OPTIMIST FUND

Q2 2023 Quarterly Letter

July 18, 2023

OPTIMIST FUND

To my fellow Optimists,

The second quarter brought forth a wave of positive developments. The majority of the businesses we have invested in showcased encouraging fundamentals, which in turn led to favorable movements in their share prices. As a result, Optimist Fund had a good quarter, appreciating by 24.8 percent.

Our focus remains on maximizing 5-year investment returns for our investors. We believe that the recent six-month rally is merely the initial phase of a broader resurgence for small and mid-cap growth companies.

We maintain strong conviction in the substantial undervaluation of our portfolio holdings, with the potential for over a fivefold appreciation in the next five years.

This remains an attractive time to invest.

% Returns	Optimist Fund*	Benchmark**
2022* **	-51.4%	-17.5%
Q1	25.5%	11.9%
April	-6.7%	0.0%
May	12.0%	1.1%
June	19.5%	6.9%
Q2	24.8%	8.1%
YTD	56.7%	20.9%

Business fundamentals are on a positive trajectory.

Carvana made significant progress in Q2, marking a pivotal development for the company. On May 4th, they exceeded expectations with better-than-anticipated Q1 results. Notably, they achieved this while significantly rationalizing operating expenses compared to the previous quarter, while maintaining similar car sales figures.

As a result, Carvana reported adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) of -$24 million, a substantial improvement from -$348 million in Q1 2022. Furthermore, they surprised the market by announcing their expectation to generate positive adjusted EBITDA in Q2. This achievement signifies significant strides towards their goal of reaching $175 million in quarterly adjusted EBITDA, a crucial milestone to become free cash flow positive.

Looking ahead, Carvana's long-term potential is compelling. With the prospect of selling 2-3 million cars annually, generating a profit of approximately $2500 per car, the company has the opportunity to achieve an annual profit of $5-$7.5 billion dollars. This substantial growth potential contrasts with their current market cap of $7 billion.

Despite the substantial progress made in Q1, we observed a disconnect between Carvana's performance and its stock price. While we anticipated a significant increase of over 100%, the stock only rose ~25% the day after the results were announced. Recognizing the disparity between the company's value and its market price, coupled with the positive momentum we witnessed, we doubled our Carvana holding over a few days post May 4th in the $9-$12 range.

Since then, Carvana has continued to exceed expectations, pre-announcing Q2 results with adjusted EBITDA projected to be at least $50 million, surpassing the previous guidance of "positive." This announcement drove the stock price to rise to the mid $20s.

Given the substantial progress in Carvana's fundamentals, we are optimistic about the company's future. With multiple tailwinds on the horizon, we anticipate exciting years ahead. As a result, as of July 18th Carvana has become our largest holding. Carvana share price is currently ~$40, our 5-year target price remains $600.

Uber once again impressed with another quarter of surpassing expectations and delivering strong top-line growth driven by their Uber Rides and Uber Eats businesses. Of note is their exceptional adjusted EBITDA growth. Currently, Uber’s adjusted EBITDA as a percentage of their gross bookings stands at approximately 2.5%. What’s especially noteworthy is that incremental adjusted EBITDA from incremental revenue growth is ~12%, nearly 5x their current profit level. As Uber continues to expand while maintaining these impressive incremental margins, both adjusted EBITDA and free cash flow are poised to experience rapid growth. This projection underpins the significant undervaluation of Uber when considering the potential free cash flow, the business can generate over the next five years. Today, Uber's share price is ~$47. Our 5-year target price is $250.

Wayfair kicked off May with a promising announcement, stating their expectation to achieve adjusted EBITDA profitability in Q2. Additionally, if historical seasonal patterns persist, they anticipate a return to revenue growth in the latter half of 2023. The positive momentum continued in early June, with Wayfair pre-announcing improving quarter-to-date growth trends, marked by year-over-year growth in orders.

