



HICKORY LANE

August 12, 2020

Dear Investor,

In our first month of operations, our gross longs were +7.7% and gross shorts were -2.5% for total gross performance of +5.2%. On a net basis, this equated to +4.3% and +4.5% for our Founders' One-Year and Founders' Two-Year classes, respectively.

In our July 9th post-launch letter, we highlighted three of our Day 1 long and short positions. Among them was Lithia Motors (LAD), our top position. On the company's July 22 earnings call, management further outlined a strategy to increase EPS by four-fold over the next five years. The stock subsequently finished the month up over 50% and was a key contributor to our July performance. Despite the rapid share price appreciation, we continue to see a pathway for material shareholder value creation ahead. We've attached our July post-launch investment letter as well as our Lithia Motors investment thesis deck for your review.

In general, when we think about our long and short opportunities, we seek to solve a set of key questions:

- Longs – Do we believe the company will earn more over time and be worth more over time?
- Shorts – Do we believe the company will earn less over time and be worth less over time?

These questions are designed to cut to the heart of the thesis. When the answer is “Yes” to either question, our experience is that the long or short will typically work. To answer these questions, we employ a repeatable step-by-step due diligence process focused on (i) business, (ii) financial, and (iii) management diligence.

BUSINESS DILIGENCE	FINANCIAL DILIGENCE	MANAGEMENT DILIGENCE
I. What does the company do?	I. Where has the company been?	I. Quantifiable track record?
II. How does it make money?	II. Where is it going?	II. Equity incentive & comp structure?
III. Moat & competitive position?	III. Health of balance sheet?	III. Reputation w/peers & former staff?
IV. Customer & supplier relationships?	IV. Free cash flow generation?	IV. Investor & sell-side perception?
V. Key risks to the business?	V. Capital allocation?	V. Board composition & experience?

In the following pages, we graphically bring this due diligence process to life using Charter Communications (CHTR), one of our core Day 1 positions, and a company I've historically been involved with since December 2011 when Tom Rutledge was announced as CEO.

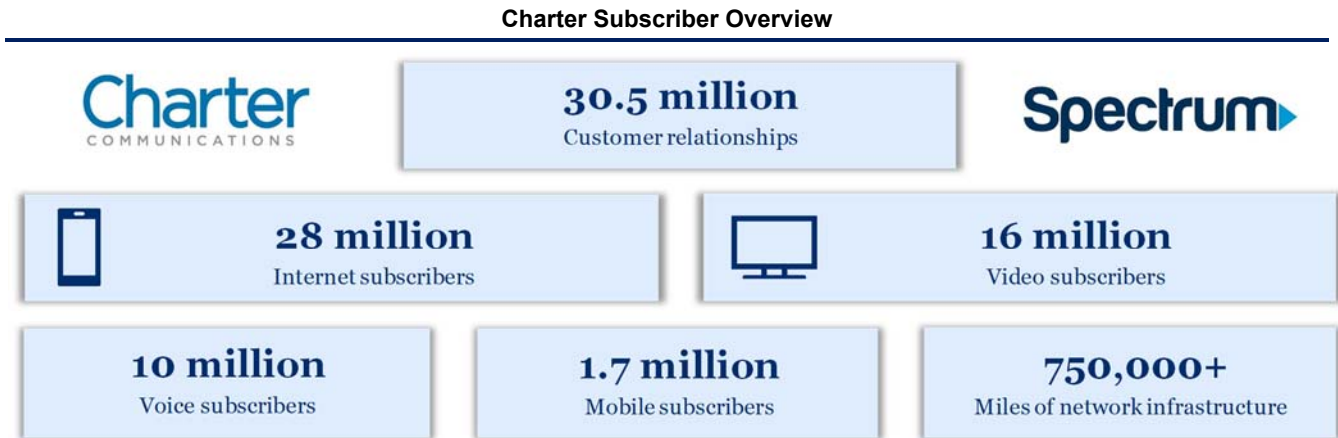
A primary component of our strategy is centered on risk management—principally, adhering to strict price targets and thesis tenets. During the month, two of our shorts, Mohawk Industries (MHK) and Intel Corporation (INTC), decreased to their respective price targets and we covered. We describe the theses and circumstances behind both short positions herein.

