a few points of share from sterndrive almost every year since 2002, and it is likely that this trend will continue into the future. Additionally, unlike other segments of the boating market where there are hundreds of competitors, the PSB market is fairly consolidated with the top four players holding a combined 70% of the market. These four players benefit from a good industry structure with rational pricing, large national dealer networks, the ability to invest R&D into innovation, and most importantly, brand awareness on lakes that makes this market very different from its other boating counterparts.

Interestingly, while the PSB category has taken significant share from the sterndrive category over the last 15 years and has shown solid volume growth since the last recession, overall annual industry unit sales of ~10 million remain well below historical peaks which averaged 12 million from 2002-2007 with a high of 13 million in 2006.

In addition to recent mid-single digit unit growth, MCFT has realized average price increases of 3% per year since 2013 which, together with operating leverage, has allowed the company to expand gross margins from 19% in 2013 to 28% last year. Also, unlike many manufacturers, PSB players have minimal capex, minimal inventory and negative working capital, which allows them to throw off a lot of cash even while growing topline at attractive rates.

In October of last year, MCFT acquired NauticStar for ~$80 million, or 8x EBITDA, using cash on hand and a new credit facility. Through the NauticStar brand, MCFT gained a presence in the salt water fishing and general recreation segments of the boating market. In the two years prior to being acquired, NauticStar experienced average unit sales growth in the double digits, while production capacity was unable to keep pace with demand. Upon closing, MCFT management was confident that they could increase NauticStar production by 15-20% in the near term without any additional capital investment, and could target an additional 25-30% over the medium term.

The acquisition was $0.15-0.20 accretive to EPS for the 9 months remaining in its fiscal year end, or ~15-20% accretive on an annual basis relative to the company's FY17 EPS of $1.30. In addition to the accretion from this deal, US tax reform took the company's tax rate down from 36% last year to an expected 24% which also stood to materially boost EPS.

I expected that these two significant developments, along with continued organic growth in the company's core PSB segment, stood to drive 50% EPS growth in fiscal 2018, implying run-rate EPS well in excess of $2. At the same time, consensus estimates remained stale when I launched the Fund in February of this year, which was likely the reason the stock was only up ~10% from its October levels. Even more exciting was that I had the benefit of seeing multiple industry and dealer surveys published by research firms that confirmed consumer demand remained strong. A brief meeting with a competitor's management team at an industry conference further supported a bullish outlook for the industry.

With this strong fundamental backdrop and a cheap valuation of <10x forward EPS, I was able to build a ~3.5% position for the Fund in MCFT in the low $20's. I significantly reduced the position in the high $20's after consensus estimates caught up to my estimates and the stock appreciated ~50%.

**CommerceHub (CHUBK)** was taken private in May of this year by two private equity firms for $1.1 billion. While typically I would be pleased if one of the Fund's largest positions were to be taken out by private equity for a ~30% premium, the circumstances here were a bit less than exciting.

CommerceHub is a software company that provides a SaaS dropship solution to its retail clients to help those clients manage and expand third-party marketplaces on their websites. For retailers, having a successful dropship program is an important tool that helps them grow their product selection without having to make significant investments in inventory and warehousing, keep their customers away from Amazon and accelerate their e-commerce sales. The company is essentially the only credible option for large retailers who don't have the desire or expertise to develop their own reliable and scalable in-house dropship platform. As a result, CHUBK has been able to win many of the country's largest retailers as clients including Walmart, Best Buy, The Home Depot, Costco and many more. In return for providing its solution, CHUBK charges fees that in total amount to less than 1% of the incremental sales it helps its customers generate.

The company spun out of Liberty Ventures in July of 2016 and was still misunderstood by the marketplace when the Fund initiated its ~6% position in the company at an average cost of ~$19 per share. I believe the primary reasons for this misunderstanding were: (1) the fact that there were no real public comps, (2) unlike typical fast-growing SaaS companies, CHUBK is extremely profitable and (3) CHUBK was perceived to be tied to the fortunes of retailers that were struggling to compete with Amazon.

