

2nd Quarter 2014 and YTD Performance Report <sup>(1)(2)</sup>	2014		Inception To Date
	Q2	2014	
<b>ADW Capital Partners, L.P.</b>			
Gross Return	20.40%	18.91%	258.97%
Net Return	16.28%	14.14%	190.67%
<b>Major Market Indices</b>			
Dow Jones	2.80%	2.68%	57.22%
S&P 500	5.23%	7.14%	66.34%
NASDAQ	4.98%	5.54%	64.41%
Russell 2000	2.05%	3.19%	59.26%

(1) The table above reflects the performance of the Fund for the current quarter, year-to-date and since inception of the Fund. Net returns are net of underlying management and performance fees and expenses as well as brokerage and/or custodial fees and expenses. All returns include the reinvestment of dividends and other earnings. Quarterly and year-to-date figures are estimates and unaudited and have been calculated by the Fund's independent administrator, SS&C Fund Services. The Fund's performance results have been audited for calendar years 2011, 2012, and 2013 by the Fund's independent auditor, Marcum LLP. Inception-to-date figures incorporate audited results from prior years and unaudited results from the current year. Statements from the fund's prime broker (BTIG) and custodian (Goldman Sachs) can be provided upon further request. Past performance is not necessarily an indication of future performance or profitability. See Important Notes on page 5.

(2) References to Dow Jones, S&P 500, NASDAQ, Russell 2000 and other indices are for informational purposes only. See Important Notes on page 5.

Dear Partners,

It is my pleasure to report results for the second quarter of 2014, the 14<sup>th</sup> quarter since inception.

At the risk of sounding like a broken record, I want to reiterate a critical point discussed in all quarterly letters. ADW Capital Partners, L.P. (the "**Fund**") operates a concentrated, tax-sensitive, and long-term strategy designed to minimize correlation to the broader indices with a focus on **avoiding permanent capital loss**. Inevitably, this approach will result in periods of underperformance. By the same token, our efforts to maintain a lower correlation strategy driven by company specific outcomes may produce significant outperformance in periods of market weakness, as we saw in 2011. We are not traders, return chasers, or month-to-month stock jockeys. We are **investors** who look for opportunities to return multiples on the Fund's capital tax-efficiently over an extended period of time. While this strategy may yield lumpy results, we believe it limits idea dilution and protects the Fund's returns from Uncle Sam and Wall Street.

#### **Portfolio Update:**

As we mentioned in our 1<sup>st</sup> quarter update, we believe our value discipline on cash flows and unloved "boring businesses" is coming back into vogue as evidenced by solid and broad-based gains across the portfolio in the second quarter.

While at times we are quite tight lipped about the portfolio as we may be actively buying or selling securities, we do like to take opportunities to discuss individual positions to illustrate our thought process when it does not conflict with the interests of the fund's trading / its limited partners.

To that end, we would like to discuss an ongoing investment in the portfolio – Graphic Packaging (NYSE:GPK). Graphic Packaging or "the Company" is a classic special situation investment and checks most if not all of the boxes on our investment checklist.

In its simplest form, Graphic Packaging is one of the largest vertically integrated packaging companies in North America. The Company manufactures and supplies the boxes/packaging for many of the largest consumer packaged goods companies in North America. Whether its craft beer or Pop-Tarts or Grape Nuts or Tide, the Company most likely provides the packaging for a product you use on a daily basis. In fact, the Company was originally owned by Molson Coors and was spun off about twenty years ago. In the last ten years, the Company was largely controlled by private equity and went through a number of mergers and acquisitions contributing to the substantial consolidation of the industry. In the most recent iteration, the Company merged/acquired Altivity Packaging from TPG in July 2007. While the merged entity would have a dominant market position and would have very steady and predictable cash flows, Graphic clearly "overpaid" and left the remaining entity with a Debt to EBITDA ratio close to 7 times. So even if EBITDA remained stable or grew, if the Company lost a turn of EBITDA in its enterprise valuation the equity would bear the brunt of the decline – which it did with the equity declining from \$6.00 a share to almost \$1.00 from the time of the merger to the outset of '09.