To start August, we began building a new position in a mid-cap payments software business backed by a Founder/CEO that is tackling a large addressable market. We are excited to discuss this new position with interested parties. Further, we will be presenting at the upcoming Credit Suisse Emerging Managers Forum on September 14 and the Morgan Stanley Global Hedge Fund Manager Forum on September 22. Please sign up to see us present and we look forward to virtually meeting you. We are also now active on the Goldman Sachs Marquee and Morgan Stanley Matrix investor portals.

Business Diligence – Charter Communications

I. What does the company do?

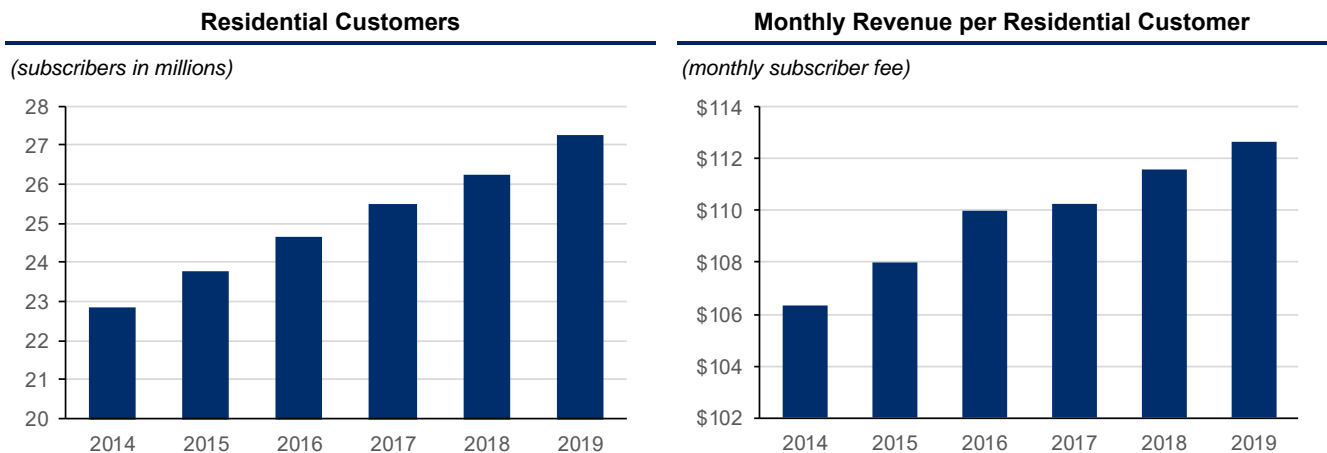
Charter Communications (CHTR) is the 2nd largest cable operator in the U.S. providing internet, video, and voice services to over 30 million residential and business subscribers as of June 30, 2020.



Source: Company trending schedule

II. How does it make money?

For most companies, only two or three business drivers truly impact performance. Charter primarily makes money as a product of customer relationships and charging a monthly subscription fee.

