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2021 Return	April	May	June	Q2	Annual Return	Return Since Inception
MountainWorks	11.7%	-1.8%	1.5%	15.4%	10.8%	154.2%
S&P 500				10.4%	15.3%	144.4%

Dear Member,

In the second quarter of 2021, MountainWorks gained 15.4%, versus a 10.4% gain for the S&P 500, dividends reinvested (according to DQYDJ). Since inception (February 2016), the Fund has gained 154.2% against 144.4% for the S&P 500. The second quarter was a nice comeback following an underwhelming first quarter. For the time being, an initial investment at MountainWorks' inception has produced a return surpassing the general market. It is a welcome outcome that I aim to continue. Individual members can view their specific time-weighted return on the statements already sent out. Please let me know if there are any questions.

The natural progress of our discussion will pick up on past letters regarding general stock market performance, and then I will move toward some detailed analysis. Faithful readers know that I have developed a habit of chewing over mistakes (not investing in Tesla, shorting L Brands, leveraging money in NXPI, losing a girlfriend, the list could go on…). The habit is no coincidence. Looking in the proverbial mirror has become one of my most important practices. At the same time, it doesn't hurt to revisit one of our best performing companies just to make sure the wheels are still greased.

General Stock Market Performance. The stock market has only been this expensive one other time: the 2000 dot-com bubble. Historically, the price/earnings ratio for the S&P 500 is about 15. Right now, the Shiller P/E Ratio stands at 38. The total Market Cap to GDP ratio is over 200%. During the dot-com bubble it was not much more than 100%. Low interest rates set by the Federal Reserve, combined with asset purchases to the tune of some $8 trillion have made money cheaper to borrow, while also flooding the markets with cash.[1] The consequences – unintended or otherwise – have yet to be seen.

If one were to step back and think, the most logical conclusion given the Fed's behavior would be higher inflation that devalues the dollar. This is especially true if you accept the premise that the

[1] The Effective Federal Funds Rate set by the FOMC hovered near zero from 2008 to 2016. Over that same time period, the M2 Money Stock (roughly defined as currency in circulation, including deposits, money market accounts) rose from $8 billion to $12 billion. In just four years since, the Money Stock sits at over $20 billion. Interestingly, the inflation rate from 2008 to 2016 (inclusive) averaged about 1.6% per year.

United States can never default on its debt: if true, then only the value of our currency matters.[2] With prices rising across the board, inflation seems to be rearing its ugly head. No doubt many of you heard stories of lumber tripling in price within a year. There have definitely been some supply & demand shocks, and just in the past month, inflation hit 5% annualized; the last time inflation was over 5% was mid-2008, right before the financial crisis. Despite the ominous timing, we don't yet know if higher inflation is here to stay, nor if it will negatively impact the economy. Lightning rarely strikes twice, so to speak.

Nevertheless, inflation acts as a tax on future generations. Deferred gratification is always better than instant gratification, yet here we are taxing our children years down the road in exchange for some economic benefit in the present day: be it stimulus checks, unemployment, and the like. What good is $100 now if it erodes quickly while sitting in your pocket? What instant gratifications are the Federal Reserve Governors buying with their $8 trillion in assets, besides the national debt? Moreover, as long as they get their wish, as long as the inflation rate keeps relatively stable – say, under 2% annually – is there any reason to suspect the Fed won't keep interest rates near zero and at the same time subsidize the national debt? We are living through an extraordinary time in which the U.S. Treasury can print money at virtually no immediate cost, and the Federal Reserve acts as a default backstop.

> *"Conscious, perhaps overly conscious, of inflation, many people now feel that they are behaving in a conservative manner by buying blue chip securities almost regardless of price-earnings ratios, dividend yields, etc. […] I feel this course of action is fraught with danger. There is nothing at all conservative, in my opinion, about speculating as to just how high a multiplier a greedy and capricious public will put on earnings." - Warren Buffett, 1963.*

One unintended consequence of the current monetary policy could be the rise in stock prices. Valuations are reaching heights rarely seen throughout history. But it is important to note that despite the easy money policy, the Fed is not purchasing stocks and is not responsible for lofty equity valuations; therefore, solely the buyers and sellers are responsible for the high prices of stocks (or perhaps lack of sellers). Tying it all together, the amalgamation of exponential levels of national debt, decaying interest rates, devaluing the U.S. dollar, and expensive equities is cause for focused, concentrated investment. That is where MountainWorks comes in.

[2] The National debt under the Obama administration doubled from $11.1 trillion to $20 trillion, then rose to $28.1 trillion under President Trump. Despite the astronomical rise in debt, some believe the U.S. will never default on its debt for the simple reason that government bonds are denominated in U.S. dollars, while at the same time the Treasury has the ability to print more money.