As value investors, we like to rely on our observations from past investments to guide us with future ones. To that end, we noticed that Graphic Packaging greatly resembled our investment in Headwaters -- a "levered rollup" that overpaid for good assets and was now being punished by the market. In many ways, Graphic Packaging was a superior investment as the company actually grew its volumes / EBITDA over the course of the recession! Graphic had proven how stable it was of an operating business but just took on too much debt at the wrong time. Over the next several years, the Company religiously cut costs, found production efficiencies, paid down its debt and won market share from smaller players who couldn't compete with Graphic as the best low cost provider of consumer packaging.

But throughout all of these improvements, a strange phenomenon had been occurring. While the firm's stock price increased consistently over the years, its valuation contracted. For example, if you take into account the growth in the firm's EBITDA and the new debt levels from cash flow pay down, the Company traded at Enterprise Value to EBITDA multiples lower than they were at the depths of the recession! To make matters worse, the Company had recognized the fundamental disconnect in its valuation and was able to purchase over twenty percent of the Company in the last couple of years.

After a thorough analysis of the Company's history, industry, and end-market's, we realized the Company suffered from a "stock problem" and not a business problem. Over time "problem stocks" can become great investments, especially if the businesses are doing well and getting better. The problem that Graphic Packaging had is that it was an orphan stock. At the outset of '09, the stock was very thinly traded with over eighty percent of the Company held by the Coors Family and other private equity sponsors and had little to no equity research coverage. To compound this issue, the private equity owners were obligated to return capital to their limited

partners based on their fund's lifecycles -- so were often in the market selling stock for "uneconomic reasons".

We finally decided to initiate our position in November of 2013 at around \$8.00 a share. Our rationale was simple. The Company was generating close to a 20 percent free cash flow yield that we were confident would be deployed into accretive acquisitions, debt pay down, or buybacks – returned to shareholders. More simply, if the firm's multiple did not increase or EBITDA didn't grow, the shares would appreciate by about 20 percent a year – a more than adequate return. Another way to look at it was that we were getting any appreciation in the firm's multiple or growth in profitability for free!

But beyond the simple arithmetic, our research uncovered a number of other interesting factors contributing to our decision to make an investment at that juncture. The first observation was that the Company was entering into a period of long term margin improvement / re-rating. Historically, CPG customers had engaged in what they called "value engineering" with Graphic and its competitors. As the Companies got larger and were able to move down the cost curve the CPG's would demand that they were to be the beneficiary of these cost cuts in exchange for additional volumes. The only pricing growth Graphic and its competitors were getting were input cost inflation and even that reset as input prices moved down. The resulting factor was a stable unexciting business that could grow low single digits organically but with limited margin growth. Over the last few years, the industry consolidated into a virtual oligopoly with Graphic and MeadWestvaco ostensibly controlling their end markets. Being rational actors, the two of them refused to engage in these practices and the CPG's had no other option then to let Graphic keep the efficiencies they were earning. We expect this trend to continue with management reiterating intermediate term margin targets of over 20 percent – almost six percent higher than historical averages.

A second and perhaps more meaningful "stock" observation we made is that trading volume was increasing and that private equity had already sold a large share of their position and would most likely "sell into a buyback / secondary offering" in the fourth quarter like they had in previous years, which would continue to reduce the seller overhang while at the same time increasing liquidity. As liquidity becomes available, it is easier for Wall Street analysts to get constructive on the name as trading revenue becomes available for their sales people.

A third observation we made is that the packaging space over the last few years had been somewhat soft from the volume side and was poised for a rebound with analysts already constructive on Graphic's peer group. Our channel checks also rendered data that was increasingly bullish on end markets.

Thankfully our observations / thesis played out nicely and the shares appreciated from \$8.00 a share to almost \$12.00 at the end of the second quarter. But a good business getting better is the gift that keeps on giving for a value and tax conscious investor! We believe that the Company still offers significant upside at a 14 percent free cash flow yield on our 2015 estimates while its peers trade anywhere from 6 to 8 percent. We also believe the Company has a tremendous reinvestment opportunity in consolidating the European market like it did in North America while simultaneously increasing its purchasing power and production efficiencies across the entire Company. One nuanced feature we are excited regarding growing in Europe is that most of these Companies are domiciled in tax jurisdictions of 20 percent or less so the

Company's after tax return on invested capital is incredibly attractive on top of the already low multiples they are paying on recovering European assets.

