July 2024

Dear Partners,

For the second quarter, 1 Main Capital Partners, L.P. (the "Fund") returned 12.8% net, compared to 4.3% and (3.3)% for the S&P 500 (SPX) and Russell 2000 (RTY)[1], respectively. Year-to-date, the Fund returned 7.0% net, compared to 15.3% and 1.7% for the SPX and RTY, respectively.

Large caps (SPX) significantly outperformed small caps (RTY) in the first half of the year. However, even the large cap rally was fueled by just a handful of big winners. In fact, the ten largest stocks in the SPX contributed to over three-quarters of its YTD returns, making it one of the narrowest years on record, as shown below.

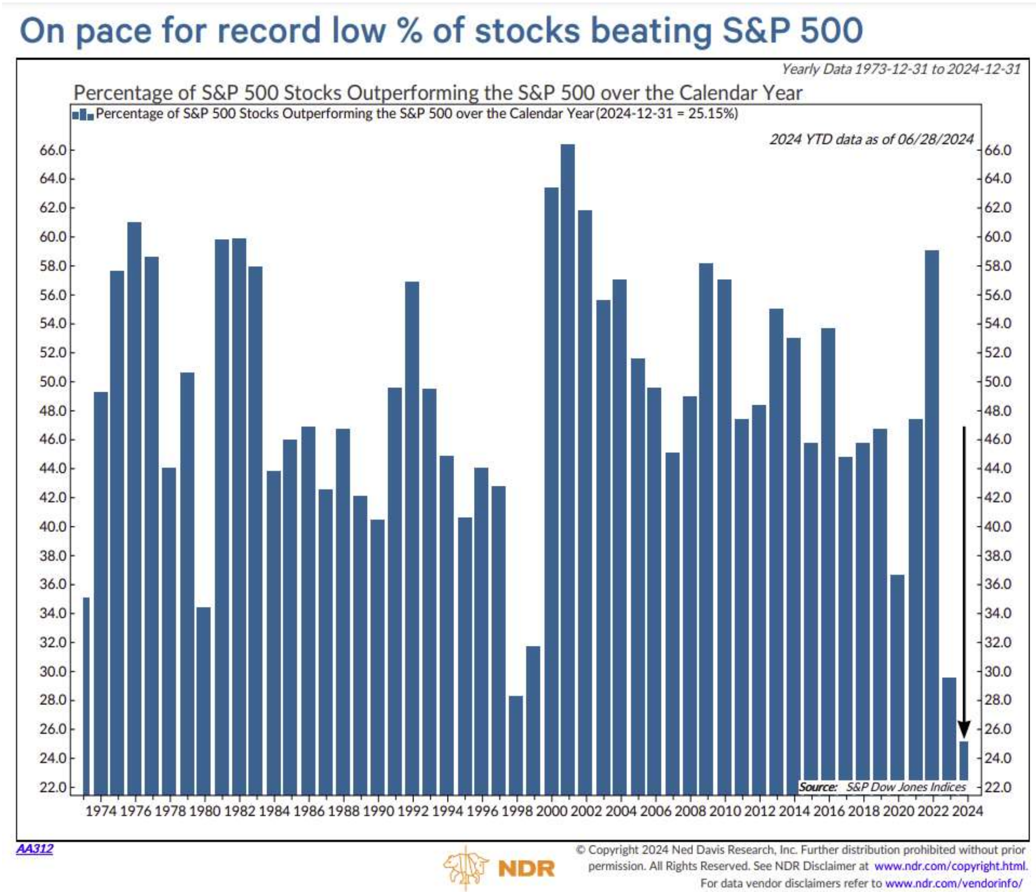
Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years

Year	Top 10 as % of Total	S&P 500 % Perf.
2007	78.7%	3.5%
2024	**77.2%**	**14.5%**
2023	68.4%	24.2%
2020	58.9%	16.3%
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%
2003	23.6%	26.4%
1995	22.3%	34.1%
2014	22.2%	11.4%
2004	21.1%	9.0%
2005	20.5%	3.0%
2010	19.6%	12.8%
2012	19.2%	13.4%
1997	19.1%	31.0%
2013	17.6%	29.6%
2009	15.5%	23.5%
1992	14.9%	4.5%
1993	12.2%	7.1%

Strategas ETF Research Source: Strategas, Bloomberg, 7/1/24

Specifically, the shares of AI winners were the primary driver of the strong YTD performance for US equities, while most other stocks struggled. As such, while the S&P 500 Growth Index returned 24% in the half, the S&P SmallCap 600 Value Index declined 5% in the period. Accordingly, only one in four stocks are outperforming the SPX, which is a record low.