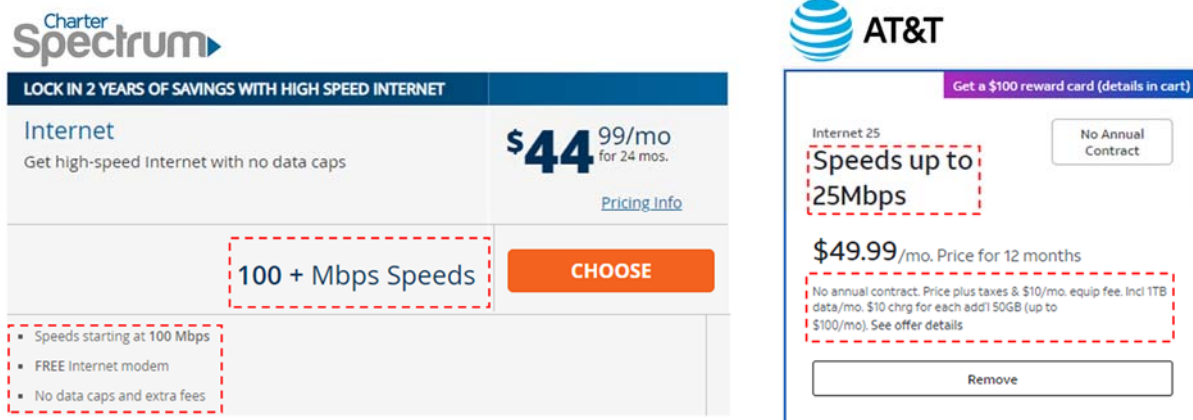


Source: Company filings

III. Moat & competitive position?

Across the majority of its footprint, Charter offers faster internet service at a lower price than telecom providers. As shown below, CHTR currently offers a \$44.99/month 2-year standalone internet package with (i) minimum 100 mbps speed, (ii) no data caps, and (iii) a free modem. Meanwhile, AT&T offers a \$49.99/month 1-year package with (i) maximum 25 mbps speed, (ii) \$10 charge above a data cap, and (iii) a \$10/month modem fee. In sum, including up-charges, AT&T offers 1/4 that of Charter’s speed at 1.5x the price.

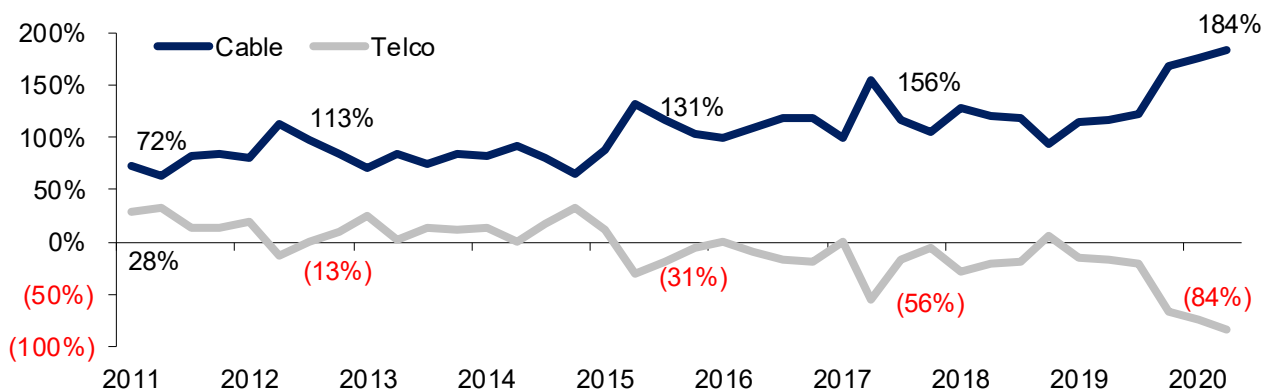
Charter (Spectrum) vs. AT&T Internet Plan



Source: buy.spectrum.com and www.att.com/internet for address: 2645 Hickory Lane, Cleveland, OH 44124 (my childhood home)

Consumer surveys show that faster speeds and lower prices are the leading factors in selecting an internet provider. As a result, Charter and its cable peers have been taking over 100% share of net broadband subscriber additions over the past decade. CHTR’s broadband market share has increased from 31% to 58% over that time frame.

