July 10, 2023

Black Bear Value Partners LP Q2 2023 Letter

"One tequila, two tequila, three tequila, floor." – George Carlin

To My Partners and Friends:

- Black Bear Value Fund, LP (the "Fund") returned +4.4% in June and is +14.0% YTD.
- The S&P 500 returned +6.6% in June and +16.9% YTD.
- The HFRI Index returned +3.3% in June and +5.9% YTD.
- We do not seek to mimic the returns of the S&P 500 and there will be variances in our performance.

Monthly Performance Net of Fees and Expenses

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year est.
2023	**Black Bear Value Fund**	1.0%	1.1%	0.8%	1.7%	4.4%	4.4%							**14.0%**
	HFRI Index - Value	4.6%	-1.3%	-0.2%	0.0%	-0.5%	3.3%							**5.9%**
	S&P 500	6.3%	-2.5%	3.7%	1.6%	0.4%	6.6%							**16.9%**
2022	**Black Bear Value Fund**	-3.9%	4.3%	1.6%	2.2%	0.2%	-6.7%	8.8%	-2.5%	-2.4%	9.5%	0.1%	1.8%	**12.5%**
	HFRI Index - Value	-2.8%	-0.1%	0.3%	-3.2%	0.4%	-5.7%	2.8%	-0.1%	-5.3%	3.0%	3.8%	-0.9%	**-8.1%**
	S&P 500	-5.2%	-3.0%	3.7%	-8.7%	0.2%	-8.3%	9.2%	-4.1%	-8.0%	8.1%	5.6%	-5.8%	**-18.1%**
2021	**Black Bear Value Fund**	1.1%	9.1%	13.6%	4.0%	0.2%	-1.5%	1.0%	-1.4%	-3.3%	4.2%	0.5%	4.1%	**35.0%**
	HFRI Index - Value	1.5%	6.5%	2.0%	2.8%	2.0%	0.5%	-1.6%	1.1%	-0.7%	1.5%	-3.4%	2.0%	**14.6%**
	S&P 500	-1.0%	2.8%	4.4%	5.3%	0.7%	2.3%	2.4%	3.0%	-4.7%	7.0%	-0.7%	4.5%	**28.7%**

Note: As of 6/30/2020 the HFRI Fundamental Value Index is being used. Past HFRI returns have been amended for this index.
Note: All historial returns reflect a 15% incentive fee.

Strategy Exposure @ 06/30/2023

	LONG	SHORT	NET
Equities	98.5%	-54.2%	44.3%
Preferred Equity	3.3%	0.0%	3.3%
Credit Related	0.0%	-37.3%	-37.3%
Total Investments	**101.8%**	**-91.5%**	**10.3%**
Cash	71.0%	0.0%	71.0%
T-Bills	3.5%	0.0%	3.5%
Total Cash/T-Bills	**74.5%**	**0.0%**	**74.5%**

Note: Includes delta-adjusted options position
Note: Cash balances include cash received from our short positions

Top 5 Gross Long Positions (Alphabetical)

Asbury Group	ABG
Builders FirstSource	BLDR
CONSOL Energy	CEIX
Paramount Resources	POU.TO
Warrior Met Coal	HCC

Note: As 06/30/2023

Gross Concentration Breakdown

	Long %
Top 5 positions	66%
Top 10 positions	94%

Note: As 06/30/2023

Note: Additional historical performance can be found on our tear-sheet.

The bar is open, and the party is apparently back on. Good times seem to be back en vogue as tech/AI hopes have sent various markets up in dramatic fashion over the last 6 months. Peeking beneath the surface one would find a handful of stocks accounting for most of the rise in the broader indices. As you may notice we are close to fully invested on the long side and have our largest overall short position since the Fund's inception. We are finding extremely undervalued securities and extremely overvalued securities.

Our main themes of investment on the long side remain fairly concentrated within the energy space, homebuilding, auto dealerships and general industrials. We underwrite our investments presuming an eventual weakening economy so if/when it strikes, we can take advantage of others' short-term fear.

