

July 21, 2021

Dear Partners and Friends,

In the second quarter of 2021, Maran Partners Fund returned +24.9%, net of all fees and expenses, bringing year-to-date returns to +53.1%, net.<sup>1</sup> Over the past five years, the partnership has compounded at the annualized rate of +26.2%, net, based on our standard fee structure (founder's share class investors – the vast majority of you – have experienced better returns).

We didn't use leverage, options, day trading, or meme stocks to generate these results. Instead, I have been unwavering in my application of our fundamental guiding principles: good research, conservative underwriting, margin of safety, the concept of investment as ownership in a piece of a business, and the appropriate concentration of the portfolio into my best ideas.

Given our selective approach, we should expect our returns to look different from the broader market most of the time. We intentionally look different, and, so far, those differences have worked to our advantage. Of course, there have been times in the past and there will continue to be times in the future that our approach underperforms or produces negative performance in a given month, quarter, or year. Don't get accustomed to the recent rates of return. I promise we won't keep them up.

That said, I also promise I will remain focused on making sensible decisions. On sticking to the philosophy, process, and approach that has served us well. And on maintaining alignment, as I will continue to have the majority of my family's capital invested in the partnership alongside yours.

Over time, I have confidence that our competitive advantages – structural, behavioral, informational, and analytical – will position us to have a good shot at continuing to generate compelling returns.

### Free Options

One attractive attribute of some investments is that they offer *free options* — asymmetric sources of upside that are not reflected in the stock price. Free options create more ways to win and more potential upside if they pay off. This is great, especially if we don't have to pay for those options.

Examples of such free options include start-up business lines, hidden assets that could be monetized, investments on the balance sheet that investors are ignoring, etc. I have written before about some of Clarus's small bets with potentially large payoffs: their apparel, footwear, and skincare launches, for example. Similarly, Turning Point Brands has a New Gen segment that contains a large portfolio of bets – investments in start-ups, nascent consumer-branded products, etc. Any one of these bets could pay off and generate meaningful returns for the company, but I don't think the value of these options are reflected in the company's share price.

Excellent management teams can also be a source of free options. Each of the investments that I discuss in further detail below offer various *free options*, some of which have started to pay off.

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<sup>1</sup> Based on our standard fee share class (1% management fee and 20% incentive allocation). Individual partner returns may vary. Please check your account statements.

## Portfolio Update

At the end of the second quarter, our top five positions were, in alphabetical order, Clarus Corp (CLAR), Correios de Portugal, S.A. (Euronext Lisbon: CTT), Crossroads Systems (CRSS), Pure Cycle Corp (PCYO), and Scott's Liquid Gold (SLGD). You'll notice that CTT and CRSS are each new to this list. CTT has been a top-five position for over a year but was previously undisclosed. CRSS grew to be a top-five position this quarter thanks to appreciation.

Ten positions contributed at least 100 basis points to our performance in the first half. Our returns were generated by a healthy mix of long-time holdings and newer purchases; we've owned six of these ten contributors for one to over five years, while four of them were purchased in the last year.

## Crossroads Systems (CRSS)

Crossroads Systems is not an easy company to compartmentalize. Its name provides no hints about what it does. It is small, obscure, and illiquid.

CRSS in its current form began as a cash and NOL shell, which then combined with Capital Plus Financial, a B-Corp and community development financial institution (CDFI) seeking to bring financial services and affordable homeownership opportunities to underserved communities, primarily in Texas. It shares some characteristics with a community bank, but it doesn't have a bank charter. CRSS's core business is to purchase homes, rehab them, sell them, and then provide a mortgage to the buyer. Is it a real estate "flipper" or a mortgage lender?

That CRSS is far off the beaten path and difficult to characterize didn't deter me from studying it. And careful analysis reveals that this is a gem of a business. CRSS has remarkably high returns on assets (multiples of that of the average community bank), and, as we will see, a savvy, nimble, and entrepreneurial management team intent on taking advantage of opportunities, even if slightly outside of some pre-ordained notion of its core business.