In reality, CHUBK is the solution to its clients' Amazon-related woes, which is the reason it is well positioned to continue growing revenue at double-digit rates for many years to come as it wins new retail clients, as existing clients add more products to their websites, and as consumers continue to shift more of their purchases from in-store to online. Better yet, given the significant operating leverage in the business, it is clear that their stellar 40% EBITDA margins will continue to expand and should result in earnings growth that significantly outpaces revenue growth.

Yet, this secularly fast growing, recurring revenue business with high and expanding margins, protected by high customer switching costs and a value proposition significantly above the 0.7% take rate CHUBK takes on the sales it helps generate was being made available by the market for ~13x and ~20x my 2019 estimate of EBITDA and earnings – a valuation I view as very attractive for a long-term compounder.

Unfortunately, CHUBK announced a rare customer loss on its Q4 call. This loss, which represented less than 5% of the company's revenue, combined with exacerbated market volatility, caused the stock to decline 15%. About a week later, the company announced that it had reached an agreement to be taken private at a 30% premium. Interestingly enough, the customer that CHUBK lost was a large office supply retailer that happens to be owned by one of the private equity funds that participated in the CommereHub buyout. Even with the loss, I am confident that CHUBK's value proposition remains intact and wouldn't be surprised to learn that the lost customer will revert to using a CHUBK solution. Needless to say, I think the private equity buyers got a great deal on their purchase.

**RCI Hospitality (RICK)** is a $300 million market cap holding company that owns 45 gentlemen's clubs operating under various names, and a fast-growing sports bar & restaurant concept called Bombshells that currently has 6 locations. At $30 per share, the stock is currently valued at an undemanding 13x 2018 FCF. More importantly, the company has shown an impressive ability to reinvest the FCF that it generates at very attractive rates of return over time. Specifically, management targets 25-33% cash-on-cash returns when acquiring or opening new units in either of its segments. Over the next 3-5 years, management thinks that it can grow its FCF to $30 million with minimal to no increase in its share count. At 15x FCF, the stock could be worth $45 by 2020, ~50% higher than current levels. Given that RICK is still a core holding of the Fund, I will spend some more time discussing the company later in the letter.

**Detractors**

While the Fund's top 5 winners each generated more than 1% of performance[6] for the Fund, we were fortunate to only have a single fundamental position that lost us 1%[7] or more. EchoStar, a core holding that cost the Fund (1.1)%[8] will be discussed later in the letter. This loss was only bested by the Fund's S&P 500 Index hedge which, at a loss of (1.2)%[9], was our largest detractor year-to-date.

**Long-term compounders**

Given my generally long-term focus when evaluating businesses and preference for investments that can compound earnings over time, I view the high level of turnover in the top 5 positions of the Fund to be uncharacteristic and is unlikely to occur consistently. There are two reasons I prefer long-term compounders over short-term re-raters.

The first is that I view investing in long-term compounders as less risky than short term re-raters. Following the same business for a long time allows me to get more familiar with an asset than I could in situations with a shorter investment horizon. The benefit of following the same company for multi-year periods, having a history with a management team and analyzing the operating performance of a business in real time as it happens cannot be overstated.

On top of that, compounders tend to predictably grow their value at a steady pace, which leaves the Fund with a larger margin of safety with respect to the multiple I use in valuing the business.

To elaborate further, when looking one year out, investor perceptions of the near-term earnings power of a business don't tend to vary significantly, but opinions about the multiple that the business deserves do. However, when looking further out, the differences in estimates and valuation multiples become more pronounced as market participants' varying assumptions compound.

Because of this, the shorter one's time horizon, the more likely it is that they are betting on the multiple of earnings that a company deserves, and the less they are betting on the earnings themselves.