[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 2024 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.



Similarly, the Fund's first half performance was almost entirely driven by just four stocks – BNED, DNTL, FUN and LMB - which represent under 1/3 of our portfolio. I remain optimistic about these positions at current prices. More importantly, I continue to believe that there remains substantial upside in the part of our portfolio that has yet to perform – most notably, IWG, a position I recently discussed with my friend Andrew Walker on the [Yet Another Value Podcast](), which represents approximately 20% of the Fund despite declining 9% in the first half.

Furthermore, as discussed in the Fund's [Q1'24 letter](), I remain confident that small caps provide long-term investors highly attractive investment opportunities due to the fatigue related to a period of multi-decade underperformance (shown below) as well as increased volatility during periods of economic uncertainty.

Current positioning

At quarter-end, the Fund's top five positions remained Basic-Fit (BFIT), Caesars Entertainment (CZR), dentalcorp (DNTL), IWG (IWG) and Limbach Holdings (LMB). Together, these holdings accounted for slightly more than 60% of capital.

New opportunistic position – Barnes & Noble Education (BNED)

During the second quarter the Fund initiated an opportunistic investment in Barnes & Noble Education (BNED) after the company announced a highly dilutive rights offering to recapitalize itself.

BNED, which was spun out of Barnes & Noble in 2015, is the largest operator of college bookstores across the US with 1,245 bookstores (55% physical / 45% virtual), serving nearly 6 million students. Since the spin, the company has faced increasing competitive pressures from eTextbooks, rentals and piracy.

In response to these pressures, BNED launched First Day Complete (FDC), which provides students with required course materials prior to the first day of class at below market rates. When schools sign up for FDC, students are automatically enrolled, with an opt-out rate of less than 20%. As a result of significantly higher sell-through rates, BNED typically enjoys a course material revenue and gross profit uplift of nearly 80% and 100%, respectively, upon adoption.

Students enjoy a 30-50% discount, but also benefit from enhanced educational outcomes when they have their materials before the first day of school. Publishers gladly provide these discounts since they are more than offset by the greater sell-through rates. Schools benefit when student outcomes improve and because the rent they receive from BNED is primarily tied to its revenues.

Due to the win/win nature of the FDC program, the pace of adoption is accelerating. In its most recent fiscal year, BNED generated nearly $300 million in FDC revenue, up from just $100 million two years ago. As this growth continues, EBITDA should increase substantially, potentially into the hundreds of millions of dollars, up from $40 million currently.

To fully realize this growth potential, BNED needed to recapitalize itself from an overleveraged position that worsened during the pandemic, when college enrollment took a hit. After engaging advisors to explore strategic alternatives in the middle of last year, the company announced a highly dilutive rights offering in April of this year at 5c per share. Given the low price of the offering and the amount of capital coming in, the transaction handed over 98% of the company to new equity.

Unsurprisingly, the stock traded down significantly upon the announcement, given how unfavorable the deal was to old money. However, new equity was coming in at just 8x EBITDA, an attractive multiple relative to the significant FDC-related growth opportunity in front of the company. Furthermore, the much-improved balance sheet allows BNED to aggressively invest behind FDC, potentially further accelerating penetration from just a low teens percentage of the company's school base today.

As such, in mid-April I invested 50 basis points of the Fund's capital into the company's shares at 23c each, which came with the right to invest up to an additional 3.5% of the Fund's capital into the company at 5c each, which would bring our average cost to 5.5c per share.

Then in mid-May the stock went ex-rights, meaning that although the offering hadn't closed yet, the rights would be ours even if we sold our original shares. Less than a week later, the company filed a proxy statement for the deal, outlining that while it received a competing proposal, the board did not deem it to be a superior transaction and thus rejected it. However, that day BNED was lumped in with a handful of meme stocks, causing its shares to rally almost 8x over the next four days, allowing us to exit our initial 50bp investment at 3x the Fund's entry price.