Several years ago, I had the opportunity to listen to a talk by Chauncey Billups. Billups is a Colorado basketball legend, having played at George Washington High School and CU Boulder before going on to play for the Denver Nuggets and several other pro teams during his career. His motto, as imparted by his high school coach, was, "*If you stay ready, you don't have to get ready.*" He told the story of two young athletes who each were not drafted into the pros after their college careers. Fast forward six months, and they were called back by a team to try out for a spot that had opened. One player had continued to work out and stay in shape. The other had backed off from his workouts. It is no surprise which player the team placed on its roster: the one who was prepared, who had *stayed ready*.

Turning back to our domain, we want to invest alongside management teams who *stay ready*. Who are in proverbial shape, prepared, nimble, and ready to take advantage of opportunities. We want to partner with operators and capital allocators who are so good that they tilt the odds in our favor. I believe we have done this with CRSS. The right management team can absolutely be a source of *free options* in investments.

In this instance, as a CDFI, Capital Plus Financial was among the most well-positioned companies to help get Paycheck Protection Program (PPP) funds into the hands of those who needed them most. In the first round of PPP funding, banks were criticized for lending money to well-heeled clients who weren't actually experiencing hardships. In an effort to ensure that PPP funds got into the hands of those who really needed them, the government turned to CDFIs in subsequent funding rounds. Capital Plus Financial, though not previously in the business of small-business loans, was *ready* – it saw the opportunity and acted quickly to capitalize on it.

CRSS was ultimately the second-largest PPP lender in 2021 (by loans issued), placing over \$7bn of loans with almost 500,000 borrowers in just a few months.<sup>2</sup>

As CRSS noted in its 2Q results press release:

“In the last several months, Capital Plus has transformed from a regional single-family mortgage-based lending institution into one of the country's largest providers of small business loans,” said Eric A. Donnelly, Chief Executive Officer of Crossroads Systems. “When the SBA announced its reopening of the [PPP] program in January, we immediately identified strong synergies between the program's focus on small businesses and Capital Plus' core mission as a CDFI. Together with our loan service providers, we established early incumbency as the go-to institution for small business owners, independent contractors, and sole proprietors. Financially, our success in the program has put us into the best position we have ever been in, netting us more than \$150 million in operating income for the quarter. At a record cash position, we are well-capitalized to support the future growth initiatives that will drive our double-bottom line.”<sup>3</sup>

Due to its success in rapidly scaling its business when the opportunity presented itself, CRSS started the second quarter trading at under \$10 per share and ended the quarter in the position to announce a special dividend of \$40 per share, which is set to be paid out next week.

The fun may not be over. The large special dividend has created a special situation set-up. As for my analysis of the current opportunity and how I am positioning the fund around the dividend and for the trading of the remaining business, I'd rather not shout my strategy from the rooftops (but I'm happy to discuss it in more detail with any interested LPs).

My good friend Rimmy Malhotra of Nicoya Capital introduced me to CRSS at a VALUEx Vail conference several years ago. Thanks, Rimmy!

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<sup>2</sup> The thrill of the chase tracking and analyzing CRSS's success in the PPP program is worth sharing. In January, CRSS disclosed that it had begun to originate PPP loans. By the end of February, JP Morgan and Bank of America had each approved over \$5bn of loans, but CRSS was still not even among the top 15 program participants, as published by the Small Business Administration (SBA). Mid-March: still nothing from CRSS. Late March: still nothing. But the week of April 5<sup>th</sup>, CRSS leapt onto the league table into sixth place, having issued over 200,000 loans worth over \$5bn in aggregate. By this point, I had memorized the format of the URL the SBA used to release the weekly data and obsessively hit refresh every Monday morning throughout April and May, waiting for the update. Through the week of 4/18: 248k loans. Through 5/2: big jump, 380k loans. And through 5/31: more growth, 472k loans!