**Operational Update/Conclusion:**

The Fund is off to a strong start in 2014 and continues to grow. Thankfully, our consistent and methodical growth has allowed us to make some large and positive changes to the organization in the second quarter. The first development is that the fund and its staff are moving. The fund had been subletting space from another fund in midtown and our personnel requirements have finally outgrown our space. On August 1<sup>st</sup>, the fund will be relocating to 1133 Broadway Suite 719. We are excited about finally having a space of our own that we can share and host with all of you. Please drop us a line if you would like to come and visit!

The second and perhaps more exciting development is that our full-time headcount has now doubled. We would like to welcome Peter "Pete" Hanselmann to the ADW team as our Chief Financial Officer and Director of Operations.

Pete was most recently an analyst in the Operational Due Diligence group at Aksia, which serves as a consultant/advisor for some of the world's largest institutional investors. In this role, he conducted operational due diligence on over 75 investment managers across a wide array of strategies analyzing firm structure, operational processes, fund financial statements and offering documents, valuation procedures and regulatory and compliance procedures and issues.

Prior to joining Aksia in July 2013, Pete managed and completed financial statement audits of hedge funds, private equity funds and fund of funds with a focus on valuation and detailed financial statement analysis procedures as an experienced Audit Associate at Rothstein Kass working in the Financial Services Audit Practice. In addition to completing audits, Pete also was an active participant in efficiency initiatives designed to streamline workflow processes across all firm practices.

Pete graduated from the University of Notre Dame in 2010 with a B.B.A. in Accounting with a second major in Economics. Pete continued his education at the University of Notre Dame, graduating in 2011 with his Master of Science in Accountancy degree with a concentration in Financial Reporting and Assurance. Pete received his Certified Public Accountant designation in 2013. Additionally, Pete has begun the process of achieving the CFA designation; he took the Level 1 examination in June 2014 and is eagerly awaiting the results in early August 2014.

I want to thank all of you again for the opportunity to steward your capital and I look forward to many more years with you.

As always, I am available by phone/email to discuss any other questions you may have or about the exciting opportunity set we are currently deploying capital into.

Regards,

Adam D. Wyden

**IMPORTANT NOTES**

This report is being furnished by ADW Capital Management, LLC ("**ADW**") on a confidential basis to existing limited partners in ADW Capital Partners, L.P. (the "**Fund**") and does not constitute an offer, solicitation or recommendation to sell or an offer to buy any securities, investment products or investment advisory services. This report is being provided to existing limited partners for informational purposes only, and may not be disseminated, communicated or otherwise disclosed by the recipient to any third party without the prior written consent of ADW. Any offer or solicitation of an investment in the Fund may be made only by delivery of the Fund's confidential private offering memorandum to qualified investors.

An investment in the Fund involves a significant degree of risk, and there can be no assurance that its investment objectives will be achieved or that its investments will be profitable. Unless otherwise noted, the performance results of the Fund included in this report are presented on a net-of-fees basis and reflect the deduction of, among other things, underlying management and performance fees and expenses as well as brokerage and/or custodial fees and expenses. Performance results also include the reinvestment of dividends and other earnings. Certain of the performance information presented in this report are unaudited estimates based upon the information available to ADW as of the date hereof, and are subject to subsequent revision as a result of the Fund's audit. An investor's actual performance and actual fees may differ from the performance information shown due to, among other factors, capital contributions, withdrawals and eligibility to participate in "new issues." The value of investments can go down as well as up. Past performance is not necessarily an indication of future performance or profitability. An investment in the Fund is subject to a wide variety of risks and considerations as detailed in the confidential private offering memorandum of the Fund.

References to Dow Jones, S&P 500, NASDAQ, Russell 2000 and other indices herein are for informational and general comparative purposes only. There are significant differences between such indices and the investment program of the Fund. The Fund does not invest in all or necessarily any significant portion of the securities, industries or strategies represented by such indices. References to indices do not suggest that the Fund will, or is likely to achieve returns, volatility or other results similar to such indices.

This report and the accompanying discussion include forward-looking statements. All statements that are not historical facts are forward-looking statements, including any statements that relate to future market conditions, results, operations, strategies or other future conditions or developments and any statements regarding objectives, opportunities, positioning or prospects. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements are not a promise or guaranty about future events.

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