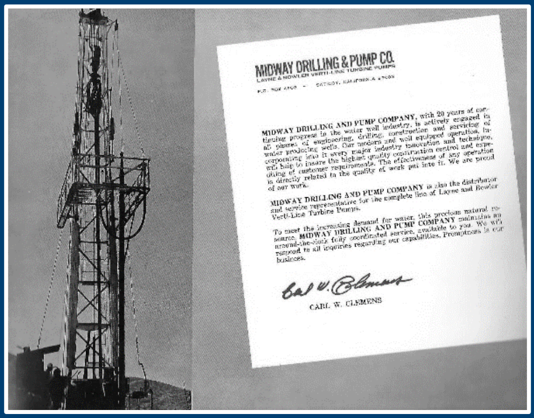
MIDWAY PARTNERS

CAPITAL MANAGEMENT

Midway Partners Capital Management was named after a business that was founded by Jordan Lampos' grandfather and great grandfather, Midway Partners Drilling & Pump Co.   It was founded in 1945 and operated for almost 75 years.

While not affiliated or in the same industry, the two companies share a common set of core values. Midway Drilling & Pump Co. built a reputation of integrity and trust with clients. Midway Partners Capital Management aims to do the same.

The picture shown is a page from the company's 1965 brochure.



MIDWAY PARTNERS
CAPITAL MANAGEMENT

midwaypartnersllc.com

Re: Quarter Ending June 30, 2023

Dear Partners:

Quarterly Update

As we reach the two-year anniversary of the Partnership, we look back on a colorful few years in the investing world. We saw a massive run up in stock prices following the start of the pandemic in 2020 and 2021, a precipitous price fall in 2022, and a strong price rally in the first half of 2023. So called "transitory" inflation has proved to be much stickier than the Federal Reserve had hoped leading to a meteoric rise in the short-term Federal Funds Rate from near zero in 2020 to 5.25% as of this writing.

How has the Partnership faired since our start in mid-2021? The table below provides a breakdown.

Net Return	YTD Q2 2023	2022	Compounded Total[1]
Midway Partners[2]	**7.9%**	**(13.3%)**	**0.1%**
S&P 500[3]	16.8%	(18.1%)	2.3%

(1) Compounded since inception as of July 1, 2021.
(2) Returns are net of all management fees and Fund expenses.
(3) Total index return including dividend reinvestment.
Note: Individual returns may vary given the date of original investment.

Our net return YTD is 7.9% through June 30, 2023, while the S&P 500 has moved higher by 16.8%, both inclusive of dividends. Compounded since inception, the Partnership's return is flat, with the broad market up about 2.3% annually.

To summarize the table above, we lost less in 2022 than the broad market, and have not gained as much thus far in 2023. It is important to note that the S&P 500 continues to be dominated by seven large technology companies which make up about 30.0% of the index. We will explore the valuation of one of these behemoths in our comments below.

We are looking forward to the second half of 2023. Given that our companies produce meaningful cash flow and were purchased at reasonable prices, we expect profitability in the second half of 2023 to add to intrinsic value.

Portfolio Update

We made few portfolio adjustments in the quarter. We noted in the last letter that we had begun to build a position in a small regional bank. We abandoned that position preferring to add to the bank already in our portfolio. While the new bank is well run and presents an attractive long-term opportunity, we believe that the bank we already own is superior. Its net interest margin is better insulated from deposit rate increases on account of a large portion of its loan book is floating rate, it has a long history of industry leading credit performance choosing not to syndicate its loans, and it is run by an owner/manager who has been managing the bank since 1979. What more could one ask for in a bank?

When prices move downward, in our favor as a buyer, is it better to add a new position or add to an existing position? This presents a challenging dilemma. We wrestled with this decision over the past few months. Our conclusion was that we will always work to concentrate capital into the best companies when prices are attractive. With that said, and given the comments above, we chose to build on the existing position instead of adding a new one. This will likely be our default decision when faced with similar situations, but every situation will be evaluated independently. This will likely further concentrate the portfolio.

Here is a portfolio snapshot as of the second quarter 2023.

#	Company	% Capital
1	McKesson Corporation (MCK)	15.6%
2	Bank OZK (OZK)	10.2%
3	Checkpoint Software Technologies (CHKP)	10.0%
4	Investors Title Company (ITIC)	9.4%
5	Molson Coors Beverage Company (TAP)	9.1%
6	Sprouts Farmers Market (SFM)	8.6%
7	Intel Corporation (INTC)	8.0%
8	Legacy Housing Corporation (LEGH)	6.7%
	Subtotal (Top ~75.0%)	**77.6%**
	Other Securities and Derivatives	16.1%
	Cash and Short-Term Treasuries	6.3%
	Total	**100.0%**

The top eight companies above represent a majority of the Partnership's capital. The performance of the Partnership over the next several years is likely to hinge on the performance of these companies and their respective stock prices. This is fine with us since we believe these companies are worth owning in large quantities.