| Est EPS | Year | | | | | | |
|---|---|---|---|---|---|---|---|
| growth | 0 | 1 | 2 | 3 | 4 | 5 | 10 |
| | EPS | | | | | | |
| 0% | $ 1.00 | $ 1.00 | $ 1.00 | $ 1.00 | $ 1.00 | $ 1.00 | $ 1.00 |
| 5% | $ 1.00 | $ 1.05 | $ 1.10 | $ 1.16 | $ 1.22 | $ 1.28 | $ 1.63 |
| 10% | $ 1.00 | $ 1.10 | $ 1.21 | $ 1.33 | $ 1.46 | $ 1.61 | $ 2.59 |
| 15% | $ 1.00 | $ 1.15 | $ 1.32 | $ 1.52 | $ 1.75 | $ 2.01 | $ 4.05 |
| 20% | $ 1.00 | $ 1.20 | $ 1.44 | $ 1.73 | $ 2.07 | $ 2.49 | $ 6.19 |
| | Forward P/E (assuming buying at 20x to start) | | | | | | |
| 0% | 20.0x | 20.0x | 20.0x | 20.0x | 20.0x | 20.0x | 20.0x |
| 5% | 20.0x | 19.0x | 18.1x | 17.3x | 16.5x | 15.7x | 12.3x |
| 10% | 20.0x | 18.2x | 16.5x | 15.0x | 13.7x | 12.4x | 7.7x |
| 15% | 20.0x | 17.4x | 15.1x | 13.2x | 11.4x | 9.9x | 4.9x |
| 20% | 20.0x | 16.7x | 13.9x | 11.6x | 9.6x | 8.0x | 3.2x |

[6] Performance data presented gross of management fees, expenses, and incentive allocations.
[7] Ibid.
[8] Ibid.
[9] Ibid.

Using the illustrative table above as an example, if the Fund pays 20x earnings for a 20% long-term compounder in year 0, the corresponding margin of safety on my assumed exit multiple in year 10 is materially higher; we will likely be satisfied with the outcome whether the business is valued at 10x, 15x or 20x earnings given the 3.2x effective forward purchase multiple on our investment. The same can't be said for a business with little to no growth.

As such, having confidence in the long-term earnings trajectory of a business is one of the strongest forms of edge an investor can have in the marketplace, and one of the hardest types of alpha for others to arbitrage away. Basically, if I am right about a compounder, which I define as a business that can sustainably grow its earnings at above average rates over long stretches of time, then the Fund is most likely buying the business at a very low multiple of future earnings.

The second and more obvious reason that I prefer long-term compounders over short-term re-raters is that long-term compounders are significantly more tax efficient than short term re-raters. Not only is the tax rate on long-term gains lower than on short-term gains, but the longer we hold a compounder, the longer we defer paying any tax at all and the more we can let our investment compound tax-free. As stated previously in this letter, a majority of my net worth is invested in the Fund. As your partner, my goal is to maximize our collective after-tax returns.

However, I want to make it clear that I will not hold onto a position that I no longer find attractive simply for tax deferral. It should also be clear that although I prefer compounders, I will continue to pursue special situations when I have a strong conviction and when the risk/reward appears favorable.

## Top 5 Current Positions

As of June 30th, the Fund's top 5 positions accounted for ~25% of assets. My goal is to get the Fund more concentrated over time, since the largest positions are the ones I find most attractive and that are best diligenced. However, this will happen naturally, and when I perceive the potential upside of a position to be favorable relative to the risk that the Fund is taking by adding to it.

| Top 5 positions (June 30th) | |
|---|---|
| Alphabet Inc | 6.0% |
| Echostar Corp | 6.0% |
| RCI Hospitality | 4.5% |
| Xpel Technologies | 4.3% |
| Viad Corp | 4.1% |

**Alphabet (GOOG)** requires no introduction as the parent of the most widely used website in the world, Google.com. In addition to the Google search engine, the company's other core products and platforms include Android, Chrome, Gmail, Google Maps, Google Play, and YouTube, which each have over one billion monthly active users. Beyond its core products and platforms, the company has various other early-stage loss generating bets such as its self-driving car company, Waymo.

From a valuation standpoint, at June 30th, GOOG was valued at 25x its 2018 consensus earnings estimate of $44 per share, or almost 50% higher than the 17x that the S&P 500 fetches. However, once we strip out $145 per share of cash on the company's balance sheet, the multiple comes down to 22x. On top of that, the company is currently generating a loss of >$3 per share on its other bets, which will likely have significant future value but could be turned off at any point without impacting the core business. Adding this loss back to consensus earnings estimate further buys down the multiple to 20x earnings.

