



BLACK BEAR

VALUE PARTNERS

October 8, 2025

Black Bear Value Partners LP Q3 2025 Letter

“May all your dahulu come trululu.” –Gen-Alpha

To My Partners and Friends:

- Black Bear Value Fund, LP (the “Fund”) returned -7.1% in September, -1.0% in the quarter and -12.7% year-to-date.
- The S&P 500 returned +3.6% in September, +8.1% in the quarter and +14.8% year-to-date.
- The HFRI Index returned +1.3% in September, +5.9% in the quarter and +13.7% year-to-date.
- We do not seek to mimic the returns of the S&P 500 and there will be variances in our performance.

Monthly Performance Net of Fees and Expenses														
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year est.
2025	Black Bear Value Fund	1.5%	-3.6%	0.8%	-1.5%	-6.3%	-3.0%	0.1%	6.4%	-7.1%				-12.7%
	HFRI Index - Value	2.5%	-0.9%	-2.0%	0.1%	4.3%	3.4%	1.1%	3.5%	1.3%				13.7%
	S&P 500	2.8%	-1.3%	-5.7%	-0.7%	6.3%	5.1%	2.2%	2.0%	3.6%				14.8%

Strategy Exposure @ 09/30/2025				Top 5 Gross Long Positions (Alphabetical)				Gross Concentration Breakdown	
	LONG	SHORT	NET						Long %
Equities	92.3%	-31.0%	61.3%	Builders FirstSource		BLDR		Top 5 positions	57%
Preferred Equity	0.0%	0.0%	0.0%	Flagstar Financial		FLG		Top 10 positions	92%
Fixed Income/Credit	0.0%	-14.5%	-14.5%	Lanxess AG		LXS.DE			
Total Investments	92.3%	-45.5%	46.8%	Tidewater		TDW		<i>Note: As 09/30/2025</i>	
Cash	41.2%	0.0%	41.2%	Warrior Met Coal		HCC			
T-Bills	0.0%	0.0%	0.0%						
Total Cash/T-Bills	41.2%	0.0%	41.2%						

Note: Includes delta-adjusted options position

Note: Cash balances include cash received from our short positions

Note: Additional historical performance can be found on our tear-sheet.

One of the distinct advantages of private market investment is the lack of short-term noise and potential distraction from the price action in the market. We own businesses with prospects that are underappreciated often needing to “prove it” before given a fair price. In the meantime, negativity and misunderstanding exist and the stock is marked to the lowest clearing price to sell a share. Being able to look through this noise is an advantage over a decent time horizon. However, the ride can sometimes be turbulent and uncomfortable as it is today. I endeavor to have a private investing mindset and while cognizant of the market prices, they do not guide my decision making. Nearly all our long investments have the feature of being in industries that are currently bumping along the bottom. Homebuilding, chemical production, met coal etc. are all in a very weak state but have long-term tailwinds at their back. We own them with lots of pessimism baked in and a lot of upside when things eventually rebound. Note almost all our portfolio is NOT in the S&P 500 and a good chunk is in Ex. U.S. markets.

Performance for the quarter was unremarkable and continues to lag the broader indices. As mentioned in our Q2 letter I am realistic that short-term underperformance and in particular drawdowns can be aggravating. I will do a more granular attribution in our year-end letter but suffice to say that our short portfolio has been a major



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drag on performance. Through the end of Q3 we are up ~2% on our long investments but down ~12+% on our equity shorts (and a small amount on our credit shorts). The trend from Q2 has continued and many money-losing/uneconomic companies continue to rise sharply. Investors are in a sanguine state with respect to the embedded assumptions to justify the current pricing of various AI players. To borrow from my children's new vocabulary, this area of the market seems a bit "delulu" (aka delusional). While painful at times, the short opportunities coming out of the AI space are abundant. Technological innovations can have an incredible positive impact on the consumers while leaving behind a large cemetery of companies who over-extended themselves and overpromised results. I am respectful that the "vibes" can continue so have been keeping the positions on the smaller side. When the mood shifts and people start asking where the economic value is I can imagine it being quite painful.

Top 5 Businesses We Own (Alphabetical)

Builders FirstSource (BLDR)

There is a structural shortage of housing in the USA. Higher mortgage rates reduce the supply of existing home supply as homeowners are locked into low-rate mortgages. Homebuilders can buy-down the mortgage to a lower rate and accept a lower, yet still healthy margin on the home sale.

BLDR is a manufacturer and supplier of building materials with a focus on residential construction. Historically this business was cyclical with minimal pricing power as the primary products sold were lumber and other non-value-add housing materials. Since the GFC, BLDR has focused on growing their value-add business that is now 40%+ of the topline. The company has modest leverage and has been using their abundant free-cash-flow to buy over 45% of their stock in the last 33 months.

In Q2 BLDR continued to experience a slower homebuilding market but continued to produce a healthy amount of free-cash-flow which they used to buy back stock. Given the slowdown, management reduced their 2025 outlook from generating \$800MM-\$1.2BB in cash to \$800MM-\$1BB in cash or a 6-8% FCF yield in a trough year. Their leverage has ticked up because of the core business slowing and I imagine they will focus on using some of their cash to reduce their debt going forward.

The company has sustained higher gross margins as they have gained scale. I estimate normalized free-cash-flow per share to be \$10-\$15 per year implying a free-cash-flow yield of 9-13% with no growth priced in. The reality is due to the housing shortage coupled with acquisitions from smaller competitors; there is a long-term tailwind providing growth. Additionally local governments are beginning to loosen red tape for home construction which should help.