Camping World Holdings. One of our best performing companies is none other than Camping World Holdings, Inc., with Marcus Lemonis as the CEO. He and the rest of management have done an amazing job in the past, through the pandemic, and into a growing RV future. The company now operates over 170 locations for retail, sale, and service of recreational vehicles. With dealerships across 38 states, management expects to open 8-10 locations per year, and work their way toward the entire the lower 48. Complementing the growth strategy is the expansion of RV'ing as a way of life. There are about 11 million RV-owning households in the U.S., and the RV industry is growing at a fast pace. Recent data from the RV Industry Association indicates approximately 576,065 RV shipments for 2021, which represents a 33.8% increase from 2020, and a 14% increase from the record high in 2017.

> *"The funnel for the RV industry is only going to get bigger from here. And while we're celebrating the 0.5 million RVs being made or sold in a given year, there are over 100 million homes in America. And so, the penetration rate of an RV to a homeowner isn't anywhere close to where we think the final potential is. So, our goal in the next several years, as we've laid out several times, is we are going to continue to consolidate this industry, both through buying existing dealerships, buying existing facilities where we can put a dealership up, or building from the ground up." -CEO Marcus Lemonis, 2020 Q3 Conference Call*

As the industry grows, Camping World should be in good position to capture market share and grow organically.

Yet one must also take into account the shift toward used RVs. Last year used vehicles represented 14% of the company's gross profit[3]. It is perhaps unusual for a capital-intensive business like Camping World to extract margins upwards of 30%, because of the reliance on selling new RVs (rotation of RV inventory is a massive undertaking). Yet management – and the some 11,000 associates working the stores – has an aim toward higher margin segments like used RVs, finance & insurance, services, and consignment.

> "Gross margins materially look better when you drive that average selling price down. And so, as we get out of $250,000, $200,000, $190,000 where we make them a smaller part of our business, and we make a $9,995 or $11,995 or $16,995 travel trailer a bigger part of our business, those are going to buoy our margins up. Not because we've done anything magical, but because historically those margins were always better, which is why you see us leaning in heavy on travel trailers and leaning in heavy on used, leaning in heavy on collision centers because we know that in order for this business to have double-digit

[3] See page 9 of the 2020 Annual Report. Good Sam, New Vehicles, Used Vehicles, Services, Insurance, and Good Sam Club generated 6%, 30%, 14%, 21%, 27% and 2% of gross profit, respectively, with margins of 60%, 18%, 24%, 38%, 100%, and 80%, respectively. Based on these figures, it's worth noting that used margins are higher than new margins, so from one point of view, the more RV turnover the better.

EBITDA margins on an annual basis, which is our pie in the sky goal, we're going to have to find the right mix." -CEO Marcus Lemonis, 2020 Q3 Conference Call

Another value driver worth mentioning is the Good Sam business. Good Sam represents an important part of the Camping World puzzle – it's a high margin, high retention service in which members spend about $1,850 per year. With approximately 2.1 million members, and low capital requirements on the part of the business, an investment analyst would be able to extrapolate a lot of value out of Good Sam. The membership offers extended service contracts, roadside assistance plans, and property/casualty insurance programs. Importantly, there is value for both Camping World and its customers. There is a variety of benefits for members, from gas discounts to tire changes to campground discounts. Naturally, we want customers to be happy with their RV lifestyle and be repeat shoppers at Camping World.[4]

There are many avenues for Camping World and management seems intent on leaving no stone unturned. It wouldn't be possible for me to elaborate on every detail of this growing business, and I encourage readers to research more, leaving no stone unturned, so that we achieve a better understanding together. As an investor, I have dedicated a significant amount of assets and energy into this business, yet at the same time I look at it from afar, with an eagle eye view, knowing that the management & employees can successfully perform (which I am grateful for). It is their job to do and I give them all my support.

Conclusion. Because I have a habit of elaborating on past mistakes, it is perhaps more desirable that our fate is tied to extraordinary experts like Marcus Lemonis. I am thankful for his leadership of Camping World, as well as the rest of management, associates, and the customers who venture into RV'ing with Camping World. As I usually do, I will compliment the leaders of our other businesses: Reed Hastings (NFLX), Howard Lutnick (BGC Partners), David Kimbell (Ulta Beauty), and David Gandler (FUBO). Our achievements will only be possible through their achievements. To all readers: thank you for your time & attention. If you would like to discuss anything, please don't hesitate to reach out: Justin@mountainworksllc.com.

Yours,

[4] For some reviews of Good Sam, check out examples here and here.

Justin Polce
Managing Member

5