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Performance Summary		
	Sosin Partners, LP*	SPY**
2012***	14.0%	-1.5%
2013	66.6%	32.3%
2014	6.3%	13.5%
2015	14.5%	1.3%
2016	22.0%	12.0%
2017	31.2%	21.7%
2018	29.8%	-4.6%
2019	64.5%	31.2%
2020	96.5%	18.3%
2021	3.9%	28.7%
2022	-77.2%	-18.2%
Q1 2023	21.8%	7.4%
YTD 2023	21.8%	7.4%
Cumulative return since inception	347.8%	242.2%
Annualized return since inception	15.4%	12.5%

See Important Notes at the end of this letter for important considerations to keep in mind while reading.

* Performance net of 2% management fee and 20% performance allocation.

** Includes dividends reinvested.

*** Sosin Partners LP launched 10/9/2012; performance for both the fund and SPY shown from that date.

To My Partners:

As shown in the performance summary, during the three months ended March 31, 2023, Sosin Partners, LP reported a gain on a mark to market basis net of all fees, expenses, and performance allocations of 21.8%. The broad market as represented by the SPY ETF including dividends was up 7.4% during the same period.

Since its inception on October 9, 2012, Sosin Partners, LP has reported gains on a mark to market basis net of all fees, expenses, and performance allocations of 347.8%; this represents a 15.4% compound annualized rate of return. The SPY ETF is up 242.2% including dividends



during that period representing a 12.5% compound annualized rate of return.

The Balance Sheet

We ended the quarter with seven stock positions on the long side of the balance sheet, totaling 99.9% of equity capital. As of March 31, 2023, our largest holding, representing 48% of equity capital, was Hilton Grand Vacations. Our second largest holding represented 18% of capital, and the remaining positions ranged from 3% to 10% of equity capital. Our position in Hilton Grand Vacations is unusually large, and I'll have more on that later in the letter.

What Now?

2022 was an extraordinarily challenging year for our partnership on many levels. Several of our businesses, notably, Carvana, Cardlytics and Party City endured meaningful setbacks in their operations. Unfortunately, Party City filed for bankruptcy in early 2023 and has become a permanent loss. As a result, the market value of our holdings reflected these challenges and more. The negative 77% full-year mark-to-market performance reasonably encapsulates how difficult a year we faced, although obviously our mark-to-market value recouped some of that loss this year.

From the beginning of this partnership, I hopefully have been clear that setbacks are to be expected, both in terms of poor performance in our businesses and in transient mark-to-market value fluctuations. Last year we experienced both and of a significant magnitude.

In my conversations with you, some of you have asked if I remain engaged given how far below our high-water mark we are. The simple answer to this question is yes for three reasons. First, despite 2022 being a challenging year, I enjoy investing and at the tender age of forty-one, cannot imagine not pursuing my chosen vocation. Second, I take pride in performing well, and my sense of professional decency would not allow me to walk away at this point. Furthermore, you have essentially prepaid for my performance back to our high-water mark and I would feel wrong walking away so far in the hole. Third, while we are obviously far behind our high-water mark, the gap does not appear insurmountable to me. In fact, I see clear paths back to our high-water mark and beyond over a reasonable timeframe.

Given that the partnership must roughly triple in value in order to return to our high-water mark, point three above might strike you as a bit outlandish, so let me elaborate.

I like to think of our holdings in three buckets. The first bucket consists of HGV, BFIT.NA, COF, and AHT.LN. These companies are absolutely marvelous, humming along, and by my

estimate, remarkably cheap based on their near-term profitability and long-range prospects. Collectively these investments account for approximately 78% of the mark-to-market value of our holdings.

A few highlights from this group are:

