Dear Partners,

For the first quarter, 1 Main Capital Partners, L.P. (the “Fund”) returned (11.4)% net of fees and expenses, compared to a return of (4.6)% and (7.5)% for the S&P 500 and Russell 2000 indexes, respectively.

Since October 2021, the Fund is down nearly 15%, marking the second double-digit drawdown since its early 2018 inception. My objective is to compound our capital at attractive rates over long periods of time, and occasional pullbacks are to be expected in the pursuit of this goal, especially since the Fund runs relatively concentrated.

Drawdowns are not fun of course, but I believe that enduring them in exchange for higher potential long-term returns is a trade that is worth making. Importantly, the volatility that accompanies drawdowns typically presents us with opportunities to improve our future performance by shifting capital towards investments that offer higher expected returns. This is exactly what we have used this selloff to do.

Of course, preventing permanent impairment of the Fund’s capital is just as important as compounding it. As such, I continue to utilize the deep fundamental analysis that I have studied and honed throughout my life to underwrite and re-underwrite our holdings and to ensure that the portfolio is not only optimized for performance but that each company within it is well prepared to survive and capitalize on any economic slowdown.

My deep understanding of the high-quality businesses that we own is a north star that gives me the confidence I need to take advantage of opportunities presented to us by other market participants. In my view, each of our positions benefits from reasonable valuations, resilient balance sheets, capable and aligned management teams, solid cash generation, strong returns on capital and attractive long-term growth profiles.

For all these reasons, I continue to feel extremely optimistic about what the future holds for the Fund.

Sources of Alpha

In his 2020 paper, Behavioral Finance and the Sources of Alpha, Russell Fuller outlines three primary areas where investors can gain an edge in investing: informational, analytical and behavioral. The first two sources of edge relate to forming better forward expectations than the market. The third, involves capitalizing on the behavioral inefficacies of other market participants.

Informational edge involves getting better data faster than others. It continues to get competed away with each passing year. Of course, there are some scaled players that have the best real-time alternative data, or investors who look at companies that literally nobody else is looking at. However, in today’s world, material information is generally disseminated rapidly. So, while I don’t buy real-time data and don’t typically look at orphaned businesses, I do believe that through normal course primary research I am able know more about our holdings than most other market participants.

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 2022 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.
Analytical edge can be thought of as interpreting readily available information better than others. It involves evaluating multiple quantitative and qualitative factors, such as industry dynamics, business trends and management actions, all of which influence the performance of a company and the value of its equity. Characteristics that enable analytical edge are intellectual horsepower, experience, and judgement. I believe that I am skilled at interpreting new information, and through my years of experience have developed a deep understanding of certain industries, allowing me to analyze information quickly and effectively through pattern recognition and by using various mental models. As a result, I expect that my analytical edge, while good today, should continue to improve each year.

Behavioral edge comes from being unconstrained, staying rational and investing with a true long-term orientation. There are many institutions that are forced to abide by inflexible mandates, such as only investing in high growth or low multiple stocks or selling a stock if a company stops paying a dividend or falls below a certain price. Fortunately for the Fund, we are not one of them.

Additionally, there are times when investors make systematic mental mistakes or simply stop trying to maximize their long-term wealth for other non-economic reasons, which can result in mispriced securities. Examples include fund managers worried about redemptions driven by short-term performance or individuals deciding they just don’t want to lose any more money in the near-term resulting in them de-risking even if they know it’s the wrong time or price at which to sell something.

While all areas of investing continue to get more competitive over time, I believe that behavioral edge is the least likely to be arbitrated away because (i) most institutional investors have incentive structures that are known to be suboptimal but are nearly impossible to fix, and (ii) because we humans will continue to have emotional responses that have been engrained in our DNA from an evolutionary standpoint. I am aware of these biases and do my best to overcome them, though am certainly not perfect.

Of course, having a solid and repeatable process by which to seek out, process and analyze information to form realistic projections about companies is vital to successful stock selection. However, there should also be no doubt that avoiding behavioral pitfalls and capitalizing on such inefficiencies created by others, especially during times of volatility, is a tool that all hall-of-fame investors have leveraged over the course of their careers. I very much intend to utilize all three of Fullers alpha sources in the pursuit of returns.