<sup>3</sup> [Source](#). The associated 2Q shareholder [letter](#) is also well worth a read.

### **Correios de Portugal S.A. (CTT)**

We have owned several companies and brands with incredibly strong – and long – heritages. Black Diamond Equipment traces its roots to the founding of Chouinard Equipment Ltd. in 1957 by Yvon Chouinard, who went on to found and build Patagonia. Turning Point Brands' Zig Zag brand dates back to the late 1800s. Whole Earth Brands acquired MacAndrews & Forbes (Mafco), which was founded in 1850. But Correios de Portugal (CTT) takes the cake. CTT recently celebrated its 500<sup>th</sup> birthday, having been founded in 1520 by King Manuel I of Portugal and remaining in continuous operation ever since.

CTT is the privatized monopoly postal operator in Portugal, distributing over one billion pieces of mail and express parcels each year via its network of 500+ post offices. The company also owns a portfolio of real estate assets as well as a bank, and it has a collection of digital assets in payments and ecommerce.

CTT is off the beaten path but has been offered by the market at an extremely attractive valuation (at times, a negative enterprise value, by some calculations). It has a strong moat and numerous hidden assets that I do not believe are priced in.

While privatizations can be interesting hunting grounds for special situation set-ups on their own, both the source of this idea and one of its primary catalysts is my good friend Steven Wood of Greenwood Investors, who joined the board of CTT with a *constructivist* playbook several years ago. At the time, the consensus view seemed to be that CTT's mail operations were in terminal secular decline as email continued to replace snail mail and that its postal contract with the government would not allow for an appropriate pricing mechanism.

Conversely, I saw a profitable core business, hidden assets, *free options*, and a change in management and culture (at least partly driven by Steven's presence), all at an extremely compelling valuation. Over the course of our investment, CTT has made progress on many fronts, including resetting its postal contract, improving its Spanish operations, and on capital allocation. It repurchased 1% of shares outstanding in just six weeks during Q2.

We have been invested in CTT for several years, and our patience is finally beginning to be rewarded. Fundamentals are improving and clouds are lifting, yet the stock remains inexpensive and unloved. At recent prices, net of where I value CTT's monetizable real estate, bank, and net cash position, I estimate the market is valuing CTT's core business (the mail monopoly and express/parcels) at 3-4x EBITDA, while continuing to ignore a number of additional *free options* (such as success in payments and e-commerce, including the potential to build a Shopify-like solution in Portugal).

### **Clarus Corp (CLAR)**

Clarus has been a top-five position in our portfolio for almost six years. I hope you aren't getting sick of reading updates about it. If you are, read this line and skip the rest of this section: Following Clarus's recent acquisition of Rhino-Rack, I'm as excited about the stock as ever.

Clarus's compounding flywheel is humming at full throttle as it continues to execute on both the M&A and organic growth components of its value-creation strategy.

Clarus's Black Diamond Equipment (BD) brand has clearly achieved product-market fit in apparel and footwear, building on its 50+ year legacy as the reference brand of choice in the majority of its hardgoods

categories (from trekking poles to headlamps to ice axes to climbing harnesses). Apparel and footwear are large, high-margin categories. Investing in the early stages of a brand that consumers love, has strong secular tailwinds, and a huge addressable market is a recipe for meaningful value creation (think about The North Face, YETI, Allbirds, and Crocs). Black Diamond is expanding with retail partners around the globe as well as via bricks-and-mortar and digital direct-to-consumer (DTC) channels.

### **Black Diamond Equipment's New Boulder, CO Store**



Black Diamond is riding the wave of increasing interest in outdoor pursuits, including climbing. Climbing is set to have its moment in the spotlight on the world stage, as it will be an event in the Olympics for the first time in Tokyo next month. I'll be cheering for BD athletes Adam Ondra of the Czech Republic and the 17-year-old Coloradan, Colin Duffy, as well as for Brooke Raboutou, who trains just a short walk from BD's new Boulder, CO outpost (pictured above).