- Hilton Grand Vacations (HGV), which trades for roughly 8x the amount of cash it generates and deploys on repurchases and should continue to grow its revenue and profits in the mid to high single digits for many years (decades) to come. This is possible because Hilton Grand Vacations benefits from the unfair advantage of selling timeshare under the Hilton brand, which matters because buying a timeshare equates to buying a lifetime of vacations, making trust essential.
- Basic Fit's (BFIT.NA) gyms have mostly recovered from their COVID-related setbacks. The company ended the year with 1,250 gyms, including 891 mature gyms and 359 newer gyms that will mature over the next 24 months. Once these gyms mature, this fleet of gyms should earn more than 250 million euro per year of net income, meaning that the business trades for a bit under 10x the earnings power of its existing gyms. The company plans to open 200+ gyms this year and ~250 gyms next year, while also remaining cash flow positive. This is an impressive feat given that gyms cost ~1.2 million euro each. Over the next five years, Basic Fit is on track to more than double its gym count while generating surplus cash to repay debt and/ or repurchase stock. Longer term, I believe the chain can expand to 6,000-10,000 gyms in Europe with further opportunities elsewhere. Basic Fit's success results from the fact that consumers weigh proximity highly when choosing a discount gym. Thus, any gym has a local region where it is the best provider. Basic Fit uses this fact to build a network of gyms across a geography where each gym has enough members to make handsome returns, but there is no room for a competitor to place a competing discount gym nearby. To boot, the chain benefits from economies of scale from its position as Europe's largest gym chain and is excellently managed by Rene Moos and team.
- Capital One (COF) trades for approximately 5.3x my estimate of its ~\$7bn of normalized profitability (it made more last year). This is an incredible price for a bank which, owing to its unique culture, deeply modern technology stack, and willingness to invest in its long-term success, has outgrown its competitors in all its major business lines (card, auto, deposits) for decades while maintaining a tight risk discipline, earning a mid (going to high) teens return on equity and holding far more capital than is necessary.
- Ashtead Group (AHT.LN) trades for approximately 13x next year's profits. Owner of Sunbelt Rentals, the second largest construction and industrial equipment rental company in the US, Ashtead benefits from a multi-decade secular shift in the use of



rented (vs. owned) construction and industrial equipment, and from smaller rental companies to larger rental companies that operate more efficiently and can provide better service. These trends, which have many years to go, have fueled the company's 16% compounded EBITDA growth since 2005, while paying a dividend and repurchasing shares. And growth isn't slowing; the company expects to grow 23% to 25% in 2023 (although I expect slower growth than this torrid rate on average over time).

The second bucket, which is adjacent to this group, is our investment in the subprime installment lender World Acceptance (WRLD). In 2022, WRLD's profitability was meaningfully below trend owing to elevated charge-offs. These charge-offs resulted from a) anticipated charge-offs from a planned higher mix of new borrowers and b) unanticipated charge-offs due to worse than expected credit performance, particularly among new borrowers. Basically, the team at WRLD tried to grow fast (it grew loans 27% year over year as of 12/31/2021) and ended up with too many losses.

Realizing their error, management at WRLD significantly tightened its underwriting standards and curtailed its marketing, particularly for new borrowers, beginning in the back half of the year. While it takes some time for changes in origination mix and standards to feed through into losses, by the end of calendar 2022, early loss indicators were at all time bests, but as a result loan origination volumes were well below normal.

Because of these elevated credit expenses, WRLD's profit during the calendar year 2022 was only \$2.20 per share, instead of ~\$15 per share, which I estimate it would have earned had charge-offs been consistent with the company's history.

Since the start of 2023, the team at WRLD has been gradually re-normalizing its credit standards and reactivating its marketing activities with the goal of achieving a more balanced and sustainable mix of growth and charge-offs. There are many reasons to think that by the end of 2023 the company will settle into a pattern of mid/ high single digit growth (with margin expansion) at acceptable losses (consistent with its history). Assuming this happens, WRLD should be able to grow net income in the high single digits or low double digits for many years while returning most of its profits to owners. This outcome would make the ~5.7x profits price for the company's shares (assuming normalized charge-offs) very compelling.

To be clear though, unlike the other investment in the first bucket I mentioned above, where the businesses are clearly performing today, in this case there remains uncertainty as to exactly where the efficient frontier between growth and profitability will settle. It is possible that, once

business trends normalize, losses are higher (and profits lower) and/ or growth is slower than I described above. However, unlike the third bucket consisting of Carvana and Cardlytics (discussed below) where the uncertainty goes to the very survival of the companies, in the case of World, the questions at hand seem to be merely matters of degree.



“Can you increase its range?”

Taken together, buckets one and two combined (HGV, BFIT, WRLD, COF, and AHT) represent approximately 88% of the value of our holdings (at market) and as a group trade for ~8x normalized/ stabilized/ adjusted profits (how I measure it for each company and how I think best reflects underlying value creation but not in accordance with GAAP). Looking forward, I think that as a group this collection of businesses should grow in the high single digits, while returning the majority of profits to owners through buybacks dividends.