So, for 20x core 2018 earnings what are buyers of the stock getting? Most importantly, investors are getting the company's core advertising business that continues to grow revenue at a >20% pace driven by continued improvements in pricing as the ads it shows to consumers become more and more effective, and by an acceleration of the company's YouTube monetization, which is still in very early innings.

The YouTube monetization opportunity is an exciting one. While revenue from this business is not yet broken out by the company, the site is estimated to have generated just under $13 billion of revenue in 2017, or less than 15% of total company sales. According to various estimates, ~2 billion people watch videos on YouTube every month, with ~1 billion coming to the site every single day. Early last year, the company disclosed that it broke the 1 billion hours watched per day milestone in 2016, which was up significantly from the ~6 billion hours per month figure they shared in mid-2013. From these data points we can infer that hours watched are up a staggering ~500% in just over 3 years! As a comparison, Netflix users watched ~1 billion hours of content per week in 2017, while it currently has an enterprise value of ~$160 billion. With this kind of growth in engagement, GOOG doesn't even need to figure out how to more efficiently monetize its YouTube users to show significant revenue growth for years to come. However, they likely will improve their targeting and in turn this segment will benefit from both volume and price increases, leaving us with a very good chance that revenue from this business will double and then double again over the course of the Fund's investment. Needless to say, GOOG got a good deal when it bought YouTube for less than $2 billion in 2006.

In addition to the company's core advertising businesses, I find Waymo to be one of the most exciting of its other bets near term since it has an enormous addressable market, has a very large lead over its competition, and operates in a market where there will likely be very few winners, and quite possibly just one. Specifically, it took Waymo 6 years to complete its first million miles driven, while just last week it announced that it was able to complete a million miles in a single month. This means it will take competitors many years to catch up to Waymo if it stops improving its product tomorrow, which it won't. Given the task at hand, it is unlikely that consumers would consider buying an inferior self-driving technology for a slightly lower price.

With this lead, Waymo has already conducted driving tests in 25 US cities in multiple conditions and is currently conducting a pilot in Phoenix where users can book a ride via the Waymo app for free before the program will be converted to a paid service later this year. According to some estimates, the self-driving market opportunity could eventually be larger than GOOG's search business, as Waymo capitalizes on ride-hailing, ridesharing, freight delivery and public transportation.

Using ride-sharing as an example, according to GM's recent investor day the cost of a ride in San Francisco is $2.50 per mile with a driver while the cost with an early stage autonomous vehicle is $1.50 per mile. This $1.50 cost will likely go down as the technology becomes more efficient and scales over larger fixed costs. My best guess is that Waymo will eventually charge a portion of the $1 per mile it helps save in this scenario and will eventually become the operating system of choice for vehicles around the world.

Better yet, Waymo is only one of GOOG's many large and exciting bets, and it is clear to me that the Fund will do very well owning this stock even if none of them pay off. Simply put, the optionality from other bets is clearly not being priced into the stock today and the core advertising business alone is being offered to us at a multiple only slightly higher than the market's despite a significantly more attractive growth profile.

**Echostar (SATS)** is a $4 billion market cap satellite business that was spun out of Dish Network in 2007 and is still controlled by Dish founder Charlie Ergen. The company provides satellite broadband services to over 1 million home and small office subscribers primarily in the United States, accounting for roughly 2/3 of total EBITDA, as well as video delivery solutions to Dish Network and other parties that makes up the remaining 1/3 of EBITDA.

Through Hughes, its residential broadband segment, SATS offers plans ranging from $49.99-129.99 per month with download speeds of 25 Mbps that compete with slower legacy solutions like DSL in areas that do not yet have fast and cheap alternatives. The cost to create this broadband capacity is significantly below what would be required to run high speed broadband to the same subscribers using fiber, meaning the risk of competition for its subscribers is low. This segment stagnated in 2016 due to capacity constraints. In response, SATS launched an additional satellite which has allowed this segment to return to growth. Over the last three quarters, ending subscribers have grown at a mid-teens pace.

Through the company's Echostar Satellite Services segment, SATS owns and operates a fleet of satellites primarily for Dish as well as some various other parties. While satellite TV subscribers are declining, this business has remained stable due to growing channel count and increasing resolution, both of which require more capacity for transmission.