It is for this reason that I will continue to ask and thank you for your long-term orientation and trust, allowing me to focus on long-term performance without worrying exclusively about the short-term. To be clear, as both a steward of the Fund’s capital and investor alongside you, I take the responsibility very seriously and understand the importance of steering clear of risks of ruin. For this reason, I have and will continue to avoid (i) being overly concentrated, (ii) owning high-flyers, and (iii) excess leverage at the portfolio level or at our underlying investments.

**Top 5 Positions**

As of March 31st, the Fund’s top 5 positions were Basic-Fit NV (BFIT), The Joint (JYNT), KKR & Co (KKR), Pershing Square Holdings (PSH) and RCI Hospitality (RICK). Together, these holdings accounted for over 40% of assets. I have written about all 5 of these holdings in prior letters, and not much has changed in our thinking. I have linked to our latest thoughts on them above.

A common thread among all our core holdings is that I am looking for businesses that are predictable, growing, have strong unit economics, healthy balance sheets, aligned and capable management and reasonable valuations based on medium-term earnings or free cash flow. BFIT, JYNT and RICK are retail concepts that exhibit strong ROICs and long reinvestment runways ahead. KKR is an asset manager with
high margins and strong secular tailwinds. PSH owns a collection of high-quality businesses and sells for a large discount to NAV. None of the above investments require high exit multiples to generate strong IRRs.

In addition to the top 5, I have also initiated some new positions and resized others. I discuss one of our new ones below.

**Figs Inc (FIGS)**

Figs is a direct-to-consumer healthcare apparel company that designs and sells premium scrubs for doctors and nurses. The company is doing to the healthcare apparel market what Lululemon did to the athleisure market: branding a previously unbranded industry and de-commoditizing a previously commoditized product. The company was founded by its co-CEO’s in 2013 and grew revenues to $100 million by 2019 and $420 million by 2021.

This impressive growth has been driven by a deeply loyal community of nearly 2 million active customers, many of whom will stick around for the entirety of their careers, in many cases spanning 30-40 years. In fact, almost 70% of 2021 revenues came from repeat customers, up from 60% in 2020.

Despite this impressive growth, management believes that FIGS is still in early innings. According to Morgan Stanley, there are approximately 16 million healthcare professionals in the US that realistically wear scrubs, which is a smaller subset of the 20 million healthcare professionals in the country, but significantly more than the company’s current customer count.

Better yet, there are around 120 million healthcare professionals and medical students internationally, many of which are just now being offered the option to buy FIGS. The company just recently began selling its products in Canada, Australia, and the UK.

It is also important to note that 75% of FIGS’s sales are to people who are 45 years old or below, meaning that the company will benefit over time as older doctors and nurses retire and are replaced with new and younger counterparts that are more interested in wearing premium scrubs.

Of course, not all these professionals are able or willing to buy premium scrubs, just like not all yogis are able or willing to spend hundreds of dollars on athleisure, but clearly there are many who are. Awesome Humans, as the company refers to them, are the target professionals who do choose to wear FIGS branded scrubs to help them look, feel, and perform at their best 24/7/365, by equipping them with apparel that has an unmatched combination of comfort, durability, function, and style.

The company uses creative marketing tactics such as its Ambassador Program, which consists of hundreds of healthcare professionals from around the world who are an extension of the FIGS team and are evangelists for the brand. Customers are so passionate about the brand, that the company routinely sees new “drops” of innovative limited-edition styles and color quickly sell out soon after becoming available.

These dynamics have allowed FIGS to scale efficiently, with an acquisition cost of less than $100 per new customer, compared to average annual contribution of around $140 per customer. Said another way, the company recoups its CAC in just one year, on average.

On top of the potential to grow its active customer count, there is also plenty of room to expand sales within the existing base. Current customers typically buy from FIGS approximately twice per year and spend around $100 each time. Healthcare workers tend to buy 5-6 sets of scrubs per year, but also buy
lots of non-scrub apparel and accessories such as underscrubs, lab coats, activewear, outerwear, and compressions socks. The company is in early innings of its push to capitalize on the opportunity to sell a wider variety of products to its loyal customers.

