April 2023

Dear Partners and Friends,

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

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

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

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

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

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

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

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

Portfolio Update

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

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

Delek US Holdings (DK) – Special Situation

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

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

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

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

Consider some of the recent messaging by the company:

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

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

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

[2] Listed alphabetically.

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

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

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

Ranger Energy Services (RNGR)

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

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

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Conclusion

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

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

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

Thanks,

Dan Roller

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