Cable vs. Telco Share of Broadband Net Additions, 2011 – YTD

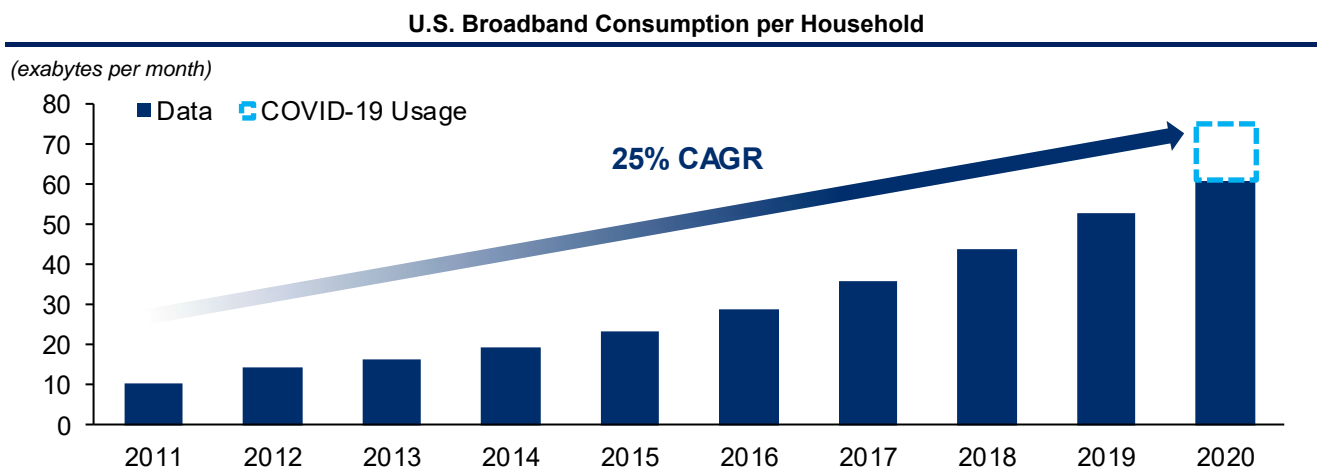


Source: Company filings and industry research

Further, we estimate that Charter’s 750,000+ miles of network infrastructure, 50+ million home passings, franchise agreements, and customer service organization would cost \$150+ billion to replicate today.

IV. Customer & supplier relationships?

Over the past decade, U.S. data consumption has been increasing by 25% per year, with that pace expected to continue going forward. In our May pre-launch letter, we discussed the substantial increase in household broadband usage as a result of new work-from-home dynamics. Even prior to COVID-19, internet usage was an ever-increasing part of our daily lives, very much a consumer staple akin to toothpaste or shampoo—this is acutely more true today.



Source: Cisco, DecisionData, OpenVault, Statista

V. Key risks to the business?

▪ Competition

- *Risk* – despite Charter having a faster product at a lower price, telcos have selectively deployed newer fiber optics in a portion of CHTR’s footprint. Telcos have started deploying 5G infrastructure that could eventually compete with residential fixed internet service.
- *Mitigant* – Charter’s internet backbone is built on a standard called DOCSIS, which has the ability to offer speeds 10x the highest tiers offered by telcos. Our work on 5G suggests that competitors are years away from a competitive fixed-wireless internet product, and ultimately, that product needs to provide a better service at a better price. I share my thoughts on 5G in the following CNBC interview: <https://www.youtube.com/watch?v=f-5naTYcXpY>

▪ Streaming

- *Risk* – while internet subscriber additions are the primary incremental profit driver for CHTR, video still comprises over 1/3 of total revenue. As the quality and availability of video streaming continues to proliferate, we expect the company’s video subscribers to continue declining.
- *Mitigant* – while streaming has disrupted the video subscriber ecosystem, streaming content is viewed “over the internet” (OTT), which runs on Charter’s infrastructure. In fact, while CHTR has lost 1.25 million video subs over the past five years, the company has gained over 7 million broadband subs.

▪ Regulatory

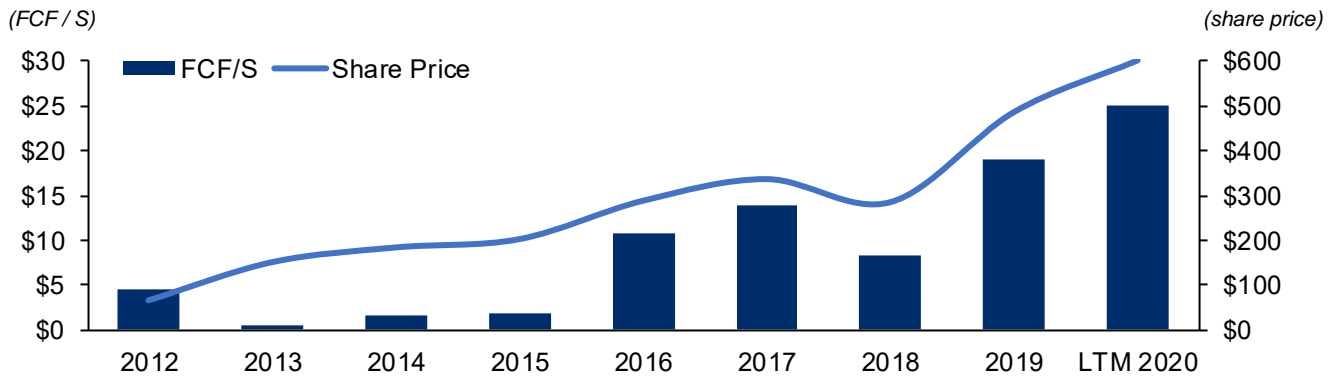
- *Risk* – the Federal Communications Commission and Congress have historically expressed concern that cable rate increases are exceeding inflation. Under a Democratic Congress or Executive Branch, it is possible that the U.S. government could impose rate caps or additional regulations.
- *Mitigant* – Charter and other cable companies spend tens of billions of dollars per year on improving network quality and speed, and this supports job growth. Price regulation would lower the ROI on such investments (CHTR would likely then curtail upgrades), ultimately resulting in slower upgrades and lower job growth.