We remain short credit as spreads remain tight. Most of the movement in corporate debt yields has been due to the widening of treasuries. As corporate profit margins compress, I expect weakening credit fundamentals to result in additional spread widening to compensate for the eventual corporate defaults.

BLACK BEAR
VALUE PARTNERS

Top 5 Businesses We Own

Asbury Group (ABG)

Asbury Group operates auto dealerships across the United States. While much attention is paid to the number of cars sold, the strength of the model comes from the back of the house in parts and services where more than 50% of the profits come from. We are exiting a period of high margins on new and used car sales. Shortages of inventory have allowed dealers to make record profits when selling a car. As inventories normalize and interest rates rise, I fully expect the dealers to make less profit (called the GPU) when selling a car. Car prices cannot go up ad-infinitum and at some point, there will be buyer pushback.

Less discussed is while profits per car are at all-time highs, the volumes sold have mirrored prior recessions. My expectation is that dealers will likely make less per car but will mitigate some of that pressure by selling more cars, especially used vehicles, as prices drop.

When an auto dealer sells a car to a consumer, they capture both the trade-in (inventory to sell) and the relationship for parts and services. It is a razor-razorblade model in a highly fragmented industry (many dealerships are owned privately by families). The large dealer groups have transitioned to an omni-channel model where much of the selling/pre-buy activity can be done online reducing the need for headcount and making the transaction smoother for their customers. The lower operating costs of the business are not appreciated by the market. They are appreciated by us and the management teams as most dealers, including ABG, have been buying in lots of stock with their free-cash flow.

ABG should be able to earn $25-$35 in free-cash flow per share in a “normal” year. At quarter-end pricing that implies a 10-15% annual yield.

Builders FirstSource (BLDR)

BLDR is a manufacturer and supplier of building materials with a focus on residential construction. Historically this business was cyclical with minimal pricing power as the primary products sold were lumber and other non-value-add housing materials. Since the GFC, BLDR has focused on growing their value-add business that is now 40%+ of the topline. The company has modest leverage and has been using their abundant free-cash-flow to buy in over 30% of the stock in the last 18 months.

While mortgage rates are higher, they are not unusual versus history. The low rates of the last 5-10 years are the outlier. We have a structural shortage of housing in the USA. With existing homeowners locked into low-rate mortgages, the aspiring homeowner may increasingly need to find a home from a homebuilder. The next 6-12 months could be rocky as people adjust to the increase in pricing and rates. Eventually the housing market should adjust to the new normal (or rates could go down).

Normalized free-cash-flow per share looks to be in the range of $10-$14 per year. At quarter end pricing of ~$136 that implies a free-cash-flow yield of 7-10%.

CONSOL Energy (CEIX) / Paramount Resources (POU.TO)

We have a large investment across the energy & commodity spaces. The thesis is simple…we haven’t developed enough energy or commodity resources to satisfy the near- and medium-term needs of the world as well as provide for a renewable/less-carbon intensive future.

BLACK BEAR
VALUE PARTNERS

CONSOL Energy is an American energy company focused on the coal sector. The business has undergone a shift from being a majority producer of coal for domestic energy purposes to an export-driven producer of coal for non-power generation purposes. Over the last few years, the Company has delevered to a near-zero net-debt position and is trading at a 25-30% unlevered free cash flow. While there is a negative stigma associated with coal (and some deserved) there are parts of the world that have limited energy alternatives and will require coal supply over the coming years. I expect the company to commit a large amount of the free-cash-flow to buying in cheap stock and the per share intrinsic value to grow substantially over the next 3 years.

Paramount is an ENP (exploration and production) in the energy space. It has no debt and ~$580MM in cash/securities (14% of the mkt cap). Management is fully aligned with us as they own 47% of the Company.

Over the next 2 years the company should generate ~9-10% in annual free-cash flow presuming fairly bearish energy prices. I tend to believe this is on the lower end as China reopens, and the lack of worldwide energy developments becomes more pronounced.