Assuming this comes to pass and that these businesses are valued somewhat more

reasonably in the future, my opinion is that our holdings in this collection of businesses should be valuable enough by themselves in approximately five years to get us back over our high-water mark. Obviously, this is an uncertain forecast.

In addition to these holdings, we own my third bucket, which consists of our substantial interest in Carvana and Cardlytics. These two investments represented ~9% and ~3% of our holdings at the end of the quarter, respectively. While both investments are risky, I believe that they each have enormous potential for upside. In both cases, the potential gains could be significant enough to materially close the gap to our high-water mark.

Since my last note in December, Carvana’s operations have shown significant improvement, with material gains and all-time records across a range of operational metrics. During the Q4 2022 earnings call, the company cited several examples of this improvement:

“In logistics, our average delivery distance is down 25% since early 2022. In market operations, we’ve built scheduling systems that currently allow us to pair over one out of three retail deliveries with a vehicle pickup, up from one out of fourteen retail sales just one year ago. In customer care, our advocates are spending 40% less time on the phone per sale than they were in early 2022. Our vending machine



pickup rates have more than doubled since the start of last year with 40% of our customers nationwide now picking up their cars at vending machines, even though we only have vending machines in a subset of our markets. Importantly, we've done this all while improving quality of our customer experiences over the last six months."

As most of you know, I, with the help of some vendors, have assembled a fairly robust portfolio of tools ranging from web scrapes to third party data sets to monitor Carvana's operations. I also maintain close relationships with the management team (always careful around the disclosure rules to prevent the receipt of non-public information). Based on my observations from these tools and my discussions with management, I believe that the examples above represent just the tip of the iceberg. Put simply, from what I can see, the company's processes and cost execution have improved substantially.

Sharper operational performance leads to improved overall cost performance at Carvana, but with a lag. Despite this lag, the company's Q1 performance improved noticeably from Q4. I expect to see substantially more progress in Q2 and beyond.

Offsetting these gains in efficiency has been continued weakness in unit volumes. This weakness is partly due to a challenging used vehicle market backdrop and partly due to deliberate actions taken by management to prioritize profitability over volume.

However, here too there is reason to be cautiously optimistic. Based on some of the data I track, there are some early signs that units may have bottomed out and started to recover, although it is tough to draw strong conclusions. We'll have a much better sense of the company's true run rate in May when the distorting impacts of tax season will have lessened.

The upshot is that while Carvana is far from out of the woods, I see meaningful progress in a number of areas that makes me cautiously optimistic the worst is behind the company. Based on the business's current trends, I continue to expect a return to positive EBITDA around Q2 with increasing EBITDA in Q3 and beyond.

As I've said in the past, while Carvana's current challenges are serious and its survival cannot be assured, the opportunity remains incredible. Assuming the business survives, I continue to expect it to grow into by far the nation's largest and most profitable car retailer. In that scenario, we should see tremendous gains in the value of our investment. These gains could be of a magnitude that they could, by themselves, materially or entirely close the gap to our high-water mark.

Reflecting on our experience with our investment in Carvana over the past eighteen months, the external challenges the company has faced have been extraordinary. Industry unit volumes fell to levels consistent with the Great Recession. Industry credit spreads reached all-time tights. Independent dealers such as Carvana were disproportionately impacted by these headwinds as they benefited from neither elevated new and off lease vehicle margins nor access to new buyers who converted to used vehicle buyers given new vehicle supply shortages.

To put things into perspective, let's look at CarMax's sales figures. From 2014 to 2021, during CarMax's Q4 ended February, the company sold an average of 977 units per store. During Q4 2023, despite investing significantly in omnichannel capabilities designed to increase sales per store and accepting below-typical credit spreads on its loan originations, CarMax sold just 715 units per store, representing a 27% shortfall compared to the eight-year average. By comparison, in the Great Recession impacted fiscal year ended February 2009, CarMax's same store unit volume fell by only 16%. I dislike the term unprecedented but, in this case, it is literally true.



Here are the new sales figures, which way up would you like them?