Clarus isn't just Black Diamond. During the second quarter, Clarus announced the acquisition of Rhino-Rack, a car and truck roof rack company based in Australia. Clarus paid approximately 2x sales and under 10x 2021 EBITDA, which is cheap on the surface for this high-margin, asset-light business. But importantly, 80% of Rhino-Rack's sales are still in Australia and New Zealand – Clarus will utilize its existing capabilities and relationships to expand the brand in the United States and globally. I believe this business is a fantastic fit for Clarus's portfolio of "super fan" brands and that when we look back in a few years, the purchase price will appear exceptionally attractive.

The same phenomenon is already playing out with Clarus's prior acquisition, Barnes, which Clarus purchased out of the bankruptcy of Remington. It is likely Clarus acquired Barnes for under 3x run-rate EBITDA.

I believe Clarus is currently generating \$70mm+ of annualized EBITDA, which should grow to \$80mm+ next year and, conservatively, to \$100mm+ in 2024.<sup>4</sup> Despite Clarus's success over the past few years, I continue to underwrite the stock as a *three-year double*, with further upside to \$70+/sh in three to five years. Black Diamond Equipment alone could be worth \$1.2bn+ (\$36+/sh) on \$400-500mm of sales over this horizon.

Additionally, the market rarely likes to pay up for future capital allocation, but with the Clarus team, I believe the odds are stacked in our favor that it will be a further source of value creation. I believe Clarus is a company for which the odds of waking up to positive news are greater than the converse.

### **Pure Cycle (PCYO)**

Pure Cycle owns approximately 5,000 single-family housing lot equivalents and a water utility backed by meaningful water rights in the Denver metro area.

I attended Pure Cycle's investor day last week. It was great to see the progress the company has made at its Sky Ranch community (see photo below). I continue to believe that PCYO has \$10+ per share of real estate value and \$10+ per share of water value, and that each are being actively monetized (the land at \$100k+/lot, and the water via \$30k+ tap fees, each of which are appreciating rapidly). I believe the market is still missing a number of critical components of the PCYO story, including:

- A respected nonprofit intends to spend \$50mm to build a charter school in PCYO's community, which should dramatically increase the value of PCYO's remaining lots;
- value uplift as PCYO starts to develop commercial acreage;
- optionality on additional water sales to the energy industry;
- numerous off-balance-sheet *hidden* assets, including the rights to a large reservoir; and
- additional capital-allocation-driven upside, including value-accretive land purchases.

### **Pure Cycle's Sky Ranch Community**



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<sup>4</sup> For any quant or other passive investors (the vast majority of the market these days) that are relying on *street* estimates, they will see \$44mm forecast for 2023 and \$53mm for 2024. Looking at sell-side estimates is not a core part of my process, but it doesn't hurt when they are seemingly low by a factor of two.

## Beyond the Top Five

We continue to hold core positions in previously disclosed companies American Outdoor Brands (AOUT), Turning Point Brands (TPB), and Whole Earth Brands (FREE). Each are asset-light, branded, buy-and-build growth companies operating in various areas of the consumer sector.

- **American Outdoor Brands** reported fiscal full-year 2021 results last week. While results were excellent, AOUT's typically conservative guidance disappointed the market. AOUT's valuation at sub-7x EBITDA looking forward over the next year remains cheap. The company will end 2022 with well over 25% of the current market cap in net cash if it doesn't make any acquisitions in the interim.
- **Turning Point Brands** remains cheap given its organic growth profile, low capital intensity, and large collection of small, asymmetric bets in vaping and active ingredients. TPB's Zig Zag brand is among the most well-positioned brands in the US as cannabis legalization marches forward, jurisdiction by jurisdiction.
- Branded packaged food company **Whole Earth Brands**, at ~8x 2022 EBITDA, has better organic growth, margins, and returns on capital than many consumer food companies trading at almost twice its multiple. As investors look forward to cleaner 2022 results (pro forma for two acquisitions), I believe there is meaningful room for the company to re-rate.