Warrior Met (HCC)

Warrior Met produces met coal which is used for steelmaking. They are a largely export driven producer (97%) with a large cost advantage as they can ship to Europe and South America in ~2 weeks versus Australian competition of ~5 weeks.

Some rough math on HCC (quarter-end price of $39 and market cap of ~$2BB and $0 net debt)

- They have a current project coming online in 3 years with an estimated value of $1BB or $19 per share per management.
    - I use a more modest discount rate and operating cash flow as the future is tough to know and get to $300-$500MM or $6-$9 per share.
- Excess cash of $5 per share
- The existing business requires $100MM in capex and generates midcycle operating cash flow of $500MM.... resulting in ~$8 in FCF per share. Some believe this number is closer to $800-$900MM per year.
    - Let’s presume non-heroic FCF yield of 15-20% on $500MM = $40-$53 per share
- New project of $6/$9 + Excess Cash of $5 + Operating business $40/$53 per share = **$51-$67 per share vs. current price of $39**

Note the above is a very rough calculation and shows the wide margin of safety baked in the price. We may decide the operating business is worth more than a 15-20% yield…. but for now, we do not have to make any big leaps with respect to valuation.

The Company has not been active in the share repurchase market to preserve their NOL’s (avoid triggering a change in control). As the NOL’s are used up in the coming 12 months they should be able to aggressively repurchase stock and significantly increase the intrinsic value per share.

Recent Presentation to CFA Society of NYC

Please see the link below if you would like to see our presentation from the 10th Annual Ben Graham Value Investing Conference held by the CFA Society of NYC.

Link to presentation

Wrapping Up

We are close to fully invested on the long side and are finding compelling shorts at the same time. Despite running a very high short position we have managed to perform in line with broader indices. I would remind you that this will not always be the case as we often can be zigging while the market is zagging. Our focus remains years out. As the world adjusts to higher rates we will begin to see defaults among the weak and market share gains from the strong. I think our portfolio is well positioned to come out of that situation in good shape.

Thank you for your trust and support.

Adam

Black Bear Value Partners, LP

786-605-3019/646-821-1854
Adam@BlackBearFund.Com
www.blackbearfund.com

BLACK BEAR
VALUE PARTNERS

THIS DOCUMENT IS NOT AN OFFER OF, OR THE SOLICITATION OF AN OFFER TO BUY, INTERESTS IN BLACK BEAR VALUE PARTNERS, LP (THE "FUND"). AN OFFERING OF INTERESTS WILL BE MADE ONLY BY MEANS OF THE FUND'S CONFIDENTIAL PRIVATE OFFERING MEMORANDUM (THE "MEMORANDUM") AND ONLY TO SOPHISTICATED INVESTORS IN JURISDICTIONS WHERE PERMITTED BY LAW.

This document is confidential and for sole use of the recipient. It is intended for informational purposes only and should be used only by sophisticated investors who are knowledgeable of the risks involved. No portion of this material may be reproduced, copied, distributed, modified or made available to others without the express written consent of Black Bear Value Partners, LP ("Black Bear"). This material is not meant as a general guide to investing, or as a source of any specific investment recommendation, and makes no implied or express recommendations concerning the matter in which any accounts should or would be handled.

The returns listed in this letter reflect the unaudited and estimated returns for the Fund for the periods stated herein and are net of fees and expenses, unless stated otherwise. Black Bear currently pays certain fund expenses, but may, at any time, in its sole discretion, charge such expenses to the Fund.

Please note that net returns presented reflect the returns of the Fund assuming an investor "since inception," with no subsequent capital contributions or withdrawals. You should understand that these returns are not necessarily reflective of your net returns in the Fund, and you should follow-up with Black Bear if you have any questions about the returns presented herein.