What's more, the shares stayed elevated until the transaction closed, allowing the Fund to dispose of most of its newly purchased shares also for around 3x its initial 5c cost. The shares then sold back down much closer to the rights price, allowing us to buy back some of the shares that we sold. Currently BNED represents approximately 3% of the Fund's capital. I expect the position to benefit when the company executes its growth plan in the coming years, and likely gets added back to the Russell 2000 mid-next year. It is worth noting that after the deal, BNED instituted a 100:1 reverse stock split so today's $10 share price is equivalent to 2x the price of the rights offering.

Outlook

As mentioned earlier, the rally in equity markets this year has been quite narrow, with only a handful of stocks driving most of the index gains. It appears many smaller and more cyclical companies are being shunned by investors, and priced as though significant economic risks are on the horizon and likely to materialize. While I agree that the economy is slowing and that consumers are pulling back, I don't think the current slowdown is a bad thing (yet). In fact, it is exactly what we needed to tame inflation and continue to own equities. Here is what I have written in past letters:

> Q2'22 letter: To continue owning risk assets, however, investors must believe that the Fed governors have zero appetite to repeat the mistakes made by their predecessors in the early 70's and will do ***whatever it takes*** to squash inflation, even if it means pushing the economy into a recession. A recession may be bad for corporate earnings in the near term, but corporate earnings will eventually recover, and the lack of sustained inflation is the key ingredient needed to support longer-term multiples.

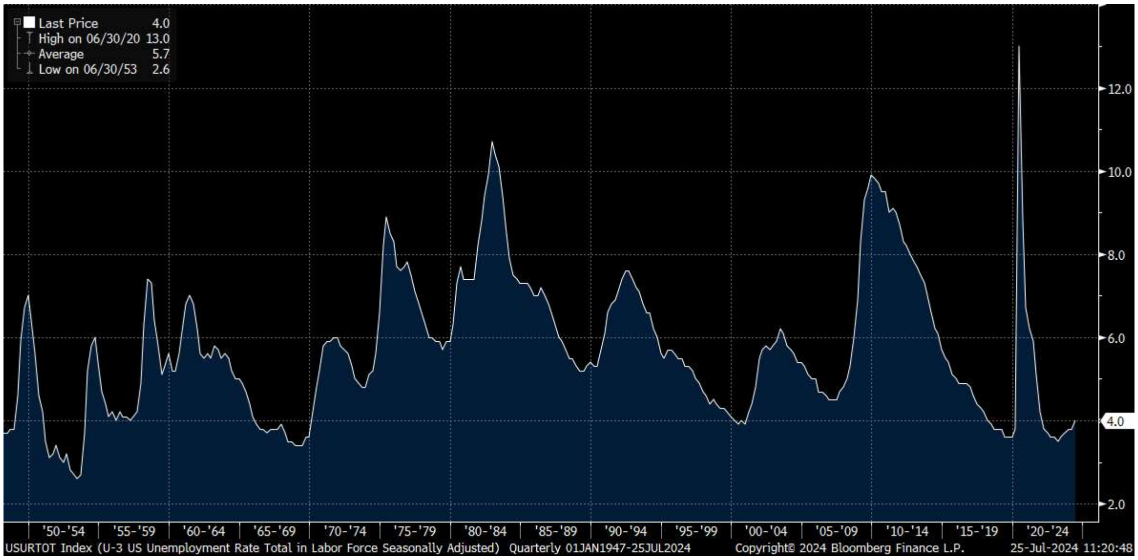
> Q3'22 letter: [The Fed's] primary objective is to slow demand and cool off the labor market enough to ease inflation. This is the right thing to do for the economy long-term and what you should be hoping for them to accomplish, whether you are labor or capital. While lower demand typically comes with spikes in unemployment and reduced economic output, the Fed is trying to accomplish its objective without causing a deep recession. Most put the chances of their success at slim. However, it is remotely possible that they can slow demand enough to cause businesses to stop hiring but also not so much where they fire their existing employees.

> Q4'22 letter: the Fed has taken short term rates above 4% and is expected to increase them to 5% sometime in 2023. The hope is that it can pause the rate hikes at this level and that it is enough to slow the economy just enough to reduce inflation, without tipping us into a severe recession.

