Dear Partners,

In the second quarter, 1 Main Capital Partners, L.P. (the “Fund”) returned 18.6% net of fees and expenses, bringing the year-to-date return to 40.2%. Through the first six months of the year, the S&P 500 (SPX) and Russell 2000 (RTY) Indexes returned 15.2% and 17.5%, respectively.

During the quarter, the 1 Main Capital family grew in the best sort of way, when Rich and I each became first-time fathers to healthy baby boys. Moms are doing great as well. Interestingly, the newborns of today are being dubbed Generation Alpha, which obviously bodes well for the partnership; both babies are already starting to pitch us their favorite investment ideas and we look forward to sharing all their alpha with our trusted partners.

On a more serious note, as much as I continue to enjoy quarters like this where our portfolio benefits from both intrinsic value growth and market value growth, I must constantly remind myself that it is always preferable to evaluate our results over multi-year periods as opposed to monthly or quarterly. I hope you all do the same.

Importantly though, I continue to feel optimistic that the collection of businesses we currently hold an interest in can continue to deliver the goods in the years ahead.

**Top 5 Positions**

As of June 30th, the Fund’s top 5 positions were Alphabet Inc (GOOG), KKR & Co (KKR), Mastech Digital (MHH), Naked Wines (WINE.LN) and RCI Hospitality (RICK). Together, these holdings accounted for slightly over 50% of assets. WINE.LN made its way into the top 5 within days of reporting its FY’21 results, after we more than tripled our position as the market misinterpreted weak margin guidance on the back of very sensible investments rather than a lack of demand for its products. MHH is discussed below.

**Mastech Digital (MHH)**

During the quarter, the fund re-initiated an investment in MHH after its stock price was cut in half from its 2020 highs, driven by (i) a COVID-related slowdown and (ii) its removal from the Russell 2000 Index, causing significant uneconomic selling. I previously wrote about the company in the Q2’18 letter.

Mastech is an off-the-radar, closely held IT services company that is in the process of transforming itself from a legacy IT staffing business into a higher margin IT consulting and services business.

The company's co-founders, who together own ~60% of the company, turned their attention to value creation at Mastech after selling iGate to Capgemini for $4 billion in 2015. A new CEO with significantly more industry experience was hired for MHH in early 2016. This CEO made organic investments in the staffing segment and deployed capital into two strategic acquisitions over the last several years to help

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1 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 2021 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.

July 2021

1 Main Capital Management | yaron@1maincapital.com
transition the business into higher margin, higher growth consulting and services businesses (the "Data & Analytics" or “D&A” segment).

The staffing segment is boring (2/3 of adjusted operating income). It generates low margins, though it has low capital requirements and grows well above GDP, in-line with the growth in global IT spend. From 2011 to 2019, the staffing business grew revenue at an average annual rate of approximately 10%. However, in 2020 the staffing business had its first down year since the financial crisis - obviously due to COVID. This business should recover nicely this year and return to growth going forward. The best evidence of this is that the number of billable consultants finally inflected positively in Q1, which is a good forward indicator of revenue. Below is a table of YoY growth in billable consultants for the staffing segment:

<table>
<thead>
<tr>
<th></th>
<th>Q1’20</th>
<th>Q2’10</th>
<th>Q3’20</th>
<th>Q4’20</th>
<th>Q1’21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>-4.7%</td>
<td>-7.0%</td>
<td>-13.4%</td>
<td>3.0%</td>
<td>9.3%</td>
</tr>
</tbody>
</table>

The D&A segment is less boring (1/3 of adjusted operating income). It manages high-value IT projects and implementations for blue chip customers globally. This segment should grow revenue mid-teens or higher organically and generate 20%+ EBIT margins at maturity.

However, the leader of the D&A segment has made some significant organic investments over the last 3 years to i) enhance the capabilities of the business and ii) increase the sales team in order to better sell those capabilities. As such, the adjusted operating margins of this segment compressed from 28.8% in Q4’17 to 4.5% in Q1’21. However, we will likely see meaningful operating leverage in the coming years.

Additionally, management is seeking to continue growing the D&A segment through accretive M&A, which they have done skillfully in an environment where anything tech has traded at high valuations.

For example, when MHH acquired InfoTrellis in 2017, they paid $55 million, of which only $36 million was paid in cash and $19 million was structured as a contingent earn-out with some aggressive growth targets for the acquired business. The growth targets were missed so the earn-out was never paid, which led to an effective purchase multiple of 5x 2018 EBIT.