Financial Diligence – Charter Communications

I. Where has the company been?

Since 2012, Charter has embarked on a capital investment program and M&A strategy that resulted in internet subscribers growing from 17 million to 28 million and ARPU increasing from \$105 to \$111. Correspondingly, cable EBITDA margins increased from 36% to 40% while capex/sales decreased from 18% to 15%. As a result, FCF/S increased from \$4.40 to over \$25 and the share price increased from \$66 to \$600.

Historical FCF/S and Share Price Performance



Source: Company filings and Bloomberg

II. Where is it going?

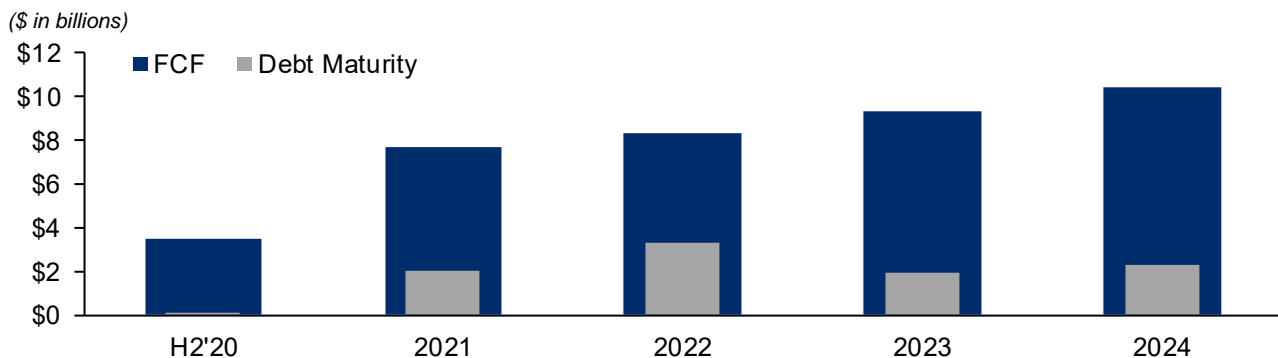
We believe Charter has the ability to grow EBITDA at a 7% CAGR over the next five years driven by:

- Broadband subscriber growth of 5% annually
- ARPU growth of 1.25% annually
- Programming expense growth of 2% annually

III. Health of balance sheet?

Despite headline leverage of 4.3x and total debt of \$80 billion, Charter has a fortress balance sheet with over 85% of that debt maturing beyond 2024, a weighted average maturity of 12+ years, and an average coupon of 4.7%. While CHTR has \$10 billion of debt maturing through 2024, we estimate the company will generate over \$35 billion of cumulative FCF over that time frame (covering debt maturities by 3.5x). Similarly, 70% of Charter's debt is split-rated as S&P has assigned an investment grade rating (Moody's has a non-investment grade rating), thereby providing access to low-cost debt for refinancings and buybacks.

Debt Maturity Profile vs. FCF – 2020-2024



Source: Company investor presentation and Hickory Lane projections

IV. Free cash flow generation?

Building on Charter's subscriber and EBITDA growth, we believe FCF/S growth is set to accelerate driven by:

