PLURAL INVESTING LLC

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	Partnership (Gross)	Partnership (Net of Fees)	MSCI World Index
2020 (Apr 1-Dec 31)	122.9%	97.1%	46.8%
2021	38.7%	29.9%	21.8%
2022	-32.0%	-32.7%	-18.1%
2023	-5.5%	-6.4%	23.8%
Annualized	20.1%	13.6%	17.2%

January 16, 2024

To our Partners:

Plural Partners Fund L.P. delivered a gross return of 14.5% and net return of 14.3% in Q4. Our goal is to deliver returns over a five-year period significantly above that of global markets.

We are value investors. We invest in businesses that we believe are worth substantially more than the price they are trading at. We think of risk primarily as the chance of a loss over a five-year horizon and not the temporary drawdowns in stock prices that occur from time to time. We manage this risk by only investing in businesses trading at a substantial discount to a conservatively calculated intrinsic value and that we would be happy to own if the market shut for five years. We welcome stock price volatility as it often presents opportunities to invest further at even better prices. When such opportunities cannot be found we hold cash instead.

The majority of our capital is typically allocated to our six to eight best investments. We look for qualities such as attractive business economics and management teams who possess and foster a culture of high integrity, customer focus, and prudent capital allocation. Our businesses may be 'hidden gems' because they are small, receive little coverage, listed on under-researched exchanges, operating in unpopular industries, or offer terrific opportunities beyond short term concerns. We develop a research edge over other investors by doing extensive primary research and utilizing quantitative tools. This edge can be significant when we are competing mostly against retail investors or the small positions of larger institutions, which is why we deliberately fish in those waters.

A one-page appendix entitled "Principles of Our Partnership" is attached to this letter. This should give you an idea of what you can and cannot expect from our partnership.

We estimate that our businesses trade for 6.1x their net profits in three years' time and will still be growing at double digit rates then. These businesses generally have very strong balance sheets with little or no debt, earn an average post-tax return on tangible capital of 24%, and are run by well-aligned management teams with an average ownership of 22%.

Although our portfolio rebounded somewhat in Q4, we believe that our businesses continue to trade at very depressed valuations. While this is undoubtedly frustrating, we remain confident that the intrinsic value of our businesses will be recognized over our investment horizon.

The last couple years have been difficult ones for global small cap value stocks, but the result is that we are finding an increasing number of opportunities. We made a significant new investment in Q4, which we expect to publish a detailed writeup on shortly.

Portfolio Allocation	
% of Net Assets by Business Type:	
Consumer	33%
Payments	28%
Travel	14%
Industrials	8%
IT	8%
Special Situations	1%
Others	0%
Cash	6%
	100%
Portfolio Statistics:	
Net Exposure	94%
Long Exposure	108%
Short Exposure	-14%

Kyndryl (KD)

We published a writeup on Kyndryl to SumZero in late November, 2023, which was awarded second prize in its category in the SumZero Top Stocks 2024 Challenge. You can read the writeup on SumZero here or email chris.waller@pluralinvesting.com for a copy[1].

Kyndryl is a spin-off from IBM that is successfully turning itself around. The company is the largest provider of services to manage on-premise data centers, a market that is declining at low to mid-single digits rates per annum. IBM offloaded Kyndryl in 2021 as part of an attempt to rebrand itself as a growing and cloud-focused business. While IBM initially hoped that Kyndryl stock would be priced at $50, it had to settle for $28 and the stock sold off after the spin as each Kyndryl share was worth 5% of an IBM share and the company was a loss making business in a declining industry that few wanted to own. The stock bottomed in 2022 at $8, we bought long-term call options in late 2022 when the stock traded between $9 and $11, and bought shares throughout 2023 between $14 and $17. It trades at $21 today and we estimate will be worth $40 in three years when the company generates $4 in FCF.

Although Kyndryl appeared to be an unattractive business, several clues suggested it could turn itself around as a standalone company. CEO Martin Schroeter was an IBM-lifer who knows the business well and came out of retirement to take the job. He owns around 2.5mm shares, options, and various units, with many exercising or vesting at $18, $24, and $39. We

[1] https://sumzero.com/pro/research/ideas/22184

think Schroeter would only have come out of retirement if he thought these targets were beatable. He and many of the management team also bought significant amounts of stock between $9 and $17.

They likely see some easy wins for Kyndryl now that it is a standalone company. 40% of its contracts earned 0% gross margins (!) at the spin as IBM often bundled these in with other services to fuel growth in other areas. If the company succeeds in bringing these contracts up to 'normal' 20% margin levels, generating $4 per share in FCF is likely achievable.

And Kyndryl is succeeding.