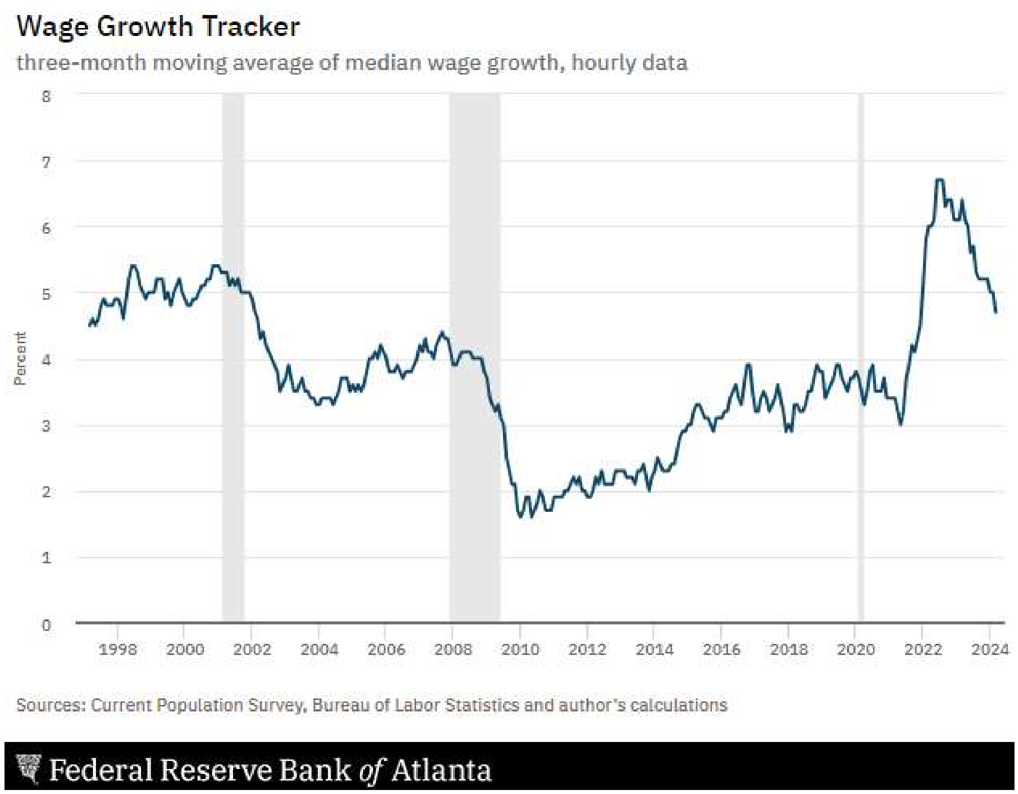
As noted above, the best-case scenario for equities was that the Fed would be able to slow down the economy and inflation without pushing it into a ***severe*** recession. In the Q1'23 letter I wrote the following:

> It is important to note that a recession, let alone a deep one, is not a certainty, and many of the equities we own already reflect a lot of pessimism in their stock prices. We won't know for sure until we look back at this period with hindsight, but there is a decent chance that investors are acting in an overly cautious manner due to lingering scars from the GFC. In my opinion, it is impractical to wait for a once-in-a-generation buying opportunity that may never materialize, particularly.

What has happened since I said the above? The economy has slowed somewhat but GDP continues to expand at a normal pace of 2-3%. The labor market has cooled; jobs are being created at a normal pace, but the unemployment rate has ticked up to 4%, which is still well below normal levels as shown below.



This cooling of the labor market has allowed companies to raise wages at slower rates:



The above developments have driven inflation back to more acceptable levels with the most recent June reading at 3%, down from 9% in mid-2022. From here, if the economy and unemployment don't deteriorate substantially, I believe that the types of stocks we own should perform quite well in the near term.

Of course, further deterioration is possible. However, the fact that the economy has been so resilient despite 5% rates has allowed the Fed to delay cutting rates, providing significant room to stimulate the economy with cuts, should that be necessary. It is also worth remembering that the one thing that both political parties in the US seem to agree on is increased deficit spending, which likely supports economic growth and corporate earnings in the medium term. If the economy deteriorates, increased fiscal spending is very much in play.