We see each of these as a high-quality company within their respective industries. They have track records of significant profitability and have either prudently reinvested or returned cash to shareholders via buybacks or dividends. Moreover, we believe that each was purchased at reasonable prices.

We are constantly on the lookout for new opportunities that fit our quality criteria and price discipline. Great opportunities are few and far between, especially as market prices grind higher.

Sticking to our buy and hold strategy and assuming about one new large position each year, you are unlikely to see wholesale changes within this group over the next several years.

We believe that it is important to be transparent with our Partners – call anytime regarding any aspect of the Partnership. With that said, we have made mistakes over the last two years in moving the portfolio into this position. We estimate that these mistakes cost the Partnership about 5.0% of potential total net return since inception. Our singular goal is to eliminate such mistakes going forward, and we believe that returns will take care of themselves.

A Real-Time Example

We have mentioned in the last two quarterly letters about the large technology companies that make up almost 30% of the S&P 500 – alphabetically listed as Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla. We thought this presented an opportunity to show how we go about estimating intrinsic value for one of these large technology businesses.

We will go into the thought process behind assumptions and their corresponding impact on value. Note that all companies require the same thought process regardless of industry, company age, rate of growth, size, etc. when completing a valuation. Then we will compare our valuation to the market price and draw some conclusions.

One of the more important aspects of a valuation is the balance between precision and accuracy. More detail does not necessarily ensure correctness, but high-level assumptions may not have enough detail to provide a relevant answer. It is important to strike a balance between precision and accuracy and be mindful of tradeoffs.

What you will not see is any comparison of trading multiples or other market-related inputs. These are pricing tools and are not appropriate when doing actual valuation work. In our opinion, this is one of Midway Partners' biggest differentiators.

So, let's get to it. To illustrate, we estimate intrinsic value for Alphabet, Inc. (GOOGL) (referred to as "ABC" or the "Company"), better known as the parent company of Google.

<u>A Brief Company Summary</u>

ABC is a large technology-based conglomerate that started as the Google search engine in 1998. ABC's profit and dominance are built on advertising revenue from Google Search, but over the years it has added several other important and growing business lines, including YouTube, Google Network, Google Cloud, and several others. It provides digital products and services that are entrenched in our daily lives such as Google Search, Gmail, Maps, Android, Chrome, and YouTube, not to mention all the companies supported by Google Cloud. It is indeed hard to grasp, let alone evaluate, ABC's influence and the indivisible nature of its offerings.

As a result, the Company has experienced truly outstanding operating and financial performance since its IPO in 2004. We can't emphasize this enough. There are few companies in history that have grown as quickly or as profitably as ABC. The Company relies on Google Search as its cash cow and uses a portion of that cash to fund other growing albeit unprofitable business lines. We pick up the financial story in 2012 and review a decade of performance below.