Gross margins have increased from 12% in FY22 to 16.9% YTD, and signings YTD have been at 26% margins. Given the 3-5 year length of Kyndryl's contracts, gross margins are likely to converge to 26% over time as old contracts roll off and new ones begin.

Kyndryl also has other easy wins. The company is now growing businesses that compete with IBM, such as IT consulting and helping clients move to AWS or Azure. IBM also had a bureaucratic cost structure and culture which Kyndryl has taken steps to address. It's sales per employee is much higher than competitors due to the mission critical and sticky nature of its work, suggesting greater profit potential if it can reduce costs.

We believe these steps give Kyndryl a path to $4 per share in FCF in three years and a 10x multiple for a valuation of $40. The stock is at $21 today. If management are right that new growth initiatives will return the company to revenue growth in 2025 a higher 15x multiple may be possible.

XPEL

XPEL is a global supplier of protection films. Like the film protecting the surface of your phone, XPEL's films can be applied to your car body, car window, and home or office window to protect it from scratches and chips or provide privacy and UV protection. The company is led by CEO Ryan Pape, who has high integrity, a strong customer focus, and who concentrates on long term value creation when allocating capital. Pape became CEO in 2010 and has steered the company from near bankruptcy to a $1.4bn valuation today. He owns shares worth $57mm and is aged 42, giving him a long runway and incentive to compound capital. We invested in XPEL shares in 2020 between $11-$15 and have been shareholders since, tending to reduce our position between $70-$100 and add to it between $40-50. The stock halved from the $80s to the low $40s late last year primarily because of short seller reports. We nearly tripled our share ownership as a result. The stock trades at $50 today and we think will be worth $100-$150 in three years.

We think XPEL is one of the highest quality businesses we have come across and that its competitive advantages are generally greatly misunderstood. We believe its advantages are its scale, customer captivity, excellent owner/operator, and culture.

XPEL's primary product is paint protection film ('PPF'), which accounts for 57% of its revenues. We estimate the company has around 40% market share in the US, making it the largest player.

XPEL does not manufacture PPF or sell it directly to car owners. Instead, the company sources films and coatings from a network of manufacturers and sells the finished product to thousands of aftermarket installers, retail and wholesale dealers, and auto OEMs like Porsche and Rivian.

Some investors argue this makes XPEL an unnecessary middleman.

We think this is a mistaken belief based on the simplistic view that XPEL sells films, which is something that could be relatively easily replicated. While XPEL obviously sells films in a literal sense, our research suggests that installers switching to XPEL from other film suppliers see an increase in order volumes by around 20% - that leads to a substantial increase in the installer's profits and is the true product XPEL sells. As a result, there is often a wait list to become an XPEL-exclusive shop. Like a franchisor, XPEL manages the number of installers in a metro to ensure healthy system sales and profits.

XPEL generates these advantages because its scale enables it to invest and develop the best product, range of products, service, software, and brand. It can also spend more on marketing than anyone else and typically ranks first on Google searches, bringing leads and revenues to installers at no incremental cost to those installers.

Customers increasingly ask for the brand by name and installers increasingly depend on the company for their entire business. A growing number of industry participants now describe XPEL as *"the Xerox of PPF"* and for many shops XPEL provides all film, software, branding, and significant lead generation. The company is further moving ahead of competitors by rolling out CRM and ERP-like software that will enable installers to become increasingly sophisticated. This will boost system sales and deepen customer relationships even more. In fact, XPEL has such a strong relationship with its customers that at its 2023 Installer Day we noted how some installers ran to buy clothing from XPEL when the company debuted new merch.

While XPEL's excellent and deep management is understood by many investors, we believe that its culture remains greatly underappreciated. The company's *'No Tomorrow'* motto is not just a slogan – XPEL's employees and customers are often entrepreneurs who are self-starters, hard-working, business savvy, and impressive. Many of XPEL's employees have been installers themselves, and we believe it is this deep understanding and energetic culture that makes them winners.

XPEL likely earned $2 in EPS in 2023 and we believe there is a long runway for growth given the low attach rate of PPF on new cars, which we estimate is 7-8% in the US and 1% internationally. With XPEL's expansion by geography, product, and channel, we expect the company to grow revenues by 15-20% p.a. for the next three years and expand margins to reach $4 in EPS. The company has also done a good job making bolt-on acquisitions, which we estimate will further increase EPS to $5. Assuming a 20-30x P/E for a high quality business with excellent management and strong balance sheet results in an intrinsic value of $100-$150 in three years, vs $50 today.

Despite these qualities, the stock halved from the $80s to the low $40s late last year primarily because of short seller reports alleging that: (i) Tesla accounts for 25-35% of revenues that will soon disappear, and (ii) XPEL's largest supplier has developed a product with PPG that makes XPEL redundant. We disagree with both arguments.