Our excitement mounts as Wayfair prepares to host their first ever investor day on August 10th. During this event, we anticipate insightful discussions on their strategic plans to propel revenue from $12 billion to over $50 billion, and negative adjusted EBITDA to achieving 10%+ adjusted EBITDA margins over the next decade. We will provide updates on any notable developments. In the meantime, we remain optimistic about Wayfair's trajectory and how the business is progressing. Today the stock is ~$70. Our 5-year target price is $500.

ACV Auctions has demonstrated exceptional resilience in navigating a challenging wholesale automotive market, and now they are starting to reap the benefits of improving market conditions. Their Q1 results exceeded expectations both in terms of top-line and bottom-line performance, prompting an upward revision to their full-year guidance for 2023.

On June 1st, ACV Auctions hosted an investor day, where they unveiled their ambitious roadmap towards generating $1.25 billion in revenues and achieving $325 million in adjusted EBITDA by 2026. One key highlight from the event was their focus on long-term adjusted EBITDA margins, which could potentially surpass their initial guidance of 30% due to the leverage they are witnessing in some of their more established markets.

These developments showcase ACV Auctions' ability to adapt and capitalize on evolving market dynamics, solidifying their position as a formidable player in the wholesale automotive industry. Their strategic vision and commitment to maximizing value for shareholders make ACV Auctions an exciting company to own in the coming years. Today ACV share price is ~$18. Our 5-year target price is $70.

DoorDash continues to show the durability of their growth and margin expansion, growing orders, and gross merchandise volume by 17% and 20% organically and adjusted EBITDA by 278%. As the leading food delivery service in the United States, we believe their long-term growth and margin potential is significantly underappreciated by the market. Today DoorDash is trading at ~$85. Our 5-year target price is $500.

While most positions in the portfolio are performing well, there are a few that are currently experiencing challenges.

Smartsheet's quarterly performance was a mixed bag, with notable strength in margins but slightly underwhelming billings growth of 20%. This outcome can be attributed to macro pressures that have resulted in longer sales cycles. However, we have taken a proactive approach since the report by increasing our position in Smartsheet. We believe that the macro pressures affecting the company is transitory and will be followed by favorable tailwinds in the next 18 months. Smartsheet is current ~$42. Our 5-year target is $250.

Peloton achieved another strong quarter marked by notable growth in subscriptions and improving profitability. However, their guidance for the June quarter indicated a potential flat to declining number of subscribers, which fell slightly short of last year's addition of 5,000 subscriptions.

Overall, Peloton's trajectory seems to be in a holding pattern as they work diligently to execute their turnaround strategy. When comparing the risk-reward profiles of Peloton and Wayfair, we found that both companies offered similar prospects. However, Wayfair's path to growth and the potential for scaling profits appeared more promising, particularly in mid-May. As a result, we made the decision to sell half of our Peloton position and reinvested most of the proceeds into Wayfair.

This strategic move reflects our assessment of the relative opportunities and our commitment to optimizing our portfolio for long-term growth. Peloton is currently ~$9. Our 5-year target is $110.

Cricut faced challenges in Q1 as their major retail partners, including Wal-Mart, Target, and Amazon, exhibited sluggishness in restocking their inventory levels. Consequently, Cricut's Q1 results fell below their initial expectations. However, if Cricut returns to its typical quarterly buying patterns, we anticipate a resurgence in growth during the latter half of the year.

In the meantime, Cricut announced a special dividend of $1 per share, supplementing the $0.35 special dividend already paid out earlier in the year. Additionally, the company continues to engage in stock buybacks, showcasing their commitment to creating shareholder value.

Despite the temporary setbacks, Cricut maintains a dominant market share of over 90% in their respective market. We believe that their current earnings are significantly understated as they are currently experiencing cyclically low demand. As market conditions improve and buying patterns stabilize, we expect their earnings to rebound and more accurately reflect their market strength.