In fact, FIGS is being very methodical in its attempt to take wallet share within its existing base of Awesome Humans. The www.wearfigs.com website and app account for 98% of sales, allowing the company to control the customer experience, collect data about customers and engage with them in a way that unbranded competition cannot. The company leverages data to improve its operations and decision-making in key areas like product innovation, inventory analytics and marketing efforts.

Given the company’s premium price point, highly efficient marketing spend, and the nature of its DTC model which eliminates the need to share margins with wholesale and retail partners, FIGS has been able to generate mid-20s EBIT margins and significant free cash flow in the last two years while growing revenue at a 2-year CAGR of 95%. There are very few companies out there growing at these levels, let alone doing so while generating these types of margins and positive FCF.

So, what’s the catch and why is it cheap enough for me to get excited about? Simply put, the company’s shares got caught up in the recent unwind of high growth / high multiple stocks which have been aggressively sold by market participants since last November. After coming public in mid-2021 at $22 per share and appreciating to above $50 per share shortly thereafter, FIGS’s stock has been on a straight march downward, hitting a low of $13 in March.

In terms of its valuation, FIGS has approximately 200 million shares outstanding on a fully diluted basis and sits on around $200 million of net cash, giving it a fully diluted enterprise value of $3 billion. This year, it is expecting to generate sales and EBIT of over $550 million and $100 million, respectively. As the business scales, I believe that EBIT margins could eventually exceed 30%, meaning the stock currently trades at a low 20’s multiple of normalized earnings. This is far too cheap for a business that has an open-ended growth runway like FIGS has. I am excited to see what the future has in store for the company.

**Outlook**

The macro environment is bleak. Both reported inflation and forward inflation expectations have increased considerably since I last wrote to you. Sadly, the war in Ukraine is exacerbating the situation, especially as it relates to two of the most basic needs of every single person on earth: food and energy.

Russia is the largest exporter of fertilizers and the second largest producer of both oil and gas globally. Ukraine is the world’s seventh largest producer and fourth largest exporter of corn, responsible for a low-teens percentage of global exports. Belarus, the Russian ally that is also getting caught up in economic sanctions is also a major producer and exporter of fertilizers.

War-related sanctions and supply chain disruptions have caused energy, food, and fertilizer prices to increase meaningfully in the last few months. Farmers around the world will likely be forced to use less fertilizer going forward, reducing future crop yields, and further accelerating food inflation globally.

Even supply chains that are unimpacted by the war are stretched and elongating due to China’s zero-COVID policy, which has forced cities to shut down entirely including much of the nearby manufacturing facilities and ports. To state the obvious, if a manufacturer in the US is missing just a single critical component from China or elsewhere, it can hold up its entire operation.
In addition to the tightening supply situation described above, rising inflation expectations are also leading consumers to a pull forward purchases, as they buy things today to lock in current prices for things they may need in the future. This causes inflation to accelerate even further. For example, the housing shortage in the US has accelerated recently as people try to lock in their long-term living costs, causing rents and home prices to rise significantly.

As consumers spend more on food, energy, and housing, they have less to spend on discretionary goods and services. Rising inflation expectations are pushing interest rates higher, also making it more difficult for people to finance large discretionary items.

At this point, a recession is a forgone conclusion by most. The important question to ask then, is why are we still long stocks? For one, the cure for high prices, is high prices. Said another way, high prices lead to both a positive supply response and a negative demand response over time.

However, the real answer is this: I strongly believe that owning businesses is the best way to protect the purchasing power of our capital from being inflated away over time – provided that they are well-capitalized, well-run, sell for reasonable multiples of earnings or free cash flow and have pricing power, which allows them to grow their long-term per-share value.

To elaborate, I don’t believe that it is rational to sell stocks based on the worry of every imminent economic slowdown, especially without having a strong view on the duration or magnitude of such slowdown.