In October, Tesla announced that it will offer PPF installation at two service centers in California. This caused XPEL stock to decline around 20% as we believe investors extrapolated that Tesla would roll this out to service centers much more broadly, XPEL would lose all revenues for film installed onto Teslas, and that other OEMs may follow suit.

While XPEL clarified that revenues associated with Teslas accounted for only 5% of sales, a short seller subsequently claimed based on speaking with 143 installers that the true number was 25-35%. That caused the stock to decline roughly another 20%.

While data from 143 installers seems conclusive at first glance, we believe that XPEL's 5% claim is accurate and that Tesla's involvement is just as likely to be positive as it is negative.

We believe the 5% claim for two reasons. First, XPEL has one of the highest integrity managements we have come across and its software tracks to the square-foot how much film its installers are cutting for Teslas and other vehicles. Secondly, the short seller's survey took results from the US aftermarket installers channel and extrapolated that to all company revenues. This needs to be substantially adjusted as: (i) PPF is only 57% of XPEL revenues, (ii) the US is 59% of revenues and Tesla market share is far lower internationally, (iii) XPEL also sells through the dealership and OEM channels where Tesla revenues are zero, and (iv) average order values for Teslas are likely to be lower. E.g. a Tesla Model 3 sold for $40k is far more likely to only have the front of the car wrapped for $2.5k than a six-figure Porsche or Ferrari, which may be entirely wrapped for $8k. When these and other factors such as the installers likely thought they were speaking to a Tesla owner and prospective client and so exaggerated the number of Teslas they have worked on, we believe that the short seller's data are consistent with XPEL's 5% claim.

It is also important to understand that the biggest driver of increasing PPF adoption is greater awareness - were you aware of PPF before today? We can think of no better OEM to promote PPF than Tesla, and Tesla could conceivably increase PPF awareness by more than 5%.

In fact, XPEL already supplies PPF to some auto OEMs like Porsche and Rivian and finds that *aftermarket* attach rates for those OEMs are higher than many other makes. This suggests that Porsche or Rivian growing awareness leads to incremental customers, even for the aftermarket.

We pushed back against bulls when XPEL stock jumped in 2022 after the Rivian partnership was announced, and believe that investors can be overly focused on individual OEMs. The reality is that XPEL's films go on all vehicles and no single OEM is likely to be key.

The second piece of news that caused XPEL's stock to fall was that its largest supplier Entrotech had formed a JV with paint and coatings company PPG. A short seller alleged that the JV had developed a new paint with protective qualities that makes XPEL's protective films redundant.

We disagree. Our understanding is that Entrotech has manufactured colored paint films for over a decade and that PPG has been offering its own colored paint films since 2021. PPG is a major supplier of paints and protective coatings to auto OEMs and paint films have been one of those options for years. Entrotech was already using PPG's paint as a layer in its paint films and the JV formalizes what was already a close relationship. While the JV potentially gives Entrotech greater distribution, there has been no significant innovation that makes protective films redundant.

It turns out that although Entrotech/PPG's colored paint films and XPEL's transparent paint *protection* films sound similar, there is a crucial difference. As the CEO of the JV said in this interview in August, 2023, *"paint films are a paint"*[2]. The CEO of Entrotech also states in this presentation in 2021 that *"we are paint, just in film form… conceived to replace spray paint"*.[3]

Paint film is a very thin film with paint on it. Although this makes it slightly more protective than the protective coatings that traditionally go on top of the paint on a vehicle, the CEOs of

[2] See 3min 20s into interview: https://www.pcimag.com/media/podcasts/8457-coat-it/play/149-technology-driven-film-solutions.
[3] See 1min 30s and 2min 30s into interview: https://www.youtube.com/watch?v=OQ3YDZh_tlw.

both the JV and Entrotech repeatedly emphasize that the film's main selling point is its environmental benefits. In fact, the CEO of the JV does not mention protective qualities at all in the interview linked above. The environmental benefits come because the film is wrapped onto a vehicle by hand rather than sprayed in a paint shop, meaning there is no need for spray guns, heating, rolling, or other equipment that comes with a carbon footprint.

While paint films are environmentally friendly, they come with two major drawbacks that have limited their adoption - cost and time. OEMs have already invested hundreds of millions of dollars in many cases to build each paint shop. These paint shops are highly efficient, largely automated, and the largest can paint hundreds of thousands of vehicles per year. In contrast, wrapping a vehicle by hand with paint film is far more expensive per vehicle and usually takes more than a day. This significantly increases cost and slows the production process. As a result, paint films have seen limited adoption despite their environmental benefits. We do not think they significantly reduce XPEL's growth prospects.

The dial-in details for our quarterly call are attached on the next page.

Please do not hesitate to contact us at chris.waller@pluralinvesting.com.