In late 2020, MHH acquired AmberLeaf for $14 million, of which only $9 million was paid in cash with the remainder deferred. The 2021/22 EBITDA targets that need to be hit to get the earn-out would make the effective purchase price 5x EBITDA.

As the business continues to mix towards D&A via M&A and organic growth, and as the D&A margins inflect upwards after a period of investment, I believe the overall operating margins of MHH will materially inflect as well.

Between now and 2025, I believe adjusted EPS can triple to $3 per share, up from $1 currently, and by then the operating profit contribution from Data & Analytics will exceed the contribution from the Staffing segment, likely allowing us to benefit from multiple expansion along the way.

Eventually, I believe that the company will be sold, as the co-founders have shown a willingness to part with their assets (when paid a good price) and are 68 and 71 years old.

**ATI Physical Therapy warrants (ATIP/WS)**

In the Q3’20 letter I wrote about how SPACs were being used to help companies circumvent the traditional IPO process when coming public. In the letter, I noted how the number of SPACs was exploding and how
some sponsors were recklessly pursuing increasingly speculative deals at unreasonable valuations to cater to retail speculators. However, not all sponsors were acting in this manner; in fact, some SPAC sponsors announced mergers with good businesses at reasonable valuations.

Recently, the SPAC bubble has started to deflate. One of the byproducts of this deflation, along with the sheer number of vehicles created is that, in some cases, the baby has been thrown out with the bath water, creating some interesting opportunities in de-SPAC’d companies.

One such example: the warrants of ATI Physical Therapy (ATIP), which came public by merging with a Fortress sponsored SPAC this past June. ATIP is the largest independent outpatient physical therapy (OPT) provider in the United States with over 800 clinics in 24 states.

OPT is an attractive end market to participate in given the strong unit economics of clinics as well as the strong outlook for demand. Specifically, an aging demographic, an emphasis on preventative care and a more active population are providing strong secular volume tailwinds, while new OPT clinics have rapid paybacks of around 13 months, on average. Typically, new units require around $250k of capex, $100k of upfront startup loss absorption and then deliver around $175k of annual EBITDA at maturity – not bad.

Better yet, OPT has low per-visit costs, and therapists can diagnose and treat over 70% of musculoskeletal conditions without any other provider. This leads to the prevention of worsening conditions as well as the avoidance of unnecessary higher-cost medical visits, medications and surgical procedures. As such, it makes more sense for payors to focus on shifting volume to OPT clinics rather than trying to reduce the amount they pay to them.

Given the compelling unit economics and growing demand, it makes sense to heavily reinvest in the business to pursue greenfield growth as well as the occasional attractive M&A opportunities. However, due to its private equity ownership the business has historically operated with high leverage, an issue that COVID exacerbated even further, preventing it from pursuing attractive reinvestment.

Since completing the SPAC merger in June, ATIP announced that it now has net debt of approximately $460 million, or only 2.6x 2022E EBITDA, which should allow it to invest more aggressively going forward.

Additionally, unlike many SPACs targets, Fortress has been following ATIP for nearly a decade as a lender to the company. Investors should take note of the fact that Fortress not only sponsored the deal but also committed $75 million of its own capital into the deal via a PIPE and importantly agreed to restructure its promote as an earn-out that doesn’t fully vest until the stock hits $16 per share.

Currently, ATIP is selling for less than 12x 2022 consensus EBITDA, well below its closest peer (USPH), which sells for more than 20x 2022 consensus EBITDA. As public markets become more comfortable with ATIP, as the company’s PE sponsor sells down its stake and as ATIP grows EBITDA by opening new clinics and making accretive acquisitions, I expect the stock to increase significantly from current levels. If this were to happen, our warrants will be worth many multiples of our average cost, which is below $2 per unit.

**An Update on Limbach Holdings (LMB)**

The Fund’s position in Limbach Holdings (LMB) has fallen out of the top 5 due to appreciation of our other holdings as well as inflows into the partnership. Unfortunately, I am not comfortable adding to the
position at this point since the company continues to relentlessly shoot itself in the foot when making key strategic decisions and communicating with investors.

For example, in late September 2018 (with only 10 days left in the third quarter), during an investor call organized to discuss an announced acquisition, LMB’s CEO assured investors that the company was “progressing quite nicely” in resolving its previously disclosed problems in its mid-Atlantic region. He went on to say:

“The work on correcting the past is well underway, on track. And we look forward to the third quarter earnings call reporting with more detail. But I’m very happy with the progress we’ve made down there in turning the branch around.”

Shortly thereafter, the company went on to report weak Q3 results and took full year EBITDA guidance down by more than 50%, citing continued problems in its mid-Atlantic region.