In the coming years SATS is expected to grow its EBITDA at close to double digit rates, yet the company is valued at 5x its expected 2018 EBITDA as if it is about to go out of business. Besides its low valuation, the company is sitting on over $3 billion of cash on its balance sheet, equal to nearly 3/4 of its market cap, and almost no net debt, which gives it significant dry powder with which to pursue transformative M&A. For context, satellite companies can easily run with several turns of leverage due to the stability of their cashflows, meaning that management has a great deal of flexibility in evaluating potential targets.

If the low absolute valuation and clean balance sheet weren't good enough, SATS has several hidden assets beyond its operating businesses, which in total could be worth more than 50% of the current stock price and provide us with additional downside protection as well as upside optionality. The company's 49% stake in Dish Mexico, which it doesn't consolidate, is rapidly growing its >4m subscribers and is likely worth more than 20% of the current SATS stock price. It also owns attractive pan-European mid-band satellite spectrum that it is in the process of repurposing for terrestrial wireless usage. If successful, there are scenarios where the value of the spectrum would be extremely meaningful relative to the current market value of the company.

Sometimes the best time to buy a stock is at the point of maximum investor fatigue and when there are no clear catalysts on the horizon. Here, investors have been waiting for SATS to deploy its large cash balance for several years to no avail while the stock is thinly traded and there is no "reason" to own it. Given the Fund's ability to take a long-term view of the businesses it invests in, and the very low valuation with a smart controlling shareholder calling the shots, SATS passes the sniff test. I am happy to have the Fund sit back and wait for the show to start.

**RCI Hospitality (RICK)** is one of the Fund's largest YTD winners and remains a core holding. As mentioned earlier, the company owns 45 gentlemen's clubs and 6 Bombshells restaurants. The company checks a lot of the boxes I look for when evaluating a potential investment. These include attributes such as (1) customer and geographic diversification, (2) no key suppliers, (3) limited threat of substitution or new competition getting permits in its markets, (4) ability to redeploy its capital at high rates of return, (5) a reasonable valuation, (6) well-capitalized, and (7) a competent management team that is highly focused on maximizing its stock price.

I have had the benefit of meeting the company's management team on several occasions since the Fund initiated its investment, and I was very impressed not only with the CEO's business acumen but also his understanding of what makes the per share equity value of the company increase over time. Simply put, he seeks to maximize the company's FCF per share over the long run without betting the farm. Given his 7% stake in the company, he is very aligned with us and cares deeply about his stock price.

While the company's core gentlemen's club business does not grow very fast organically, it has still grown its comparable store sales at mid-single digit rates over the last several years. More importantly, the company has been able to and expects to continue to invest its cashflow at very attractive returns. On the M&A front, RICK has been a buyer of new clubs at 3-4x EBITDA, or 25-33% returns on capital with even higher returns on equity. The most recent example of significance was its 2017 acquisition of Scarlett's Cabaret in Miami for $26 million, or 4x EBITDA. The company was able to buy this club with a down payment of only $5 million, while the remaining $21 million will be paid to the seller over the next 12 years. After backing out the $1.5 million of interest expense associated with the $21 million seller financing, the company is left with well over $4 million of annual pre-tax profit on a $5 million investment. Not bad.

Now, the obvious question you should ask is why was RICK able to buy this club at such a great price? Shouldn't other bidders compete for the asset such that it drives up the purchase price and lowers the return to the buyer? Well, according the RICK's management team, there aren't many corporate buyers, which leaves the seller faced with the decision of selling the club to its own employees or other individual buyers, who almost always also seek to pay for it over multi-year time frames. This puts RICK in a position of strength since it has a strong balance sheet, a strong reputation, and for the right acquisition can even issue equity to help the seller defer its tax bill.

On the organic investment front, RICK started a sports bar & restaurant concept in Texas that it is growing on its own but that it will also eventually begin to franchise to others. These restaurants benefit from a higher than typical mix of beverage sales which in turn leads to 20%+ operating margins.

