

OF

OPTIMIST FUND

Q1 2024 Quarterly Letter

April 16<sup>th</sup>, 2024



## OPTIMIST FUND

To the partners of Optimist Fund,

At Optimist Fund, we run a concentrated portfolio of 15-25 stocks and aim to maximize returns over a 5-year investment time horizon.

In the quarter, we reached our 2-year anniversary and now have a little less than 3 years before completing what we will call our first "5-year vintage".

We're up ~6% since inception, ~19% year-to-date, ~74% in the last year and we continue to see significant future upside.

The portfolio consists of 19 market leading companies that we believe have the potential to appreciate ~4x over the next 5 years.

<b>% Returns</b>	<b>Optimist Fund*</b>	<b>Benchmark**</b>
2022***	-51.4%	-17.5%
2023	82.9%	30.4%
<b>Q1 2024</b>	<b>19.1%</b>	<b>9.7%</b>

### **History rhymes.**

In the early 2000's, amidst the collapse of the tech bubble, Amazon's share price declined 95% while their sub scale competitors went bankrupt or exited the e-commerce market. The dramatic decrease in competitive pressure allowed Amazon to cement their position as the global e-commerce leader.

The bursting of the tech bubble helped Amazon become the dominant company they are today, which drove material returns to their investors over the last two decades.

In our view, 2022 in many ways mirrors 2001/2002, and a similar story is playing out with many of our largest investments.

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We believe Carvana has won the online used car market, Uber has won the ride-share market, DoorDash has won the restaurant delivery market, and Wayfair has won the online furniture market. Over the last 2 years the competition has either died or shrank dramatically and we aren't seeing any appetite from venture capital or legacy incumbents to fund new competitors.

We believe the market is dramatically underappreciating how big, profitable, and valuable the leaders in these markets will become overtime which Optimist Fund is positioned to capitalize on.

### **Now let's review the quarter.**

In Q1 most of our holdings demonstrated continued strong fundamentals which drove strong share price performance.

<b>Top Contributors</b>	<b>Contribution</b>	<b>Q1 2024 TSR</b>	<b>Top Detractors</b>	<b>Contribution</b>	<b>Q1 2024 TSR</b>
Carvana	13.3%	66%	HelloFresh	-3.3%	-54%
DoorDash	3.5%	39%	Smartsheet	-1.7%	-20%
Xponential Fitness	3.0%	28%	Cricut	-1.1%	-28%
Uber	2.5%	25%			
ACV Auctions	1.9%	24%			
<b>Top Contributor Total</b>	<b>24.2%</b>		<b>Top Detractor Total</b>	<b>-6.1%</b>	

Source: Optimist Fund Attribution Report, Eikon price data

TSR = total shareholder return

### *Top Contributors*

1. **Carvana:** On the Q4 earnings call Carvana announced that they expect to grow retail units sold year over year in Q1 while generating over \$100 million of adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization). We are now at the growth inflection we've been waiting for as alternative data providers are indicating Carvana grew units at a ~15% y/y growth rate in Q1. The combination of accelerating revenue and profit growth sets Carvana up well to prove to the skeptics they are on a path to becoming the largest and most profitable US used car dealership.
2. **DoorDash:** DoorDash continues to grow revenue over 20% while materially expanding margins. They provided strong guidance for 2024 implying continued strong revenue growth while profits will continue to grow >2x faster.

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3. **Xponential Fitness:** Xponential Fitness is a founder-led boutique fitness market leader that has significant future growth opportunities trading at extremely depressed valuation. This was a new position in the quarter that we'll shed more light on later in the letter.
4. **Uber:** Uber continues to deliver strong bookings growth over ~20% while free cash flow is growing at over double that rate. At their investor day they stated they expect bookings to grow in the high teens while free cash flow will grow closer to 40% over the next 3 years. Given they now generate billions of free cash flow annually they also announced a \$7B buyback authorization which was welcomed by investors.
5. **ACV Auctions:** ACV Auctions has started to experience accelerating growth as the wholesale automotive market has finally returned to growth. They guided to revenue growth for 2024 of 25-30% while finally becoming adjusted EBITDA profitable. We believe the wholesale auto market now is in the first inning of a multiyear tailwind that will dramatically accelerate ACV's revenue and free cash flow generation.

Our top contributors generated ~130% of Optimist Fund's quarterly return.

#### *Top Detractors*

1. **HelloFresh:** The company recently provided disappointing 2024 guidance due to slower progress in their meal kits business. Despite their historical track record of meeting or exceeding expectations, recent performance has fallen short. We are waiting for evidence of improved execution before considering increasing our investment. Failure to deliver on their recently provided guidance could lead to exiting the position.
2. **Smartsheet:** While reporting strong Q4 results, Smartsheet's revenue growth guidance for 2024 fell below investor expectations. However, considering the broad slowdown we've seen in the collaborative work management software market they serve and our expectation for growth acceleration in 2025, our thesis remains unchanged.
3. **Cricut:** Cricut continues to face revenue challenges due to weakness in the crafting end market. Despite disappointing results, the company has been generating cash above expectations, which will benefit shareholders through special dividends and buybacks. Today Cricut is under a 3% position. We need to see revenue growth acceleration before we would consider buying more.