CartoonStock.com

For Carvana, the challenges were greater than those of CarMax. Prior to this period of significant industry headwinds, Carvana's strategy was to prioritize growth and invest in building ahead of need. However, once it became clear that becoming cash-generative had to be the company's primary goal, the company's focus shifted from growth to profitability. With this shift, the company made a variety of decisions that deliberately traded unit volumes for profitability and thus further

contributed to the business's volume headwinds.

Furthermore, the positive feedback inherent to Carvana's business model amplified both internal and external headwinds. For example, as Carvana's inventory decreased, so did its conversions, leading to less advertising spend and word of mouth. This resulted in lower traffic and sales, creating a need to further reduce inventory, and the cycle continued. Adding to the



difficulty was the fact that these issues arose immediately after Carvana had acquired ADESA, adding over \$3 billion in debt to its balance sheet.

To make matters even worse, it takes time to rescale an organization as large and interconnected as Carvana to the extraordinary swings in demand that the business experienced. This meant that the company's losses were higher for longer as the company's cost reductions persistently lagged falling unit sales throughout 2022.

Despite all these challenges, Carvana has survived thus far and still has ample liquidity. It's a testament to the quality of the business, the management team, and the margin of safety in the capital structure that despite this confluence of challenges, Carvana still has a reasonable path out of the storm and can still potentially achieve long-term prosperity with minimal dilution.

Cardlytics has experienced two setbacks since I wrote to you about it in July, but it has also achieved a major milestone and made some significant strides.

First, when Howard Schultz returned as CEO to Starbucks, he decided to significantly reduce or eliminate Starbucks's advertising spending across almost all channels including Cardlytics. Starbucks was Cardlytics's largest customer, representing a teens percent of revenue, so this customer loss was a significant setback to the business overall. Second, at the end of Q3 Cardlytics announced a dispute with the former Bridg shareholders over the amount owed by Cardlytics related to the acquisition agreement's earnout provision. While details surrounding the litigation are not public, given that the earnout payments are material outlays to the company, it is possible that an adverse outcome in this dispute would leave the company insolvent.

These setbacks, compounded by the weak advertising market and the company's inability to access the capital markets, have put Cardlytics's survival in doubt.

Fortunately, the company has also made gains. The new leadership under Karim Temsamani has been a breath of fresh air. Since joining, he has made improvements to the operations including substantially reducing costs, re-invigorating the bank relationships, and improving the company's approach to innovation. The company's Q1 results, in which the business was able to offset a majority of the lost Starbucks revenue and achieve year over year EBITDA growth, are a testament to the resilience of Cardlytics's model and Temsamani's decisive actions. These results represent an important first step to the company's short-term success.



Cardlytics also achieved a significant long-term milestone with the initial rollout of the new customer experience at Chase. This new experience, made possible by the new ad server, is a substantial improvement over the old implementation. It also is far more flexible for further innovation. While it will take some time to see the impact of this improvement, I am optimistic that it, along with others to come, will meaningfully accelerate the business's growth and increase its profitability. If you aren't a Chase cardholder, or you are but aren't lucky enough to have the new user experience yet, you can see the new user experience [here](#).

The new user experience is just one of a host of reasons and initiatives that make Temsamani confident that Cardlytics can be cash flow positive starting in Q3. My sense is that this goal is achievable, but there is far less margin of safety in this plan than I would like, and success cannot be guaranteed. Assuming Cardlytics does achieve these near-term goals, the next hurdle is achieving sufficient profitability to refinance the company's September 2025 bonds. This also should be achievable, especially assuming the business is cash flow positive and growing by Q3 2023, but again the margin of safety here is less than I would like.

Assuming the company navigates its short and medium-term challenges, Temsamani (per his public statements) sees an enormous opportunity for this business long-term, and I agree. This is an ad channel with vast reach and unique data. Advertisers can spend large sums at attractive returns even with the product in its primordial state. With a more developed product, I continue to think that this business has the potential to be far larger and very lucrative. Like Carvana, if this company is successful, the gains here, by themselves, could get us meaningfully closer to our high-water mark.

Reflecting on our investment in Cardlytics, it is clear to me that Lynne Laube did not have the ability to undertake the role of CEO. She made numerous mistakes, ultimately causing the company's short and medium-term difficulties (the loss of Starbucks notwithstanding). I had mixed feelings about Lynne and concerns about several poor decisions made by her and the board since early in our investment, but believed the concerns were outweighed by the strengths of the business and the size of the opportunity and could be ameliorated over time as the quality of the team improved. If Cardlytics is ultimately successful under Temsamani's leadership then perhaps that judgement will stand the test of time. Still, going forward, I'll probably give more weight to managerial talent in evaluating businesses.