An investment in the Fund is speculative and involves a high degree of risk. Black Bear is a newly formed entity with limited operating history and employs certain trading techniques, such as short selling and the use of leverage, which may increase the risk of investment loss. As a result, the Fund's performance may be volatile, and an investor could lose all or a substantial amount of his or her investment. There can be no assurances that the Fund will have a return on invested capital similar to the returns of other accounts managed by Adam Schwartz due to differences in investment policies, economic conditions, regulatory climate, portfolio size, leverage and expenses. **Past performance is not a guarantee of, and is not necessarily indicative of, future results.** The Fund's investment program involves substantial risk, including the loss of principal, and no assurance can be given that the Fund's investment objectives will be achieved.

The Fund will also have substantial limitations on investors' ability to withdraw or transfer their interests therein, and no secondary market for the Fund's interests exists or is expected to develop. Finally, the Fund's fees and expenses may offset trading profits. All of these risks, and other important risks, are described in detail in the Fund's Memorandum. Prospective investors are strongly urged to review the Memorandum carefully and consult with their own financial, legal and tax advisers before investing.

The development of an investment strategy, portfolio construction guidelines and risk management techniques for the Fund is an ongoing process. The strategies, techniques and methods described herein will therefore be modified by Black Bear from time to time and over time. Nothing in this presentation shall in any way be deemed to limit the strategies, techniques, methods or processes which Black Bear may adopt for the Fund, the factors that Black Bear may take into account in analyzing investments for the Fund or the securities in which the Fund may invest. Depending on conditions and trends in securities markets and the economy generally, Black Bear may pursue other objectives, or employ other strategies, techniques, methods or processes and/or invest in different types of securities, in each case, that it considers appropriate and in the best interest of the Fund without notice to, or the consent of, investors.

Performance returns compared against benchmark indices are provided to allow for certain comparisons of Black Bear's performance to that of well-known and widely-recognized indices. Such information is included to show the general trend in the markets during the periods indicated and is not intended to imply that the holdings of any of the applicable accounts were similar to an index, either in composition or risk profile. The indices represented herein are the S&P 500 and the HFRI EH: Fundamental Value Index ("HFRI EH FVI"). The S&P 500 is a free-float weighted/capitalization-weighted stock market equity index maintained by S&P Dow Jones Indices, which tracks the performance of 500 large companies listed on U.S. stock exchanges. The HFRI EH FVI reflects fundamental value strategies which employ investment processes designed to identify attractive opportunities in securities of companies which trade a valuation metrics by which the manager determines them to be inexpensive and undervalued when compared with relevant benchmarks.

This presentation contains certain forward looking statements. Such statements are subject to a number of assumptions, risks and uncertainties which may cause actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by these forward-looking statements and projections. Prospective investors are cautioned not to invest based on these forward-looking statements.

Furthermore, many statements in this presentation are the subjective views of Black Bear, and other reasonable persons may have differing views. Unless it is unequivocally a statement of fact, any statement herein (even if not specifically qualified as an opinion (i.e., with language such as "in the opinion of" or "we believe that")) should nevertheless be understood and interpreted as an opinion with which reasonable persons may disagree, and not as a material statement of fact that can be clearly substantiated.

The information in this presentation is current as of the date listed on the cover page and is subject to change or amendment. The delivery of this presentation at any time does not imply that the information contained herein is correct at any time subsequent to such date.

Certain information contained herein has been supplied to Black Bear by outside sources. While Black Bear believes such sources are reliable, it cannot guarantee the accuracy or completeness of any such information.

This Presentation has not been approved by the U.S. Securities and Exchange Commission (the "SEC") or any other regulatory authority or securities commission.

This Presentation does not constitute an offer of interests in the Fund to investors domiciled or with a registered office in the European Economic Area ("EEA"). None of the Fund, Black Bear or any of their respective affiliates currently intends to engage in any marketing (as defined in the Alternative Investment Fund Managers Directive) in the EEA with respect to interests in the Fund. Receipt of this investor presentation by an EEA investor is solely in response to a request for information about the Fund which was initiated by such investor. Any other receipt of this investor presentation is in error and the recipient thereof shall immediately return to the Fund, or destroy, this investor presentation without any use, dissemination, distribution or copying of the information set forth herein.