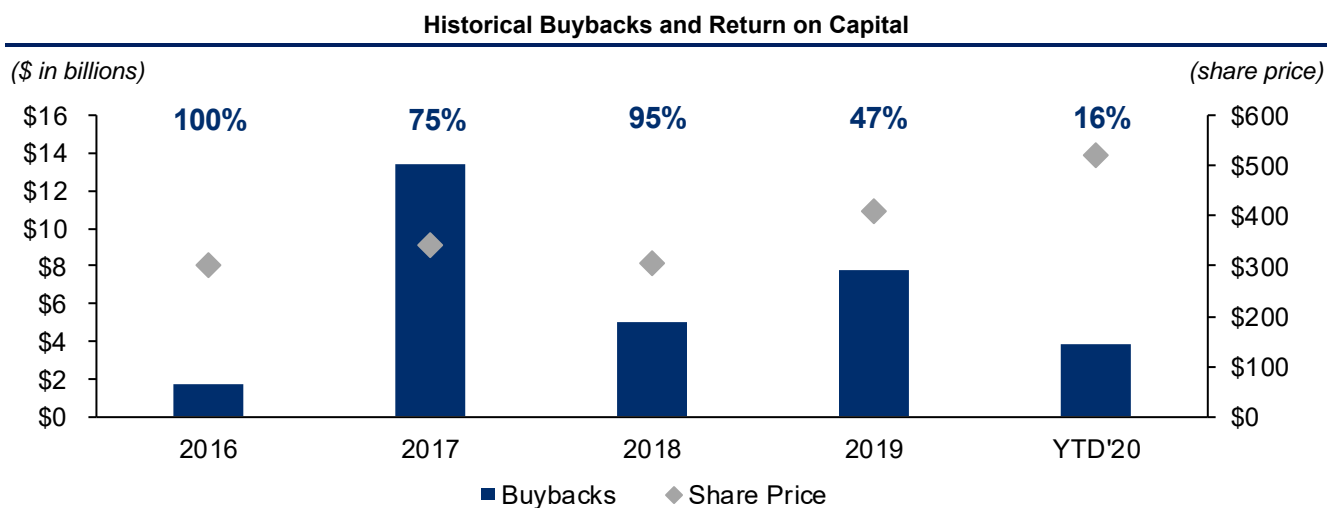
- Capex/sales decreasing from 15% to 12.5%
- \$10 billion of annual buybacks
- Results in FCF/S growing from \$25 to \$60 and a price target of \$900

V. Capital allocation?

Beyond M&A, Charter's capital allocation has been centered on share buybacks. From Q2'16, CHTR has repurchased over \$30 billion of stock at an average share price of under \$360 vs. \$600 today.

Going forward, we expect Charter to maintain 4.25x to 4.5x leverage and use the majority of its FCF generation and incremental leverage on EBITDA growth to repurchase shares.

As a result, we estimate that CHTR has the ability to retire over 35% of its market cap over the next five years.



Source: Company filings

Management Diligence – Charter Communications

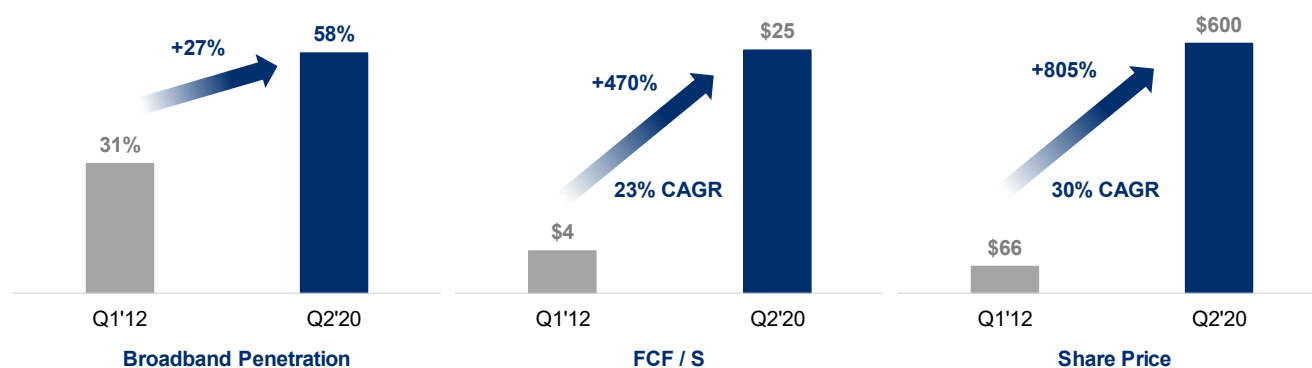
I. Quantifiable track record?