In the earlier part of this letter, I mentioned that I was optimistic about surpassing our high-water mark in a reasonable timeframe. I hope this optimism makes sense to you now. We have a portfolio of resilient performing businesses that could collectively generate sufficient returns.



Additionally, we have two riskier investments, that could make a significant contribution individually or collectively. Of course, I'll try to find ways to continue to upgrade our holdings both in terms of resilience and upside.

Before I end this letter, I want to address two more issues that are probably on your mind. First, why do we own so much Hilton Grand Vacations (HGV)? And second, what happened with Party City (PARTY)?

As you noticed earlier in the letter, our holdings of HGV have grown as a percentage of our market value to nearly 50%. This concentration into HGV did not happen because I purchased more shares. On the contrary, we have sold shares over the past several quarters. It happened (on a mark to market basis) because the rest of the values of our holdings declined.

Even for a concentrated investment strategy like ours this level of concentration is unusual and not ideal. However, I have not reduced our position further for two reasons.

First, if we are going to have such a large investment in one stock, a business like HGV is a good candidate for many reasons:

- 1) In my opinion, HGV is a franchise as much as a business, meaning the benefits of the Hilton name and an established base of resorts and owners provide the business with an unfair advantage that both increases its profitability and makes it resilient to abuse and mistakes.
- 2) Mark Wang and team have run this business for over a decade, meaning we have an experienced and proven team in charge.
- 3) HGV generates significant cash and has for years (excepting a deliberate period of inventory investment in 2018) and returns that cash to owners through repurchases.
- 4) HGV has a long history of high returns on capital.
- 5) HGV is conservatively capitalized with 2.4x net debt to EBITDA (excluding non-recourse debt), little capex, no meaningful debt maturities until 2028, an 80% fixed rate capital structure and no performance covenants.
- 6) HGV has substantial liquidity for its size including \$1,182 million of unrestricted cash and revolver availability and \$652 million of borrowing capacity under its timeshare facility as of December 31, 2022.
- 7) HGV has a stable and provenly resilient business.
 - a. Nearly half of profits come from serving existing owners in relation to their existing VOIs through the club management, HOA management and financing businesses.

- b. The new VOI sales portion of the business, which is where the volatility resides, depends on more predictable VOI sales to existing owners for roughly two thirds of its volume and has a highly variable cost structure if sales disappoint.
 - c. HGV has proven to be notably resilient in past disruptions. The company hit its goals in 9/11-stricken 2001, saw only a 3% decline in VOI sales in the Great Recession impacted 2008/9, and managed to be cash flow positive (incredibly) in the COVID-19 impacted 2020.
 - d. HGV has high margins, (30% EBITDA margins ex pass through expenses in 2022).
- 8) HGV/ the time share industry face no known existential threats.
 - 9) HGV operates in a comparatively slowly changing industry.
 - 10) HGV is professionally governed with robust oversight from Hilton and Apollo in addition to all the usual oversight for a publicly traded company in the United States.
 - 11) The stock trades at a very low multiple of current period profits (and cash flow), and current period profits are expected to continue to grow over time.

Secondly, while our HGV position represents nearly half our portfolio's mark-to-market value, I believe that we are significantly more diversified when we look at the underlying value of our holdings. This is because I think that Carvana and Cardlytics, despite their setbacks, are significantly undervalued in the portfolio at their quoted prices. If my view proves correct and their prices recover, our diversification on a market price basis should normalize.

Based on these factors, I do not believe that the current level of concentration in HGV presents an urgent problem that requires us to sell this great investment and buy inferior ones just to achieve greater diversification. Instead, I believe that we should be patient and wait for the prices of Carvana and Cardlytics to normalize. If they do, our diversification will normalize as well. In the meantime, I am actively seeking good alternatives for a portion of this position and may lean towards swapping some of it for other names.

If it becomes clear that a recovery in Carvana and/or Cardlytics is unlikely to renormalize our overall diversification, then I will lean more towards diversifying. It's worth noting that we divested some of our HGV shares in late 2022 and used the funds to invest in Capital One. While I think that HGV is a superior investment to Capital One in some ways, I considered the two to be close enough in value to justify the swap.