The returns on Bombshells units are very strong. The typical restaurant generates $5 million in sales and $1 million of operating profit with an investment of just $2-3 million. In one example, RICK built a unit with a $1 million cash investment and the remaining capital coming from bank financing backed by the location's real estate. The ROE on this investment is expected to be 100%. Keep 'em coming.

On its last earnings call, the company told investors that its most recent location was averaging $160k per week of sales, an $8 million run-rate, compared to a the $5 million that a typical restaurant averages. As long as new units keep performing at these levels, I hope the company continues opening new locations at a rapid pace.

As mentioned earlier, management thinks that it can grow its FCF to $30 million in the coming years with minimal to no increase in its share count. At 15x FCF, the stock could be worth $45 by 2020, ~50% higher than current levels.

**Xpel Technologies (DAP.U)** is a $100 million market cap player in the automotive film space. The company competes with 3M in designing, marketing and selling protective films for high end cars, while also training installers of its products worldwide. The company prides itself on its strong customer service for installers, unmatched quality and fit of its designs across various makes, models and vintages, and its marketing and lead generation capabilities.

I spoke to the manager of a Lamborghini dealership who said that 95% of the cars he sells are wrapped by Xpel film and that his preferred installer chose Xpel over 3M due to its strong brand recognition, quality and warranty. The cost to wrap an entire car could run $4-5k, but many people just do certain parts of the car such as the front hood.

Xpel has grown its revenue at a 40% CAGR from 2013-2017 by introducing new product designs which now stand at >70k, and growing its dealer network to >2k dealers. The company's growth rate accelerated in Q1 of this year, when it reported 100% YoY revenue growth which was driven by strong performance across nearly all of its regions. On top of that, margins finally inflected after declining every year since 2013. The combination of strong topline growth along with margin expansion is a powerful one; both EBITDA and net income were up significantly from previous years. To put the growth into context, Q1 EBITDA was $3 million, or $12 million on a run-rate basis, which is up almost 3x compared to the $4 million it generated for the full year in 2017. In this case, it is appropriate to look at run-rate profitability since management suggested there was nothing abnormal about the quarter, and that it is a good baseline to think about going forward.

At its June 30th stock price of $3.90 per share, DAP.U was being valued at 13x run-rate earnings which is way too low for a company with no net debt and that is growing earnings at this pace. I am hoping that we see continued momentum from Xpel in the coming quarters, and that this investment can turn out to be a multi-bagger for the Fund in the coming years.

**Viad Corp (VVI)** is a $1 billion market cap company that has two distinct operating segments with no real synergies. Pursuit, which accounts for ~15% of revenue and ~45% of EBITDA, is a collection of travel experiences in Alaska, Glacier National Park, Banff, Jasper and Vancouver that includes attractions, lodges and hotels, and sightseeing tours. GES, which accounts for ~85% of revenue and ~55% of EBITDA, is a global, full-service live events company offering a comprehensive range of services to the world's leading brands and event organizers.

Pursuit's attractions include its Banff Gondola, Glacier Skywalk in Jasper, boat and sightseeing tours, and lodging such as RV parks, cabins and hotels at various parks. The collection of these business has benefited significantly from a secular trend away from material goods towards experiences that accelerated with the introduction of social media.

Given this experiential trend, Pursuit has been able to grow revenue and EBITDA at 17% and 27% CAGRs, respectively, since 2013. Of its revenue growth, ~10% was through refreshing existing assets, while the remainder was through building new projects and M&A. An example of a refresh project is the $22 million investment that VVI made to refresh its Banff Gondola which led to an $8.5 million increase in the attraction's adjusted EBITDA – a creation multiple of 2.6x. An example of a new project is the company's $20 million investment in its Glacier Skywalk that now generates $7 million of adjusted EBITDA – a creation multiple of 2.9x.

Importantly, many of these parks are regulated such that they are effectively capacity constrained. As such, the economics of these investments are likely limited to incumbents rather than just anyone with capital. Because of these dynamics, other experiential companies that have attractive growth, margin and return profiles are generally valued at double digit EBITDA multiples. Vail Resorts, for example, has grown revenue and EBITDA at a similar pace to Pursuit and is valued at 20x EBITDA and >30x earnings.