Tom Rutledge was announced as CEO of Charter on December 19, 2011 with a start date of February 13, 2012. Rutledge came from industry peer, Cablevision, where he drove sector-leading operating metrics, took FCF from approximately -\$375 million to +\$685 million, and delivered mid-teens annualized returns. He succeeded Michael Lovett, who successfully navigated CHTR through bankruptcy with a significantly cleaned-up balance sheet, clearing the path for years of growth to come.

Still, Rutledge inherited a capital-starved company with disparate systems and intense competitive pressures. Charter immediately embarked on a capital investment program to improve its network. The company also simplified its pricing plans and focused on improving customer service. Within a year, CHTR announced the highly accretive Bresnan Broadband Holdings acquisition, followed by the simultaneous acquisitions of Time Warner Cable and Bright House Networks two years later.

Now, eight years after taking the reins, Charter's broadband penetration has increased from 31% to nearly 58%, FCF/S has grown from \$4.40 to over \$25, and the share price has increased from \$66 to \$600 (+805%, or a 30% CAGR).

Tom Rutledge Track Record as Charter CEO: 2/13/2012 – Present



Source: Company filings, Bloomberg

Note: FCF/S calculated as last twelve months as of the quarter-end

II. Equity incentive & comp structure?

Upon the original announcement of Rutledge as CEO, he received 1.26 million shares of stock, options, and RSUs with 60% of those shares tied to stock price hurdles ranging from \$60 to \$150 with a four-year vesting period (target hit by year three).

Upon the announcement of the Time Warner Cable and Bright House Networks acquisitions, Rutledge received a second equity package of 2 million shares of stock options and RSUs with stock price hurdles ranging from \$290 to \$565 and a six-year vesting period (target hit by year four).

Today, Rutledge's beneficial ownership stake, including vested and exercisable options, is now worth over **\$900 million**.

III. Reputation with peers & former staff?

“Rutledge is perfect for Charter as his recent experience and success at Cablevision in driving internet penetration gains, minimizing video sub losses, and expanding the company’s commercial services unit is exactly what Charter needs for its business to grow and succeed.”

–Former Senior Cable Executive

IV. Investor & sell-side perception?

Charter’s management team is well-regarded with most investors and research analysts we’ve spoken with considering them to be best-in-class. CHTR’s largest shareholder is Liberty Broadband Corporation, a holding company for Liberty Media’s 26.4% share position. Liberty Media is chaired by John Malone, the father of the modern cable business. Correspondingly, Berkshire Hathaway owns 2.7% of the outstanding shares.

V. Board composition & experience?

Charter has among the highest-quality Board of Directors we have come across, and our experience includes investing with, or alongside, seven members. The average equity ownership of the individual Board members is over \$4 million, a level rarely seen among corporate Boards.

Charter Board of Directors Overview

(\$ in millions)

#	First Name	Last Name	Age	Tenure (years)	Title	Company	Met?	Equity
1.	W. Lance	Conn	51	15	Fmr. President	Vulcan Capital	-	\$2.8
2.	Kim	Goodman	55	4	Head, Merchant JVs	Fiserv	-	\$1.9
3.	Craig	Jacobson	67	10	Founder	Hansen Jacobson Teller & Hoberman	-	\$6.4
4.	Gregory	Maffei	60	7	President, CEO	Liberty Media Corp	Yes	\$2.5
5.	John	Malone	79	7	Chairman	Liberty Media Corp	Yes	-
6.	John	Markley	54	10	Managing Director	Bear Creek Capital	-	\$8.3
7.	David	Merritt	65	17	Fmr. President	BC Partners	-	\$5.4
8.	James	Meyer	65	2	CEO	Sirius XM	Yes	\$0.8
9.	Steve	Miron	54	4	Senior Executive Officer	Advance/Newhouse	-	\$3.2
10.	Balan	Nair	54	7	President, CEO	Liberty Latin America	Yes	\$4.3
11.	Michael	Newhouse	60	4	Senior Executive Officer	Advance/Newhouse	-	\$1,820.7
12.	Mauricio	Ramos	51	4	President, CEO	Millicom	Yes	\$2.5
13.	Thomas	Rutledge	66	8	Chairman, CEO	Charter Communications	Yes	\$928.0
14.	Eric	Zinterhofer	48	10	Founder	Searchlight Capital Partners	Yes	\$10.5
Average / Total			59	8			7	\$4.4

Note: Average equity ownership excludes Thomas Rutledge and Steve Miron

Source: Company DEF 14A and Form 4s

Shorts – Risk Management

The core of our risk management philosophy is setting price targets and thesis tenets to guide sizing, profit taking, and exit decisions. During July, two of our Day 1 short positions hit their price targets and we subsequently covered those positions.