Historical Financials

Alphabet, Inc. Financial Summary

	Actual Results											
(USD in billions)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**CAGR/Avg**
Income Statement												
Revenue	$50.0	$59.7	$65.8	$73.6	$89.7	$111.0	$137.0	$161.4	$182.4	$257.5	$280.9	*18.8%*
Growth %	*32.0%*	*19.6%*	*10.2%*	*11.8%*	*21.9%*	*23.7%*	*23.4%*	*17.8%*	*13.0%*	*41.2%*	*9.1%*	
EBIT	$13.1	$14.0	$16.7	$18.0	$23.2	$29.1	$31.5	$35.5	$41.1	$78.6	$72.9	*18.7%*
Growth %	*28.6%*	*6.6%*	*19.4%*	*7.5%*	*29.1%*	*25.3%*	*8.5%*	*12.5%*	*15.7%*	*91.4%*	*-7.2%*	
Margin %	*26.3%*	*23.4%*	*25.4%*	*24.4%*	*25.8%*	*26.2%*	*23.0%*	*22.0%*	*22.5%*	*30.5%*	*25.9%*	
Net Income	$10.7	$12.2	$13.7	$15.8	$19.5	$12.7	$30.7	$34.3	$40.3	$76.0	$60.0	*18.8%*
Growth %	*10.3%*	*13.2%*	*12.7%*	*15.5%*	*23.1%*	*-35.0%*	*142.8%*	*11.7%*	*17.3%*	*88.8%*	*-21.1%*	
Margin %	*21.5%*	*20.4%*	*20.8%*	*21.5%*	*21.7%*	*11.4%*	*22.4%*	*21.3%*	*22.1%*	*29.5%*	*21.4%*	
Return on Equity												
Book Equity	$71.7	$87.3	$104.5	$120.3	$139.0	$152.5	$177.6	$201.4	$222.5	$251.6	$256.1	
Less: Cash	($48.1)	($58.7)	($64.4)	($73.1)	($86.3)	($101.9)	($109.1)	($119.7)	($136.7)	($139.7)	($113.8)	
Equity-Cash	$23.6	$28.6	$40.1	$47.3	$52.7	$50.6	$68.5	$81.8	$85.9	$112.0	$142.4	*19.7%*
Cashless ROE	*57.8%*	*46.6%*	*39.9%*	*36.2%*	*39.0%*	*24.5%*	*51.6%*	*45.7%*	*48.1%*	*76.9%*	*47.2%*	*46.7%*
Reinvestment												
Cash from Operations	$16.6	$18.7	$22.4	$26.0	$36.0	$37.1	$48.0	$54.5	$65.1	$91.7	$91.5	
Less: Stock Based Comp.	($2.7)	($3.3)	($4.3)	($5.2)	($6.7)	($7.7)	($9.4)	($10.8)	($13.0)	($15.4)	($19.4)	
Less: Capex	($3.3)	($7.4)	($11.0)	($9.9)	($10.2)	($13.2)	($25.1)	($23.6)	($22.3)	($24.6)	($31.5)	
Less: Acquisitions	($10.6)	($1.5)	($4.9)	($0.2)	($1.0)	($0.3)	($1.5)	($2.5)	($0.7)	($2.6)	($7.0)	
Free Cash Flow	$0.1	$6.5	$2.3	$10.7	$18.1	$15.9	$12.0	$17.7	$29.1	$49.0	$33.7	*80.8%*
Reinvestment % of NI	*99.2%*	*46.5%*	*83.6%*	*32.7%*	*6.9%*	*-25.9%*	*61.0%*	*48.6%*	*27.7%*	*35.5%*	*43.8%*	*41.8%*
Growth Rate												
(a) Cashless ROE	*57.8%*	*46.6%*	*39.9%*	*36.2%*	*39.0%*	*24.5%*	*51.6%*	*45.7%*	*48.1%*	*76.9%*	*47.2%*	*46.7%*
(b) Reinvestment Rate	*99.2%*	*46.5%*	*83.6%*	*32.7%*	*6.9%*	*-25.9%*	*61.0%*	*48.6%*	*27.7%*	*35.5%*	*43.8%*	*41.8%*
Implied Growth (a X b)	*57.3%*	*21.6%*	*33.3%*	*11.8%*	*2.7%*	*-6.3%*	*31.5%*	*22.2%*	*13.3%*	*27.3%*	*20.7%*	*19.5%*
Implied Net Income	$10.7	$13.1	$17.4	$19.5	$20.0	$18.7	$24.6	$30.1	$34.1	$43.4	$52.4	*17.2%*

Source: FactSet and company reported financial statements

ABC has grown Revenue, EBIT, and Net Income at a compounded annual growth rate (CAGR) of 18.8% since 2012 – a remarkable accomplishment! The Company's revenue exploded in 2021, growing by 41.2% YOY, as the COVID-19 pandemic provided a massive tailwind for advertising via online search and its other business lines.

Over the period shown, ABC has averaged about 46.7% return on equity (ROE) when cash is excluded. The Company has held a mountain of cash for the last decade which mars the exceptional nature of its business when measured by ROE. As a result, we remove cash when we make the ROE calculation.

ABC has reinvested about 41.8% of its Net Income back into its business lines. This varies from year to year depending on capital expenditure requirements or acquisitions. Note that for the purposes of calculating free cash flow, we exclude stock-based compensation (SBC). More precisely, we don't allow it to be added back to the calculate Cash from Operations. Stock-based compensation is dilutive to existing shareholders and thus is treated as an expense. If we allowed SBC to be added back to free cash flow, we would calculate a higher aggregate value, but we would need to account for the future SBC dilution and apply a much higher number of shares outstanding when calculating a fully diluted per share value. We would end up in the same place, so we correctly treat SBC as an expense.