In April 2019, the company’s CEO again assured investors that the 2018 issues were resolved, saying “we’re optimistic that we are moving past the write-down issues from 2018.” In May 2019, the CEO reiterated on an earnings call that 2019 EBITDA guidance was “conservative.”

Just a few months later, in November 2019, the company again reduced its full year EBITDA guidance by nearly 30%.

On its earnings call that same November 2019, the company’s CEO highlighted that LMB had claims that amounted to approximately $5 per share that it was expecting to recover “in the first half of 2020.” During 2020, the company repeated this talking point several times before dropping it, and now no longer gives updates on where it stands with respect to recovering these claims.

In January of this year, LMB’s CEO presented at an investor conference where he said that he could not wait to report the company’s Q4 2020 results (implying a strong Q4). At the same conference, when asked about a potential refinancing of the company’s high-cost debt, he said that there was a lot of interest and that bankers were knocking on the company’s door to help them with a refinancing.

Less than a month later, the company surprised investors with a large equity offering, where they purposely excluded existing investors, and subsequently reported weak fourth quarter results, which was at odds with the messaging from merely weeks earlier. After the equity raise, the company failed to give a reasonable explanation for the size of the raise and the suboptimal method in which it was conducted.

In May of this year, LMB issued confusing and nonsensical guidance for 2021. In this guidance, they called for significant revenue decline in the GCR segment, driven by a planned pullback from the Los Angeles market, which was known internally for a long time, but which was not quantified for investors until the company could no longer avoid talking about it, despite its material size.

<table>
<thead>
<tr>
<th>2021 Guidance</th>
<th>Low</th>
<th>Mid</th>
<th>High</th>
</tr>
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<tbody>
<tr>
<td>GCR revenue growth</td>
<td>-25.2%</td>
<td>-22.9%</td>
<td>-20.6%</td>
</tr>
</tbody>
</table>

Also, the company unnecessarily called for unrealistic and well-above-trend revenue growth in their high-margin ODR segment – despite knowing that the first half would be abnormally weak and that they would be relying on unpredictable hockey stick reacceleration in the second half to hit the projection.
Additionally, the company also inexplicably called for a significant step-up in G&A above not only its 2020 levels, but also pre-COVID levels.

Lastly, despite giving detailed revenue and margin ranges by segment, the segment level figures did not add up to or reconcile with the overall guidance, confusing everyone even further.

Simply put, after selling a lot of equity to new investors in a big equity raise, and with an existing investor base already hypersensitive to communication due to prior mishaps, the company was careless with its guidance and communication once again.

Not surprisingly, many investors have become skeptical of guidance, and it has recently come to my attention from several investors that it sounds to them like management is talking down second quarter expectations after an already weak Q4’20 and Q1’21.

Despite all the above, I still believe LMB’s management team knows how to run the business and is doing a commendable job at it. However, I am starting to question whether they have shareholders’ best interest at heart or just their own. And why should they care about holders? Despite a lagging stock price since coming public in 2016 (as seen in the chart below)...

...the existing board continues to reward the current CEO just for showing up to work. The table below shows Charlie Bacon’s annual compensation going back to 2015.
So, it makes sense that my suggestion of adding a fresh board member who has shareholder support has been ignored. In fact, I have been told directly by the company that I am disqualified from being considered to replace a departing board member because they feel that they need more diversity – something that is tough for me to comprehend but seems impossible for me to overcome.

My response to this is that they should at least engage with me, or some larger shareholders, with respect to candidate selection – so far, they have balked. After speaking with several shareholders who own >5% of the company each, it seems as though the company has thus far neglected to engage with any of them regarding board candidate evaluation. Existing holders should all ask themselves why the company would willfully avoid taking such an easy step to help restore investor confidence.

Even more infuriatingly, management has been telling investors that that they believe they are being fairly valued by the market (at 3x their 2021 EBITDA guidance, and with a net cash balance sheet). Of course, it makes sense that it would be difficult for them to acknowledge that they are the reason the stock is depressed. As a former holder of 20% of LMB’s outstanding shares told me last year right before he sold all his shares, “you can’t help someone who doesn’t think they need help.”

So, why are we still involved and what’s next? As I stated in my previous letter, with the right strategic direction LMB has the most upside potential of any of our holdings and with a below average level of business risk. Additionally, the position size is now closer to an opportunistic investment rather than a core position, which makes us less exposed to continued mediocrity by the company.

However, I believe that there are significant number of shareholders who share my concerns and I believe that I would be able to win their support if I decided to go down a more forceful route with this investment in order to enact change on the company and realize fair value.