Lastly, I'd like to discuss what I believe happened at Party City, which was a disappointing outcome for us.



I invested in Party City on the theory that the company's dominant position in the party goods industry (it is many times larger than anyone else) and the resilience of the party goods category to competition from Amazon (you can't ship balloons, and most party supplies are too low-priced, heavy and/ or bulky to be sold individually on Amazon) would allow Party City to continue to prosper as it had for many years. I also believed that the business, which had roots as a distributor, could be run better as a retailer. I first bought shares of Party City in 2019 when weak sales, largely due to a helium shortage, ostensibly created the opportunity.

By late 2021, despite the initial disruptions of the pandemic, I believed that our thesis was working and was excited for the prospects of our investment. That year, Party City had comparable store sales that were 12.1% higher than 2019 despite the headwinds related to the COVID-19 pandemic, particularly in Q1 (which was before the widespread distribution of the vaccine) and in December (which was the start of the Omicron wave). I attributed those gains to improvements in the company's operations across a range of activities including store layout, product design, pricing, merchandising and website design.

At the start of 2022, I expected the progress in 2021 to continue, offset by transient headwinds related to Omicron early in the year and elevated freight costs. In 2021, the company generated \$266 million of adj EBITDA. Its initial guide for 2022 was for \$275-300 million of adjusted EBITDA, despite the freight related headwinds and the impact of Omicron early in the year. (The company has D&A of \$66 million per year, which approximates the company's long-term capital expenditure needs.) On this outlook, the stock was incredibly cheap, trading for just ~6.7x profits.

Leverage was an issue for the investment. The company had \$1,284 million of net debt at the end of 2021, implying 4.8x times leverage on a debt/ EBITDA basis or 6.4x times leverage on my preferred debt/ EBIT basis. For most businesses, this is a reasonable if somewhat elevated debt load, and this was far less debt than Party City had carried for most of its existence. However, for retailers in 2021/ 2022, this was a comparably heavy debt load.

My view was that the debt added risk, but it seemed manageable, and we were being more than adequately paid for accepting the risk. I also believed that the company's anticipated progress repaying debt and growing EBITDA had the potential to put the company's capital structure concerns behind it within a few years.



In part because of the debt, and in part because retailing is a difficult business in general, I always viewed Party City as a riskier, higher upside potential investment in the portfolio and thus kept it smaller. The position size varied over time as its value and the value of our other holdings fluctuated but was generally 2-5% of equity capital.

In 2022, the company encountered a series of challenges that resulted in the company filing for bankruptcy in January 2023.

First, in March 2022, the company's sales abruptly slowed from mid-single digit growth to low-single digit declines. The decline was particularly significant among lower-income consumers. It remains unclear whether this slowdown was a consequence of above trend sales in 2021 – perhaps due to stimulus money or catch-up parties – or if it was due to below trend sales in 2022 – perhaps due to declining real wages as inflation in food, lodging, transportation, fuel and energy prices meaningfully outstripped wage growth, particularly for middle and lower-income families – or both.

Second, the company's management mistakenly purchased an excessive amount of inventory due to a combination of poor systems, variable lead times, and demand fluctuations caused by the pandemic. This overbuying happened largely in Q1 but had three negative effects which did not reveal themselves until Q2 and Q3. Firstly, the company had to source a large amount of merchandise at peak freight rates and input costs. Secondly, when the inventory arrived faster than expected, and with sales worse than expected, the company ended up with significant excess inventory and nowhere to store it. This led to high costs related to temporary storage and handling. Thirdly, the extra inventory investment drained the company's liquidity, increased its borrowings, and added interest cost.

Third, the helium shortage re-emerged due to the Russian invasion of Ukraine. In 2022, the helium market was expected to have ample supply with the planned arrival of capacity from a new Gazprom plant. However, a fire at the plant delayed its start, and when Russia invaded Ukraine, Gazprom was unable to hire Western contractors or source Western parts to complete the repairs, leaving the market very tight and subject to other outages. Several of these outages occurred in 2022, leading to shortages. Despite Party City's committed supply agreements, its suppliers declared force majeure, requiring the company to pay much higher prices for helium on the spot market during Q2. Additionally, the shortages significantly impacted Party City's wholesale balloon customers' ability to source helium, resulting in a notable decline in wholesale balloon sales that impacted the company's profitability beginning in Q4. This effect



is likely to persist until the helium shortage is resolved, a process that might take years. For a good article describing the events, please refer [here](#).