If we multiply the average ROE by the average reinvestment rate over the decade shown, the implied average Net Income growth rate is 19.5%. If we use each individual year's implied growth rate, we arrive at an implied Net Income CAGR of 17.2%. As mentioned above, ABC's actual Net Income CAGR over the period was 18.8%, which fits tightly between our implied assumptions. It looks like we are on the right track here and understand the historical growth and capital requirements of the business.

Estimating Intrinsic Value

As Yogi Berra said, "It's difficult to make predictions, especially about the future." There are two critical assumptions that need to be forecasted to estimate value – the return on equity (or return on invested capital, etc. – pick your poison) and the amount of earnings (or capital) that can be reinvested. Those two assumptions alone will drive ABC's growth and profitability. The higher the ROE and the more earnings that can be reinvested, the faster Net Income will grow, but the less interim free cash flow will be produced. If there are less opportunities to reinvest earnings, then more free cash flow will be produced in the near term, but growth will slow.

It is important to note that our ROE and reinvestment assumptions will certainly be wrong. ABC will undoubtedly do either better or worse than what we assume. The point is that we need to make assumptions that we believe are probable and conservative. Our thoughts below inform our assumptions.

- We believe that ABC will continue to earn a high ROE with attractive reinvestment opportunities in the near term.
- Over time, ABC will have fewer high ROE reinvestment opportunities – it will experience diminishing returns.
- Reinvestment rate will fall or reinvestment may be pushed into less attractive opportunities – either way, Net Income growth will slow.
- ROE will move down as ABC unsuccessfully searches for new opportunities.
- In summary, given the remarkable past performance of ABC especially aided by the tailwinds of the COVID-19 pandemic, we feel that the future will be less amazing than the past ("moonshots" are difficult to repeatedly land).

These assumptions are in no way a commentary on ABC's management quality or skill. We are emphasizing the Company's inevitable evolution through the business cycle. We are fine with others disagreeing with our assumptions – some may be more aggressive, some more conservative.

We use a 10.0% discount rate in the valuation not because some term like *beta* or the *equity risk premium* tells us to, but because that is the minimum return we are willing to accept – no need to overcomplicate it! Again, we don't look to the market for information on this point. If someone is willing to accept 9.0% or wants 11.0%, then they should use either of those discount rates.

The discount rate should not be coupled to stock price volatility. Also, we use a terminal growth rate of 3.0%, making sure that it is symmetrical with the ROE and the reinvestment rate.

Putting It Together

Here are all the assumptions coming together into a projection and an estimated valuation.

Alphabet, Inc. Estimated Intrinsic Value

						Projection Year							
(USD in billions)	Hist Avg.	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Term.**	CAGR/Avg
Assumptions													
(a) Cashless ROE	*46.7%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*40.0%*	*35.0%*	*35.0%*	*35.0%*	*20.0%*	*38.5%*
(b) Reinvestment Rate	*41.8%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*15.0%*	*27.5%*
Implied Growth (a X b)	TTM[1]	*14.0%*	*14.0%*	*14.0%*	*14.0%*	*14.0%*	*8.0%*	*8.0%*	*7.0%*	*7.0%*	*7.0%*	*3.0%*	*10.6%*
Net Income	$58.6	$66.8	$76.1	$86.8	$99.0	$112.8	$121.8	$131.6	$140.8	$150.6	$161.2	$166.0	*10.7%*
Reinvestment		($23.4)	($26.7)	($30.4)	($34.6)	($39.5)	($24.4)	($26.3)	($28.2)	($30.1)	($32.2)	($24.9)	
Free Cash Flow		$43.4	$49.5	$56.4	$64.3	$73.3	$97.5	$105.3	$112.6	$120.5	$129.0	$141.1	
	Rate											$2,016.1	
Discount Factor	10.00%	0.91	0.83	0.75	0.68	0.62	0.56	0.51	0.47	0.42	0.39	0.39	
Present Value	$1,251.9	$39.5	$40.9	$42.4	$43.9	$45.5	$55.0	$54.0	$52.5	$51.1	$49.7	$777.3	
Plus: Cash	$115.1												
Less: Debt	($12.9)												
Est. Equity Value	**$1,354.2**	Current	52 Week										
Fully-Diluted Shares (mm)	13.20	Price[2]	Low	High									
Est. Value Per Share	**$102.61**	$119.67	$83.45	$129.55									
		116.6%	81.3%	126.3%									
MOS Discount @ 20.0%[3]	$83.64												
MOS Discount @ 30.0%[3]	$74.15												

(1) Based on March 31. 2023 results
(2) As of closing July 12, 2023
(3) Discount applied to present value estimate only; no discount is applied to net debt on the balance sheet
Source: Midway Partners assumptions