None of the rational people I know look to sell their house and plan to buy it back in 2-3 years just because they think a recession is coming. My father-in-law, who is a dentist, has never talked about selling his practice for a few years and buying it back when the economy is on more stable footing. However, this is exactly what many stock market investors try to do each time there are headlines of a looming slowdown.

Now, in the 2008 financial crisis, businesses didn’t know if their banks would fund lines of credit. Suppliers didn’t know if they would be able to collect receivables from their customers. People questioned whether they would be able to get cash out of ATMs once banks inevitably failed. Every business and person was on the verge of insolvency. The economy would have ground to a halt.

During the COVID crash, most businesses were going to fail because they were shut down and generating no revenue. Additionally, nobody knew if some large percentage of the world’s population was going to die from the virus, which led to a great deal of uncertainty about future global demand.

In those circumstances, I can see how the long-term value of businesses could be questioned. However, today’s worries seem to be missing those existential ingredients. Companies are well capitalized. There are eleven million job opening in the US, an all-time high. Consumer demand remains healthy. It may weaken. If that happens, corporate earnings would decline. They would eventually recover, however.

While I am always thinking about, evaluating and re-underwriting each of our investments in real time and on a continued basis, there are times when the near-term outlook is uncertain simply because of economic factors rather than business specific ones. During these times, I strive to hold companies that are best positioned for the medium and long term, rather than worry about the next few quarters of reported earnings. As a reminder, less than 5% of the value of the S&P 500 comes from the cash generated by the underlying businesses over the next twelve months. The rest is in years two and beyond.

The problem with selling each time we worry of a pending slowdown is that sometimes one won’t come and by the time it becomes obvious, the prices of stocks, goods and services will have increased meaningfully. In that case, purchasing power of cash is permanently impaired.
Thus, to harvest behavioral edge from other market participants, we must be willing to look beyond the next twelve months. This is exactly what I am doing. Importantly, the businesses we own have fortress balance sheets and lots of dry powder to capitalize on any pending economic slowdown.

So, despite the recent market turbulence, I am sticking to my knitting. As I have said before, owning beta into a wall of worry has historically paid handsomely as the market inevitably climbs over the wall. Call me an optimist, but I believe this time will be no different.

As such, I will not aim to minimize drawdowns during market corrections. Instead, I will do my best to navigate drawdowns by shifting capital to the highest return opportunities created in the wake of the selling by others. Hopefully, my security selection and our willingness to own beta will deliver us results that we are pleased with in the long run.

**Other Updates**

As the Fund continues to scale, we have recently engaged an outsourced CFO who has decades of CFO/COO experience at multi-billion dollar funds. We are very pleased with the relationship and couldn’t recommend this person enough. If any fellow fund managers are looking for such a service, feel free to reach out for an intro.

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

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**Monthly Performance Summary**

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<thead>
<tr>
<th>2022</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
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<th>Nov</th>
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<tr>
<td>1 Main Capital Partners - Gross</td>
<td>-7.3%</td>
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<tr>
<td>1 Main Capital Partners - Net</td>
<td>-7.4%</td>
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<td>-3.4%</td>
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<tr>
<td>S&amp;P 500 index - incl dividends</td>
<td>-5.2%</td>
<td>-3.0%</td>
<td>3.7%</td>
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<tr>
<td>Russell 2000 - incl dividends</td>
<td>-9.6%</td>
<td>1.1%</td>
<td>1.2%</td>
<td>-7.5%</td>
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<table>
<thead>
<tr>
<th>One Year</th>
<th>Three Year</th>
<th>Since Inception</th>
<th>Inception Annualized</th>
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</thead>
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<tr>
<td>1 Main Capital Partners - Gross</td>
<td>28.4%</td>
<td>47.5%</td>
<td>217.4%</td>
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<tr>
<td>1 Main Capital Partners - Net</td>
<td>20.6%</td>
<td>36.9%</td>
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<td>S&amp;P 500 index - incl dividends</td>
<td>15.6%</td>
<td>18.9%</td>
<td>72.9%</td>
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<tr>
<td>Russell 2000 - incl dividends</td>
<td>-5.8%</td>
<td>11.7%</td>
<td>38.1%</td>
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