Beyond economic readings, there are also plenty of issues in the headlines that investors need to continue to digest, including a dramatic presidential election on the horizon and continued geopolitical volatility. However, in almost all scenarios I believe the potential upside in the Fund's portfolio is significant while the fundamental downside is limited. Even more importantly, should the economy roll over, we own cheap companies that are well-capitalized and will play offense to create additional value throughout the downturn. Because of this, I continue to believe the best way forward for the Fund to protect and grow its capital is to stay the course.

Firm update

The firm continues to scale, with current AUM standing at approximately $45 million as I write this letter. In the spirit of continually improving my investment process, accelerating my ability to source good ideas and generate strong performance for the Fund, I am looking to add a research analyst to the team. The ideal candidate is humble, hungry, scrappy, curious and open-minded. They should be passionate about investing but early in their career and seeking to develop their skills as a fundamental value investor. If you know of any qualified candidates, please have them send their resume to careers@1maincapital.com

Additionally, I have decided to introduce a Founder's Class with a 1.25% management fee and 15% incentive fee (above a 5% hurdle). This class will be made available to any partners who have at least $5 million of capital in the Fund, until AUM reaches $100 million. Once the $100 million milestone is reached, Founder's Class investors will be grandfathered into the share class and have the right to double their investment in it for up to 24 months. Feel free to reach out to me or Jessica if you would like to join or for more information.

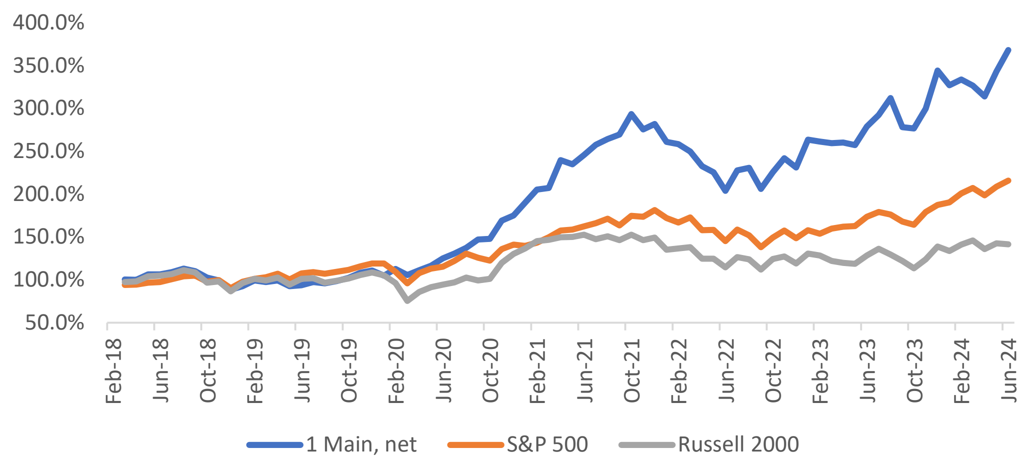
As always, I continue to love what we own and am looking forward to seeing what the future has in store for us. Thank you for your support and confidence.

Sincerely,
Yaron Naymark

Performance Summary[2]

2024	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
1 Main Capital Partners - Gross	-4.9%	2.2%	-2.1%	-3.8%	9.5%	8.6%							9.0%
1 Main Capital Partners - Net	-5.0%	2.1%	-2.2%	-3.9%	9.4%	7.4%							7.0%
S&P 500 index - incl dividends	1.7%	5.3%	3.2%	-4.1%	5.0%	3.6%							15.3%
Russell 2000 - incl dividends	-3.9%	5.7%	3.6%	-7.0%	5.0%	-0.9%							1.7%

	One Year	Three Year	Five Year	Since Inception	Inception Annualized
1 Main Capital Partners - Gross	40.2%	18.7%	39.6%	406.0%	28.7%
1 Main Capital Partners - Net	32.1%	14.5%	31.6%	268.3%	22.5%
S&P 500 index - incl dividends	24.5%	10.0%	15.0%	116.0%	12.7%
Russell 2000 - incl dividends	10.0%	-2.6%	6.9%	41.2%	5.5%



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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.

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