We estimate the intrinsic value of ABC's equity to be about $1.354 trillion or $102.61 per fully diluted share. This compares to $119.67 as of closing on Wednesday, July 12. Based on our assumptions, ABC is overpriced in the market by about 17.0%. Our estimate implies a 10.7% Net Income CAGR over the projection period, conservative compared to ABC's historic rate. There are other considerations that go into making any investment decision (competitive factors, regulatory considerations, etc.), but they all must be boiled down into the assumptions discussed (ROE and reinvestment) to properly estimate intrinsic value. A few other inputs regarding ABC's investments and capital leases are likely to have a diminish effect on value. We favor accuracy over precision for illustrative purposes – you get the idea!

Because our assumptions will inherently be wrong (per Yoga Berra), we require a margin of safety (MOS) when making an investment. The margin of safety protects against our assumptions being too far off the mark. Also, assuming our price is accurate, if we pay more than our estimated price, we can rationally assume that our return will be less than our discount rate. If we pay less than our estimated price using a MOS, we can rationally assume our return will at least match our discount rate with the possibility of being significantly higher – this is similar to buying a bond at a discount to par and receiving a yield greater than the coupon rate.

It is important to note that in the last year, ABC's market price moved close to our 20.0% MOS price on a few occasions. If it moves closer to our 30.0% MOS price, we might consider backing up the truck. We believe that MOS price discipline is critical to our long-term investing success.

We hope this example provides some insight into the mechanics of how Midway Partners goes about estimating intrinsic value.

Conclusion

The Partnership is actively taking new subscriptions from qualified clients who share our common views on investing. We are actively looking to increase the number of Partners. We welcome any referrals.

Also, for retail clients or those who do not wish to participate in the Partnership structure, Midway Partners Capital Management offers separately managed accounts using the same intrinsic value process. Please contact info@midwaypartnersllc.com for more information.

As always, we are honored that you have chosen to trust Midway Partners Capital Management with your capital.

Sincerely,

Jordan Lampos

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Any reference to gross returns, net returns, or fund performance are estimated by the Investment Manager and are subject to the year-end audit. Midway Partners Intrinsic Fund, LP, Midway Partners Intrinsic Pecan, LP, the Investment Manager, nor any director, officer, employee, agent, or consultant makes any representation or warranty as to the accuracy of the estimated performance information provided. Actual returns may differ from the returns presented herein. Net return figures are reported net of all fees and expenses including management fees and performance fees. Net returns may vary by investor. Each partner will receive individual monthly and year-end statements showing the value of their participation in the partnership from the fund administrator. Past performance is not indicative of future results.

The Investment Manager is in the business of buying and selling securities and other financial instruments. Any statements of opinion constitute only the current opinions of the Investment Manager which are subject to change. Midway Partners Intrinsic Fund, LP, Midway Partners Intrinsic Pecan, LP, the Investment Manager, nor any director, officer, employee, agent, or consultant (i) makes any representation or warranty as to the accuracy or completeness of the information contained herein; (ii) undertakes any obligation to update any information contained herein, except to the extent required by applicable law; or (iii) takes any responsibility under any circumstance for any loss or damage suffered as a result of any omission, inadequacy, or inaccuracy in this letter, except to the extent required by applicable law. You should not rely upon this information in evaluating any investment decisions. The Investment Manager may buy, sell, or otherwise change the form or substance of any of its investments and may change its views about or its investment positions in any of the securities mentioned in this document at any time, for any reason or no reason and disclaims any obligation to notify the market of any such changes.

This information is not a solicitation and does not contain sufficient information to make any investment decisions. An offer or solicitation of an investment in a private fund will only be made to accredited investors and qualified clients pursuant to a private placement memorandum and associated documents. This information is not directed toward and may not be suitable for general retail clients.

There are substantial risks in investing in securities of the partnership and each investor must have the financial ability, sophistication, experience, and willingness to bear such risks. Parties should independently investigate any investment strategy or manager, and should consult with qualified investment, legal, and tax professionals before making any investment decisions. An investor should not make an investment unless the investor is prepared to lose all or a substantial portion of its investment. There is no secondary market for the interests nor is any expected to develop.

Interests in the partnership have not been registered under the Securities Act of 1933, as amended, in reliance on registration exemptions thereunder. The partnership is not registered as an investment company under the Investment Company Act of 1940, as amended, in reliance on exemptions thereunder. The Investment Manager is exempt from both state and federal registration as an investment adviser and accordingly is not registered as an investment adviser in any state or with the Securities and Exchange Commission.