VVI's other segment, GES, is a leading organizer of exhibitions and conferences. The company designs, builds and manages the events on behalf of its clients. GES's typically has good visibility into its revenue in this segment because of the long lead time required to plan and organize its projects.

In this segment, same-show revenues have typically grown at a low single digit pace. However, the company has some large shows that it only organizes once every 2-3 years which makes GES profitability look lumpy. Specifically, from 2017-2019 the company has a trifecta of negative show rotations that amount to an almost $75 million headwind over the period on a revenue base of ~$1 billion. In 2020, the company should see a big reversal with a positive show rotation of close to $100 million. Because of these rotations, the right way to value the business is by looking at it on a through cycle 3-4 year basis rather than any specific year.

Given its business lines, the company does not fall squarely in any specific coverage universe and thus has limited analyst coverage. On top of that, the company does not jump off the page as cheap at 9x 2018 EBITDA.

So, why do we own it? First, I think that Pursuit, while the smaller of VVI's two business lines at ~45% of EBITDA, is worth close to the entire enterprise value of the company which means we are creating GES almost for free. On top of that, GES's current EBITDA is depressed and should be looked at on a through-cycle basis given that it organizes some bi-annual and triennial shows. Lastly, the company has suggested that it will consider splitting the two businesses up once Pursuit reaches $250 million in sales, which could happen in the next 1-3 years. In the meantime, the company should continue to grow, and has significant balance sheet flexibility to pursue M&A and new projects while we wait for the market to wake up to the fact that GES is currently under-earning and that it is being given to us almost for free.

**<u>Outlook</u>**

The U.S. is almost 10 years into the current bull market, the unemployment rate is down to 4%[10] from its 2009 high of 10%, wage growth is picking up and interest rates have begun their upward march off historical lows. On top of that, global trade tensions have created additional uncertainty and increased the risk of accelerating inflation and/or demand destruction. On the other hand, consumer and business confidence remain high, personal and corporate balance sheets are in good shape, the regulatory environment has become friendlier and US tax reform has added even more fuel to an already hot

[10] Source: Bloomberg

economy. At the same time, valuations remain reasonable with the S&P 500 Index trading at 17x[11] forward earnings estimates.

When I speak to the management teams of companies that we are either invested in or for which I'm performing due diligence on, I walk away thinking the current economic backdrop is encouraging and the current bull market still has legs. I also understand that periods of significant market volatility tend to come out of left field and that I most definitely will not be the first to see them coming.

Given this balanced backdrop, I am of the view that the Fund should deploy our capital in attractive investment opportunities, but also try to position its portfolio in defensive stocks with predictable and growing profit streams that trade for reasonable valuations and have strong balance sheets. These characteristics will allow our investments to play offense rather than defense when problems in the economy eventually show up, which will help improve their performance over time.

I also think it is prudent to retain some dry powder that can be deployed when periods of significant volatility inevitably come about. For this reason, the Fund has been sitting on a ~40% average cash balance since launch. You can be assured that because I have almost my entire net worth invested alongside you in the Fund, the drag on our performance from sitting on cash is not something I am excited about; that being said, I strongly believe it will pay us dividends down the line. Of course, the amount of dry powder the Fund retains will depend on the opportunities available, and I do expect there will be periods where our capital is fully deployed.

**Q2 2018 Monthly Performance Summary[12]**

| 2018 | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Main Capital Partners - Gross | | -0.8% | 1.4% | -0.5% | 6.7% | 0.4% | | | | | | | 7.3% |
| 1 Main Capital Partners - Net | | -0.9% | 1.3% | -0.6% | 6.3% | 0.2% | | | | | | | 6.3% |
| S&P 500 index - incl dividends | | -3.6% | -2.5% | 0.4% | 2.4% | 0.6% | | | | | | | -2.9% |
| Russell 2000 - incl dividends | | -4.2% | 1.3% | 0.9% | 6.1% | 0.7% | | | | | | | 4.6% |

Thank you for your continued support and confidence. Please reach out with any questions at yaron@1maincapital.com or 305-710-8509.