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Recall that Carvana went from being our largest detractor in 2022 to the most profitable investment we have made. It is often the companies that are most doubted in the short term that present the most compelling future investment opportunity.

### **Aggregate Portfolio Composition**

Here are the top 10 holdings in our fund, comprising approximately 80% of the portfolio as of March 31<sup>st</sup>, 2024.

Carvana	Xponential Fitness
Wayfair	Smartsheet
DoorDash	Colliers
ACV Auctions	Revolve
Uber	Monday.com

### **Q1 Portfolio Changes**

Q1 was an active quarter as we added Xponential Fitness, Ashtead, Basic Fit, Latham Group, and Figs to the portfolio. We also sold Opendoor and Peloton.

Other than Xponential Fitness, all our new additions are currently what we would call a minimum position size of ~2% of the fund.










We parted ways with Peloton and Opendoor as their turnaround efforts continue to take longer than we expected which calls into question whether they can ever return to meaningful growth.

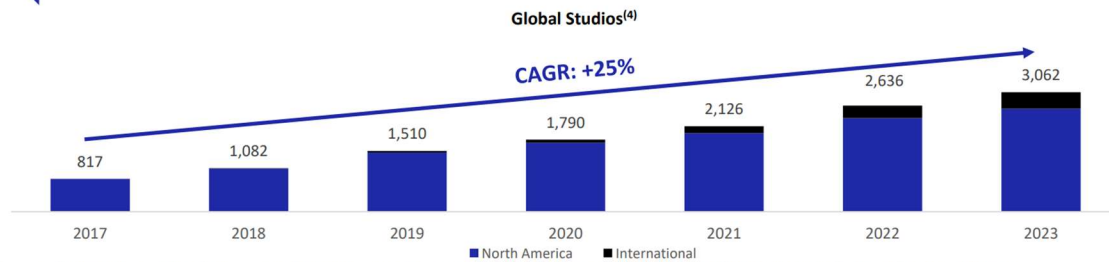
### **Xponential Fitness**

Xponential Fitness is one of the largest franchisors in the boutique fitness sector worldwide, owning ten brands, each offering a unique fitness experience. Its largest brands are Club Pilates, Stretch Lab, and Pure Barre.

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### Xponential's Evolution From One to Ten Brands in Key Boutique Fitness Verticals<sup>(1)</sup>

Acquired	 CLUB PILATES	 CYCLEBAR	 STRETCH LAB	 ROW HOUSE	 AKT	 YOGASIX	 pure barre	 BFT	 lindora	
	Mar 2015 <sup>(2)</sup>	Sep 2017	Nov 2017	Dec 2017	Mar 2018	Jul 2018	Oct 2018	Mar 2021	Oct 2021	Jan 2024
Open Studios <sup>(3)</sup>	988	265	467	78	14	197	638	87	293	31
Licenses Sold <sup>(3)</sup>	1,641	563	976	327	122	631	780	387	720	N/A



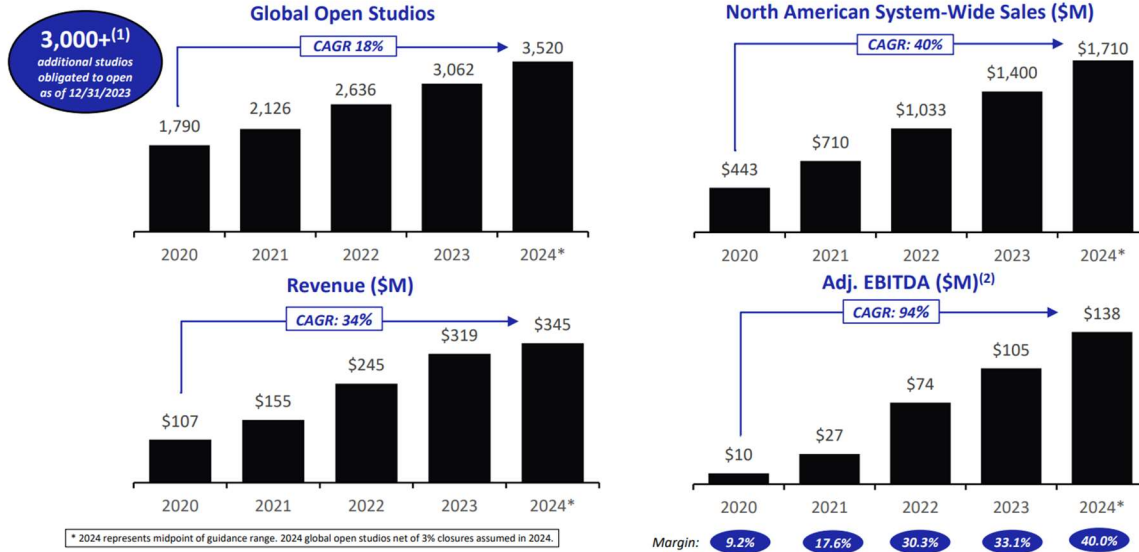
1) As of February 29, 2024, Xponential's health & wellness verticals include Pilates, indoor cycling, barre, stretching, rowing, dancing, boxing, functional training, yoga and metabolic health solutions. All additional data as of December 31, 2023.  
 2) Acquired by Anthony Geisler prior to the formation of Xponential Fitness.  
 3) Does not include Princess Cruises. Licenses sales are presented gross of terminations.  
 4) Data includes STRIDE as the brand was divested post year-end; data does not include Lindora as acquisition closed on January 2, 2024.