## New Core Positions

I am currently building a position in a catalyst-rich situation involving a company shedding a mediocre business to focus exclusively on an excellent business while concurrently returning capital via sizeable share repurchases.

## Positioning (and Repositioning)

Due to the confluence of several events, our partnership will end the month of July with a significant net cash position.

- We will receive our large special dividend check from CRSS next week (amounting to almost 10% of partnership capital and reducing our CRSS position to approximately 5% of capital).
- We will receive the proceeds from the tender by private equity for one of our smaller positions.
- We will receive our pro rata share of cash in trust (~\$10/sh) from our largest SPAC holding, in which we redeemed the common stock portion of the unit but will hold the warrants following the completion of its merger.

Our net cash, pro forma for these events, will amount to just under one-third of partnership capital. While I continually re-underwrite and adjust our portfolio and on-deck list to attempt to optimize returns, I will take advantage of this natural reset to patiently redeploy capital into my highest-conviction, best risk-reward ideas as they stand today, as well as into new opportunities as they arise. I, too, attempt to heed Billups's advice. Through tireless reading, study, interviews, scuttlebutt, analysis, and thought, guided by open-ended curiosity, I attempt to *stay ready* for future great investment opportunities. Recent market volatility is our friend.

## Conclusion – Forever *Emerging* | Closing of Founder’s Share Class

“Jeff, what does Day 2 look like?”

That’s a question I just got at our most recent all-hands meeting. I’ve been reminding people that it’s Day 1 for a couple of decades. I work in an Amazon building named Day 1, and when I moved buildings, I took the name with me. I spend time thinking about this topic.

“Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And that is why it is always Day 1.”

- Jeff Bezos<sup>5</sup>

I love Jeff Bezos’s Day 1 mentality. I riffed on this topic in my 2Q 2019 [letter](#), in which I shared my affinity for writer John McPhee’s belief that no matter how much success we have had in the past, we always start anew – in his case on a piece of narrative nonfiction, in my case on a new investment idea – on “Square 1.” Despite having been at this with Maran for over six years, I happily continue to consider myself an *emerging* manager and hope to never shed this mindset. Becoming an *established* manager – set in one’s ways, no longer adapting – would be akin to moving to Day 2. I’ll stick with *emerging* and its associated focus on positive change and growth.

I’d like to once again thank all of you who have joined me on this investing journey. Your support early in the life of the partnership has been critical to its success. Looking forward, I’ll continue to protect our competitive advantages, including limiting the size of the partnership when I feel that it gets to a size that may hinder returns.

On that note, our discounted founder’s share classes are still available, but they will close at year end. Fee rates will never increase for any existing partners or for partners who join the fund by year-end 2021; you will be grandfathered in and will continue to be able to add capital on your current terms.

For new partners joining the partnership after 1/1/2022, fee choices will be as follows:

- 1% management fee and 20% incentive allocation with a one-year lock-up (standard); or
- 1% management fee and 17.5% incentive allocation with a three-year lock-up; or
- 1% management fee and 15% incentive allocation with a five-year lock-up.

If you would like to join the partnership or add capital alongside the upcoming redeployment (discussed above in the **Positioning** section), please get in touch with me directly. The minimum new subscription amount is \$250k, and we continue to have capacity to accept IRA capital.

I welcome the new partners who joined the partnership during the last quarter, and I thank you all for trusting me to invest your capital alongside that of my family’s.

Sincerely,



Dan Roller

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<sup>5</sup> Amazon.com, Inc. 2016 [Letter](#) to Shareholders.



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In 2Q 2021, the total return of the S&P 500 was +8.6%, and the total return of the Russell 2000 was +4.3%. Year to date, the total return of the S&P 500 was +16.8% and the total return of the Russell 2000 was +17.5%. 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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