While challenges persist, we remain optimistic about Cricut's long-term prospects, given their established market presence and strategic initiatives aimed at enhancing shareholder returns. Cricut is currently a ~$13 stock. Our 5-year target is $45.

Aggregate Portfolio Composition

Here are the top 10 holdings in our fund, comprising approximately 80% of the portfolio as of June 30th, 2023.

Uber	ACV Auctions
Carvana	HelloFresh
Wayfair	Cricut
DoorDash	Opendoor
Smartsheet	Colliers

Exited and New Investments

During the quarter, we sold our positions in Focus Financial and Malibu Boats. We opted to sell our Focus Financial shares due to its ongoing acquisition process, which offered limited upside potential for the remainder of 2023. Additionally, we sold our Malibu Boats position to reallocate capital into our top 10 holdings that presented more favorable risk/reward profiles.

In terms of new additions, we initiated a position in Monday.com, a collaborative work management software company. We see promising prospects for their business and believe it aligns well with our investment strategy.

A holding that recently entered our top 10 holdings due to strong 2023 performance is Opendoor, an innovative real estate technology company that is transforming the way people buy and sell homes in the United States.

Opendoor is transforming how consumers sell their homes.

Selling a home is complicated. Traditionally, this has involved hiring an agent, undertaking repairs or renovations, hosting open houses, and dealing with the unpredictable nature of potential buyers visiting your property. Negotiations, inspections, and coordinating with third parties further add to the time-consuming and stressful nature of the process. Enter Opendoor, a company that has seized the opportunity to offer a streamlined alternative.

With Opendoor, you can visit their website, Opendoor.com, and receive a preliminary offer for your home in just about 2 minutes. Following a brief 30-minute assessment, you can obtain a binding offer and choose your closing date within a few days. By selling to Opendoor, you bypass the months of uncertainty and inconveniences associated with the traditional approach. Instead, you spend less than an hour in total and enjoy a hassle-free home-selling experience.

Consumers love the service which has driven significant growth.

Since 2017, Opendoor has grown revenue at an 80%+ compounded annual revenue growth rate. This growth has been driven by an impressive net promoter score of 80, indicating that 8 out of 10 customers would enthusiastically recommend the service to their friends.

The market opportunity in the residential real estate industry is immense.

The annual transaction volume in the US is a staggering $2.3 trillion, with approximately 6 million homes sold at an average price of just under $400,000.

The iBuyer market, which represents a new and innovative approach to buying and selling homes on the internet, which Opendoor invented, has seen significant growth. At its peak in early 2022, iBuyer market share reached slightly over 1% of the total residential transaction volume. In more mature iBuyer markets like Phoenix, Charlotte, and Atlanta, penetration ranged from 5-10%.

Interestingly, the iBuyer market is not highly competitive, with only two major players. Opendoor holds an impressive 80% market share, and competition is centered around sellers choosing between an agent or an iBuyer, rather than direct competition between iBuyers. In fact, in over half of Opendoor's markets, they are the sole iBuyer option available. This market structure presents a fantastic opportunity for Opendoor.

Looking ahead, we believe iBuying could achieve a market penetration rate north of 10%, which could translate into a substantial industry profit pool of greater than $10 billion. The combination of a large market size, increasing penetration rates, and a favorable market structure positions Opendoor to become a highly profitable industry giant.

Attractive unit economics will drive substantial long-term profits.

Unit Economics	Unlevered	Levered
Home acquisition price	$500,000	$500,000
Equity investment	$500,000	$50,000
Asset-level financing		$450,000
Contribution profit per home	$25,000	$25,000
Contribution Margin	5.0%	5.0%
Interest expense	$0	$9,247
Contribution profit per home after interest expense	$25,000	$15,753
Contribution margin after Interest	5.0%	3.2%
Other variable opex	$7,500	$7,500
Other variable opex margin	1.5%	1.5%
Fully allocated contribution profit per home	$17,500	$8,253
Annual fully allocated contribution profit	$63,875	$30,125
Annualized equity return	**12.8%**	**60.3%**

Source: Company Financials and Optimist Fund Estimates

Opendoor offers to purchase your house at a "Competitive Price" which they finance with ~90% asset backed debt. They charge a service fee of 5%, and typically provide an offer, a couple percentage points below what they believe they will be able to sell it for. This translates into a high single digit gross margin and a 4-6% contribution margin which includes additional costs such as buyer commissions and holding costs (hold times are typically 100 days).