Mohawk Industries (MHK) Short

We were short Mohawk given the company’s weakening fundamental outlook and struggle to evolve due to the penetration of competitive luxury vinyl tile (LVT) products and COVID-19-related headwinds. As a result of affordability, installation ease, and durability, LVT has continued to cannibalize sales of MHK’s high-margin legacy products, including ceramic, carpet, and laminate. At the same time, Chinese producers began building U.S. manufacturing plants to meet surging demand and accelerate distribution.

After initiating our short position, details around a class action lawsuit emerged alleging channel stuffing, fraud, and negligence by Mohawk’s management team, and implicated the CEO directly. Further, the lawsuit alleged that elevated inventory levels related to manufacturing issues at MHK’s LVT plants included defective “scrap” that should have been written-off. As a result of the negative publicity, Mohawk’s share price fell over 20% from our initiation price during the month and we covered our position.

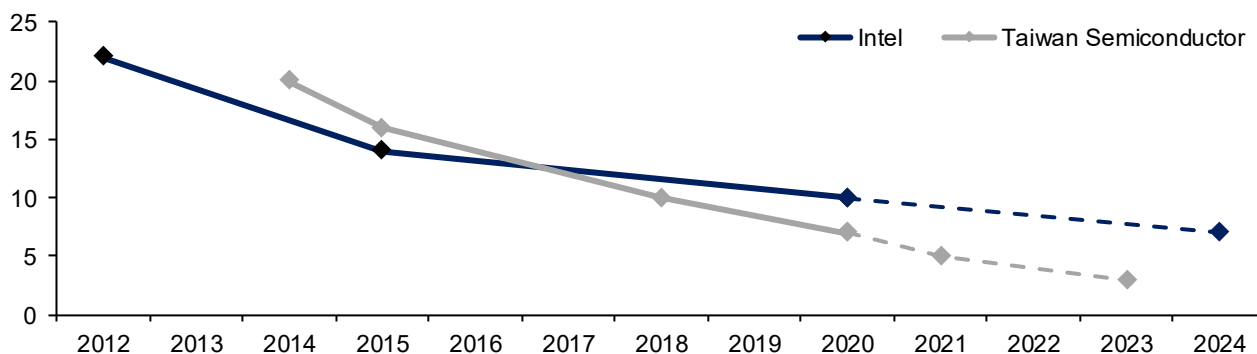
Intel Corporation (INTC) Short

We shorted Intel as we became increasingly negative on the company’s competitive position after a string of product delays and the resignation of its veteran chip designer Jim Keller in June 2020. To us, INTC looked like a classic value trap that was optically “cheap” on near-term multiples but “expensive” in reality as we foresaw lower earnings power given the (i) secularly declining PC market, (ii) lack of new product innovation, and (iii) continued market share losses.

In Intel’s Q2’20 earnings release, the company announced that its 7 nanometer yields were running a year behind schedule . . . at which point competitor Taiwan Semiconductor is expected to release 3 nanometer products, another generation ahead (smaller nanometers = higher computing power). The market share implications of this announcement were profound and equity investors responded, resulting in an immediate \$40 billion market cap loss for INTC. We covered our full position on the day after the earnings release.

Transistor Size Progression – Intel vs. Taiwan Semiconductor

(transistor size in nanometers)



Source: Company filings, industry research

We've sent a copy of *The Little Book of Investing Like the Pros* to several current and prospective investors. The book outlines our investment process and strategy, and includes several case studies.

Please email us if you would like to receive a complimentary copy at: investors@hickorylane.com

Again, the team and I are extremely excited to be up-and-running, and we welcome the opportunity to further engage.

Stay safe and healthy,

A handwritten signature in black ink, appearing to read 'Joshua Pearl', with a stylized flourish at the end.

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