For now, I will continue to monitor the investment and keep it sized in such a way that it cannot hurt us too badly. In the future, I may size it up more meaningfully if and before I decide to take any action. Of course, I also reserve the right to exit entirely if I see fit. Until I make such a decision I am just holding tight.

**Outlook**

With markets currently sitting within throwing distance of all-time highs, pundits are once again searching for reasons to call for a correction. On one hand, they say the economy is running too hot, and inflation is about to run rampant, crushing corporate profit margins. On the other, they say that we are at peak demand and that COVID is going to flare up again which will cause an economic slowdown. Either of these scenarios sound unpleasant for equities.

However, the world is not static. In fact, it is very dynamic. In a slowing world, there is more stimulus which offsets weakness. In an overheating world, the punch bowl will likely be removed by the fed via
tapering and higher rates. Some may say this analysis is naïve. However, I would argue that ignoring this likely reality is the real mistake. Of course, if the facts change so will my mind.

My intuition says that currently we have just the right amount of fear in the market driven by recency bias following the 2018 trade war and 2020 COVID selloffs. The economy should keep chugging along and an occasional pullback in equities will allow markets to keep climbing and endless wall of worry.

Most importantly, we own a collection of solid and growing businesses that are well run and reasonably valued, so we should do well in many different economic environments. I like to tell prospective LPs that when I think about the risks of our holdings, they usually can usually be boiled down to a scenario where I think we will earn 10% IRRs instead of 25%+ over our typical 3-5 year holding period. This is a risk I can sleep with and one I will gladly take rather than sitting on cash that is being forcefully inflated away.

**Other Updates**

Year-to-date, we have welcomed just under 20 new LPs into the Fund. This coming month, we are onboarding a well-known family office who will be our largest investor to date. I am appreciative of those of you who have been sending your friends our way, and for everyone who is trusting our partnership as a steward of their hard-earned savings.

As discussed in the Q1 letter, the Fund made its first private investment in January, in the form of convertible preferred equity instrument that was meant to be a bridge to the investee coming public later this year. As is typical with our opportunistic investments, which are typically kept to 1-3% of assets at cost, we made this one with the expectation that we could make multiples of our capital within a relatively short/defined time frame. Several months ago, the investee announced a merger with a shell company. The announcement was well received by the market, causing the price of the shell company's shares to appreciate. We are now using the shell company's stock price as the basis from which to mark this investment, though for the sake of conservatism we are applying a 25% discount to where it is trading. I expect the transaction will close in Q3, at which point we will fully mark the investment to market.

As always, 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
## Monthly Performance Summary

<table>
<thead>
<tr>
<th>2021</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Main Capital Partners - Gross</td>
<td>10.5%</td>
<td>10.0%</td>
<td>1.1%</td>
<td>19.0%</td>
<td>-2.3%</td>
<td>5.3%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>50.6%</td>
</tr>
<tr>
<td>1 Main Capital Partners - Net</td>
<td>8.4%</td>
<td>8.1%</td>
<td>0.9%</td>
<td>15.7%</td>
<td>-2.0%</td>
<td>4.5%</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>40.2%</td>
</tr>
<tr>
<td>S&amp;P 500 index - incl dividends</td>
<td>-1.0%</td>
<td>2.8%</td>
<td>4.4%</td>
<td>5.3%</td>
<td>0.7%</td>
<td>2.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15.2%</td>
</tr>
<tr>
<td>Russell 2000 - incl dividends</td>
<td>5.0%</td>
<td>6.2%</td>
<td>1.0%</td>
<td>2.1%</td>
<td>0.2%</td>
<td>1.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>17.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2021</th>
<th>One Year</th>
<th>Three Year</th>
<th>Since Inception</th>
<th>Inception Annualized</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Main Capital Partners - Gross</td>
<td>124.8%</td>
<td>41.3%</td>
<td>202.9%</td>
<td>38.3%</td>
</tr>
<tr>
<td>1 Main Capital Partners - Net</td>
<td>96.2%</td>
<td>32.2%</td>
<td>145.4%</td>
<td>30.0%</td>
</tr>
<tr>
<td>S&amp;P 500 index - incl dividends</td>
<td>40.8%</td>
<td>18.7%</td>
<td>62.3%</td>
<td>15.2%</td>
</tr>
<tr>
<td>Russell 2000 - incl dividends</td>
<td>62.0%</td>
<td>13.5%</td>
<td>52.9%</td>
<td>13.2%</td>
</tr>
</tbody>
</table>

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