Flagstar Financial (FLG)

Flagstar Financial is the former New York Community Bank (a mashup of Flagstar Bank, New York Community Bank and assets from Signature Bank). Like our SHORT investments in Silicon Valley Bank and First Republic, FLG had a hole in their balance sheet (from soured multifamily and office real estate vs. long-duration securities). That is where the similarities end.

FLG raised over \$1BB in additional capital, led by former Treasury Secretary Steven Mnuchin. They revamped the management team and brought in a superstar CEO in Joseph Otting. They have reviewed nearly all the loans on the books, sold off non-core assets, raising additional capital and are focused on delivering a narrowly focused, well-capitalized boring regional bank. In this case boring is good. Importantly, they have



taken a conservative view of their loan book and a large credit reserve. This contrasts with several bank/private credit lenders we are short who have taken minimal reserves.

Flagstar continued making progress in their turnaround in the 2nd quarter. Their losses are shrinking, and the balance sheet is getting more stabilized. They have been deliberately reducing their exposure to the riskier segments of the commercial real estate market.

At quarter-end the bank was trading at ~65% of a conservatively marked balance sheet. This is in contrast with similar banks (who are NOT conservatively marked) trading at 140-160% of their tangible book value. FLG should complete working thru the bulk of their issues by the end of 2025 and approach “normal” during 2026. Given the conservative nature of the management team, I wouldn’t be surprised if it happened sooner. At these prices the downside seems minimal and could see this business up 50-150% over the next 1-3 years as it is more appropriately valued.

Lanxess (LXS.DE)

Lanxess is a German specialty chemicals company that was originally spun off from Bayer 20 years ago.

The management team has been focused on selling more cyclical and capital-intensive businesses and building out stickier/lower capital-intensive businesses. For example, “Mobility” (cyclical auto/tires) was ~40% of their business in 2016 and today is ~15%. Additionally, they’ve focused on growing their business in the US. For example, US business was ~15% of sales in 2016 and is approaching ~30% today.

Over the last 3 years leverage reached ~5x debt/EBITDA. As they’ve sold off some of the cyclical businesses, they’ve reduced debt to ~3.4x as of now. This is still too high for this kind of business and management targets ~2.5x leverage and an investment grade credit rating.

The core business should be able to generate ~200-250mm in free-cash flow in a more normalized environment which equates to an 11-14% free-cashflow yield. They’re currently experiencing weak end-market use and generating 130-160mm in cash, which equals a 7-9% yield. This leaves out a large source of value. LXS has a JV with a put right to their partner. This has 1BB Euro value to LXS (equity value + debt owed to LXS). They exercised their put right and are now waiting for their JV partner to respond with their intentions (there are limited abilities of the partner to delay the closing). In any event LXS will be receiving somewhere between 500mm-1bb euros. If we conservatively assume 500mm of a cash-inflow the business is currently generating a 10-12% yield and will generate 15-20% mid-cycle yield.

Once the company delevers I anticipate they will buy in a lot of stock at these levels.

Tidewater (TDW)

Tidewater is a marine services firm that operates one of the worlds largest fleets of offshore support vessels (OSV’s). They serve the energy industry by transporting crew and supplies, towing and anchoring drillships and supporting offshore construction projects. The long-term outlook for international and offshore markets is strong while the near-term is a little cloudier. As current resource plays (the Permian) slow down worldwide demand will continue to grow and require more oil. It is expected that offshore capital commitments will rebound in the next 1-2 years.



What's striking about this industry is the lack of investment in the OSV fleet. Since the GFC global shipyard capacity has shrunk by nearly 60%. In addition, newbuild investment is lacking as many banks have pulled back from lending. Over the next decade, as fleets age, the global OSV market is expected to shrink by ~40%.

What this adds up to is a potential for large pricing moves, in our favor, coupled with high utilization. But we do not have to bank on that as they are currently generating \$300MM+ in FCF vs. a \$2.7bb market cap or an 11% yield. In a more normal environment, I'd expect them to generate 500mm-1bb which gets to ~20-35% yields. Importantly their share buybacks were historically limited by debt covenants. That debt has been paid off (they have minimal debt now) and they recently instituted a buyback plan for \$500MM.

Warrior Met Coal (HCC)

Warrior Met Coal is a leading metallurgical coal producer (coal used to steel production). Currently the bulk of HCC's FCF is being invested in a capital project that will be concluding this year. Once the business winds down their investment period they will gush cash.

In Q2 2025, Warrior Met Coal saw revenue down 30% year-over-year due to compressing met coal prices. Despite a 6% production increase and tight cost control, negative free cash flow of \$57 million reflects heavy investment in the Blue Creek mine. Liquidity remains robust at \$545 million. Management maintained its full-year guidance, emphasizing the strength of contracted sales, cost discipline, and continued advancement of the Blue Creek project amid market headwinds.

HCC's existing mines should generate \$100-\$350MM in annual free cash flow (assuming lower for longer met coal prices). Blue Creek development is wrapping up by the beginning of 2026 and at mid-cycle should generate \$100-\$500MM in additional free cash flow. The combined assets should generate \$200MM-\$850MM in free cashflow with non-heroic pricing and volume assumptions. This equates to ~\$4-\$16 in annual per share cash generation vs. a price of ~\$64 or a 6-25% unlevered annual free-cashflow yield. 2026 should be a sea-change in their free-cash-flow generation.

Concluding Thoughts

Our short book has been a source of mark to market pain, but I think it's prudent and will be a big source of value to us ala what we experienced in 2022. We own a group of businesses that have a lot of bad news priced in at enormous discounts to overall elevated market multiples. Time is our friend.

We know what we own and are sober/objective in our reasoning and will stand to do well in the coming years. Please reach out if the Fund is of further interest.

Thank you for your trust and support.

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