Sincerely,

Yaron Naymark

[11] Source: Bloomberg

[12] Performance Data is presented for the Fund's Class A Interests, and are net of any accrued incentive allocation, management fees and other applicable expenses (as disclosed in the Fund's Confidential Private Offering Memorandum), include the reinvestment of dividends, interest and capital gains, and assume an investment from inception. Returns for month-end and year to date 2018 are estimated, and un-audited. For investor specific returns, please refer to your capital statements. Due to the format of data available for the time periods indicated, net returns are difficult to calculate precisely. Please see the last page for important disclosure information.

## IMPORTANT DISCLOSURES

***In general***. This disclaimer applies to this document and the verbal or written comments of any person presenting it (collectively, the "**Report**"). The information contained in this Report is provided for informational purposes only and does not contain certain material information about 1 Main Capital Partners, L.P. (the "**Fund**"), including important disclosures and risk factors associated with an investment in the Fund, and no representation or warranty is made concerning the completeness or accuracy of this information. To the extent that you rely on the Report in connection with an investment decision, you do so at your own risk. Certain information contained herein was obtained from or provided by third-party sources; although such information is believed to be accurate, it has not been independently verified. The information in the Report is provided to you as of the dates indicated and 1 Main Capital Management, LLC and its affiliates (collectively, the "**Manager**") do not intend to update the information after its distribution, even in the event the information becomes materially inaccurate.

***No offer to purchase or sell securities***. This Report does not constitute an offer to sell, or the solicitation of an offer to buy, and may not be relied upon in connection with the purchase of any security, including an interest in the Fund or any other fund managed by the Manager. Any such offer would only be made by means of such fund's formal private placement documents, the terms of which shall govern in all respects.

***Performance Information***. Unless otherwise noted, any performance numbers used in the Report are for the Fund's Class A Interests, and are net of any accrued incentive allocation, management fees and other applicable expenses, include the reinvestment of dividends, interest and capital gains, and assume an investment from inception of such Class. As such, the performance numbers do not reflect the performance of any particular investor's interest and you should not rely on it as a statement of your actual return.

***Past performance***. In all cases where historical performance is presented, please note that past performance is not a reliable indicator of future results and should not be relied upon as the basis for making an investment decision.

***Risk of loss***. An investment in the Fund will be highly speculative, and there can be no assurance that the Fund's investment objective will be achieved. Investors must be prepared to bear the risk of a total loss of their invested capital.

***Portfolio Guidelines/Construction***. Information contained in this Report, especially as it pertains to portfolio characteristics, construction, profiles or investment strategies or objectives, reflects the Manager's current thinking based on normal market conditions, and may be modified in response to the Manager's perception of changing market conditions, opportunities or otherwise, in the Manager's sole discretion, without further notice to you. Any target strategies, objectives or parameters are not projections or predictions and are presented solely for your information. No assurance is given that the Fund will achieve its investment strategies, objectives or parameters.

***Index Performance***. The index comparisons are provided for informational purposes only. The S&P 500 Total Return Index (SPXT) is a capitalization weighted index that is designed to measure the performance of the broad U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries. There are significant differences between the Fund and the index referenced, including, but not limited to, risk profile, liquidity, volatility and asset composition. The index reflects the reinvestment of dividends and other income, are unmanaged, and do not reflect a deduction for advisory fees. An investor may not invest directly into an index. For the foregoing and other reasons, the performance of the index may not be comparable to the Fund's and should not be relied upon in making an investment decision with respect to the Fund.

***No tax, legal, accounting or investment advice***. The Report is not intended to provide, and should not be relied upon for, tax, legal, accounting or investment advice.

***Logos, trade names, trademarks and copyrights***. Certain logos, trade names, trademarks and/or copyrights (collectively, "**Marks**") contained herein are included for identification and informational purposes only. Such Marks may be owned by companies or persons that are not affiliated with the Manager or any the Manager managed fund and no claim is made that any such company or person has sponsored or endorsed the use of such Marks in the Report.

***Confidentiality/Distribution of the Report***. The information in this Report is confidential. By accepting any portion of the Report, you agree that you will treat the Report confidentially. It is intended only for the use of the person to whom it is given and the Manager expressly prohibits its redistribution without the Manager's prior written consent. The Report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use is contrary to law, regulation or rule.