In addition to these three challenges, the company, like many other companies, also struggled throughout 2022 with higher labor and input costs, which proved challenging to pass onto consumers.

By Q3 2022, considering the combined impact of all the above, the company lowered its guidance for 2022 to \$140 million of EBITDA. Debt had also increased to \$1,667 million, largely due to a \$302 million increase in inventory. After this release, it seems the company's vendors were no longer willing to extend the business the trade credit it needed to prepare next year's Halloween, and the company suffered a trade squeeze. I made efforts to secure financing for the company, but the combination of higher interest rates, wider credit spreads, negative perceptions about retailers in general and general recession concerns made the effort fruitless.

In a bit of good luck, there was a brief meme stock mania in late 2022 around Party City and a few other stocks, which created an opportunity to sell our substantial block of shares for more than nothing.

Looking back on this sequence of events, my overall impression is that we made a decent if knowingly risky but appropriately sized bet and got unlucky. Framed another way, had any one of these three major issues not arisen and/ or if they all had arisen but the financing markets had been more accommodating, it is probable the company would have survived. The real test of the core elements of my thesis, that Party City's model works in today's retail landscape, will be how Party City performs as a business in the coming years. In its February business plan as a part of the restructuring case, the company forecasts \$276 million of EBITDA in 2025, implying a full recovery – just not to our benefit. We are no longer owners, but I plan to continue to monitor with an eye to learning.

Thank you for taking the time to read this letter. The support of the partners over the past year has been more than I would have wished for. Despite our challenges, over the past three quarters we have experienced cumulative net outflows representing only ~1% of assets under management with no acceleration on the horizon. Indeed, many of you have reached out to offer encouragement, a gesture which I very much appreciate. It was always important to me to attract the right partners and based on the experience last year, I know I have. I look forward to writing to you about happier outcomes of our investments.



These limited outflows, coupled with our gradual approach to growing the partner base, do mean that for the first time in a few years we have some capacity to take additional subscriptions. Please reach out to either Ginny or me if you would like to discuss.

Administrative

The Partnership's Amended and Restated Confidential Offering Memorandum (the "Offering Memorandum") requires that I disclose whether my investment in Sosin Partners, LP and parallel funds represents over 50% of my liquid net worth. I am pleased to say it does. In fact, it represents over 90% of my entire net worth. My family and I are invested right alongside you.

In addition, the Offering Memorandum requires that I disclose whether I have any other significant income generating activities. I do not. The management of the Partnership, the parallel funds and a single purpose vehicle establish for a co-investment opportunity in a single issuer is my sole occupation and source of income.

Conclusion

I am excited for the prospects of our Partnership. While I expect our short-term results will be volatile, I believe that profits over time will be worth the volatility.

You'll recall that we endeavor to benefit from a virtuous cycle wherein:

- 1) our investors trust us and allow us the space necessary to focus on long term investment performance,
- 2) this long-term focus allows us to make better investment decisions unclouded by short term considerations,
- 3) better long-term investment decisions, in turn, (hopefully) allow us to produce better long-term returns, thus earning our investors' trust and restarting the cycle.

I appreciate your continued trust in me. As always, feel free to call or drop by the office if you'd like to chat.

Sincerely,



A handwritten signature in dark ink, appearing to read 'Cliff Sosin', is located in the upper left area of the page.

Clifford Sosin

CAS Investment Partners, LLC

The information contained in this report is intended for informational purposes only and is qualified in its entirety by the more detailed information contained in the Sosin Partners, LP offering memorandum (the “Offering Memorandum”). This report is not an offer to sell or a solicitation of an offer to purchase any investment product, which can only be made by the Offering Memorandum. An investment in the Partnership involves significant investment considerations and risks which are described in the Offering Memorandum.

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The comparison of the Partnership's performance to a single market index is imperfect because the Partnership's portfolio may include the use of margin trading and other leverage and is not as diversified as the Standard and Poor's 500 Index or other indices. Due to the differences between the Partnership's investment strategy and the methodology used to compute most indices, we caution potential investors that no indices are directly comparable to the results of the Partnership.

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