Best Regards,

Chris Waller
Portfolio Manager

Dial-In Details for Quarterly Call

Time: Tuesday Jan 30, 2024 at 10am Eastern Time / 3pm UK Time

Join Zoom Meeting

https://us06web.zoom.us/j/86452889264?pwd=xb6KnkYgrabYtWpt1HojXYxH5r72Gv.1

Meeting ID: 864 5288 9264

Passcode: 934784

Find your local number: https://us06web.zoom.us/u/kbta4ltRLV

Principles of Our Partnership

I take the trust you place in me very seriously and view this as a partnership. These principles are inspired by a similar letter Warren Buffett wrote in 1962 to his partners at the beginning of their partnership. They are my attempt to be up-front about what I can and cannot promise you, and what I ask from you in return:

1. Success for the fund in five years' time is delivering a substantially higher return than global stock market indices, rather than how many clients or assets are under management. The investment approach and my time are allocated accordingly.
2. I cannot guarantee that the fund will achieve this success. However, I can promise that the vast majority of my liquid net worth will be invested alongside you.
3. The fund will only invest in businesses that I estimate are worth substantially more than the price they are trading at.
4. The fund will only invest in businesses that I would be comfortable owning if the stock market were to shut for the next five years and we had to hold on.
5. I will view the risk of each investment as the chance we lose money over that five year period and not the volatility or beta of the stock price in the meantime. Indeed, I can promise you that the price of our investments will decline 20% from time to time.
6. I will judge the returns of the fund over five year periods.
7. Nobody gets every investment decision right. I will be up-front about mistakes made.

What I ask from you:

1. You should only invest an amount where your sleep will be completely unaffected when the fund has a 20% drawdown. This may mean the right decision is not to invest at all.
2. While I would like you to also judge the performance of the fund over a five year period, three years is the absolute minimum required. I would strongly counsel against reading much into quarterly results as prices are often driven by emotions in the short run. Our patience is essential if we are to let the volatility of prices serve us rather than guide us.

Yours sincerely,

Chris Waller
Portfolio Manager

Performance Comparison

	Partnership (Gross)	Partnership (Net of Fees)	MSCI World	MSCI World Small Cap Value	S&P 500	HFRX Global Hedge Fund
2020[1]	122.9%	97.1%	46.8%	58.0%	46.7%	14.7%
2021	38.7%	29.9%	21.8%	21.1%	28.7%	3.7%
2022	-32.0%	-32.7%	-18.1%	-11.8%	-18.5%	-4.4%
2023	-5.5%	-6.4%	23.8%	14.1%	25.7%	3.1%
Annualized	20.1%	13.6%	17.2%	19.1%	19.2%	4.3%

[1]Results for 2020 represent the total return of the Fund and Comparative Indexes from April 1, 2020 to December 31, 2020.

Important Disclosures

This material does not constitute an offer or solicitation to purchase an interest in Plural Partners Fund LP (the Fund"), or any related vehicle. Any such offer will only be made via a confidential private placement memorandum. An investment in the Fund is speculative and is subject to a risk of loss, including a risk of loss of principal. There is no secondary market for interests in the Fund and none is expected to develop. No assurance can be given that the Fund will achieve its objective or that an investor will receive a return of all or part of its investment. This material is confidential and may not be distributed or reproduced in whole or in part without the express written consent of Plural Investing LLC (the "Adviser").

The performance results shown and discussed herein represents the performance of the Fund, a vehicle managed by the principal of the Adviser (the "Principal"). The Fund began trading on April 1, 2020. "Gross" results shown reflect the deduction of transaction costs actually incurred but are before management fees or performance allocation were incurred. "Net" results shown reflect the deduction of a 1.0% per annum management fee and 20.0% performance allocation.

Results are compared to the performance of the MSCI World Net Return Index, or similar indexes (collectively, the "Comparative Indexes") for informational purposes only. Returns data for the HFRX Global Hedge Fund Index are from source: Hedge Fund Research, Inc. www.hedgefundresearch.com, © 2024 Hedge Fund Research, Inc. All rights reserved. Past performance is not necessarily indicative of future trading results. The Fund's investment program does not mirror the Comparative Indexes, and the volatility of the Fund's investment program may be materially different from the volatility of the Comparative Indexes. The securities or other instruments included in the Comparative Indexes are not necessarily included in the Fund's investment program and criteria for inclusion in the Comparative Indexes are different from those for investment by the Fund.

The positions presented and discussed herein represent investments in the Fund as of the date listed. These positions are presented for informational purposes only to demonstrate a portfolio allocation of the Principal as of a recent date. Results of large "contributors" to the Fund's returns are also included for informational purposes only. No representation is being made that the Fund will or is likely to hold the same or equivalent positions or allocations in the future.

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These forward-looking statements will not necessarily be updated in the future.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.