Source: Xponential Fitness February 2024 Investor Presentation

The founder and CEO Anthony Geisler has been successfully navigating the boutique fitness industry since the early 2000s. Geisler's journey began with the acquisition of LA Boxing, which he transformed from a handful of locations into a network of nearly 100, culminating in its acquisition by UFC Gym for \$25 million. Following a couple years with UFC Gym, Geisler's desire to scale another boutique fitness brand led him to purchase Club Pilates for \$2 million, which at the time had less than 20 locations and generated around ~\$500k of EBITDA. Over the next 3 years Geisler grew Club Pilates to ~100 locations and ~\$6 million of EBITDA, after which he sold the company to the private equity firm TPG for \$100 million.

TPG's acquisition marked the genesis of Xponential Fitness, with Geisler spearheading a multi-brand entity poised to repeat the success of Club Pilates. Today, Geisler owns around 15% of Xponential Fitness, which today is valued at ~\$100 million. We believe, and historical performance suggests, Anthony Geisler is an exceptional CEO.

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1) Represents (i) North American sold licenses, net of open studios and license terminations, (ii) international BFT licenses sold not yet opened and (iii) international licenses obligated to be sold and opened under MFA.  
 2) See appendix for reconciliation to net loss, the most directly comparable GAAP financial measure.

Source: Xponential Fitness February 2024 Investor Presentation

In the middle of 2023, an anonymous short report was released claiming that Anthony Geisler is an unethical, untrustworthy businessperson, and Xponential is an entity that oversells failing fitness concepts. Since this report was released the share price declined over 60% while the financial results continued to be robust. To address some of the concerns mentioned in the short report, the company hosted an investor day and dug into the health of the business and each individual boutique fitness brand. We believe the short report found a few disgruntled franchisee's, which every franchise system has, and claimed their complaints are shared by the entire franchisee base. From our research we don't believe this to be true. In aggregate the portfolio of brands is doing well, and franchisees are profitable and growing.

Ultimately after investigating all the claims from the short report and speaking with management on multiple occasions, we believe Xponential fitness is a high-quality business trading at an extremely attractive price. Even if half the claims from the short report were true (which we don't believe to be the case) we believe the business would still be worth significantly more than the current market price. Xponential will generate around \$100 million of free cash flow in 2024 and is currently a ~\$850m market cap company.

We believe Xponential can deliver on their 2026 adjusted EBITDA target of \$200m (implying a 24% 3-year compounded annual growth rate) and their valuation will gradually return to ~20x adj. EBITDA (versus today's valuation of ~7x adj. EBITDA) which

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is where Xponential was valued before the short report was released. Put together, this implies a target price in the next 2 years of \$56, or a 275% return from today price of ~\$15. We think the risk/reward is attractive.

**Founders Class units will close on December 31<sup>st</sup>, 2024.**

When we first launched Optimist Fund, we created a discounted fee structure to anyone who invested in the early days which we named the “Founder’s Class”. Today we are officially announcing that the Founders Class will close to new investment on December 31<sup>st</sup>, 2024. Below I have outlined our Founders Class fee structure as well as our fee structure starting in 2025.

<p><b>Management Fee</b> 1.25% &lt;\$5M AUM 1.00% &gt;\$5M AUM <b>0.50% - Founders Class</b></p>
<p><b>Incentive Fee</b> 20% above a 6% annually compounding hurdle rate with a high-water mark</p>

**Closing Remarks**

We continue to believe we are in the early innings of a multiyear re-rating in the companies we own that will drive exceptional 5-year investment returns for our investors.

If you have any questions, please don't hesitate to reach out. We value your feedback and always make time for our investors. Thank you once again for your trust and support.

Speak soon,

Jordan McNamee



Founder & Chief Investment Officer



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\*Rates of return are for Class E lead series net of all fees and expenses for Optimist Fund to illustrate the historical performance of our investment strategy.

\*\*The Benchmark has a 50% weighting in the MSCI World Growth Index and a 50% weighting in the Russell Midcap Growth Index. The Benchmark is provided for information only and comparisons to benchmarks and indexes have limitations. Investing in global equities is the primary strategy for Optimist Fund but Optimist Fund does not invest in all or necessarily any of the securities that compose the Benchmark or the market indexes. Reference to the Benchmark and the market indexes does not imply that Optimist Fund will achieve similar returns.

\*\*\*Fund start date was March 1, 2022.

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