While the incremental profit contribution from selling a home is appealing, Opendoor is operating at a relatively small scale, as compared to their current capacity resulting in historical albeit improving losses. As Opendoor deepens their regional penetration while holding historical underwriting standards, margins will continue to scale and eventually fall in the range of contribution margins of 7-9%, EBITDA margins of 4-6% and net income margins of 2-4%.

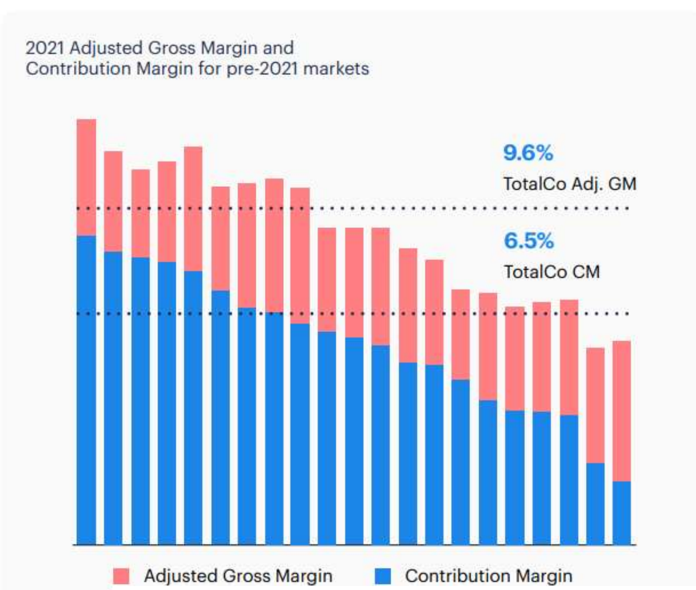
Clear pathway to long-term margin targets

	2018	2019	2020	2021	LTM	Long-term target	Key drivers
Total Adjusted Gross Margin	7.9%	6.3%	8.2%	9.6%	9.5%	10 - 11%	• Continued pricing and resale optimization and increasing penetration of services
Total Contribution Margin	3.5%	1.9%	4.3%	6.5%	6.3%	7 - 9%	• Future margin expansion via decreasing resale costs and increasing penetration of higher margin services • Operating against an annual baseline target of 4 to 6% today
Adjusted Operating Expenses	(10.7%)	(6.5%)	(8.1%)	(5.8%)	(4.4%)	~(3.0%)	• Increasing marketing efficiency with growing national coverage • Ongoing leverage against operations and fixed opex costs via investments in technology and automation
Adjusted EBITDA Margin	(7.1%)	(4.6%)	(3.8%)	0.7%	1.9%	~4 to 6%	• Flow-through from improving contribution margins and opex leverage
Interest, D&A, Taxes	(3.3%)	(2.3%)	(3.0%)	(2.2%)	(1.9%)	~(2.0%)	
Adjusted Net Income Margin	(10.4%)	(6.9%)	(6.8%)	(1.4%)	0.0%	~2 to 4%	• Appropriate proxy for operating free cash flow

Notes: All metrics presented are non-GAAP, see reconciliation in Appendix. Latest twelve months (LTM) as of 3/31/22.
Includes 3.65x inventory turns, 80% non-recourse leverage advance rate, and 4.5% blended cost of non-recourse funding and 30% corporate tax rate (illustrative) for long-term interest and tax assumption.
This slide includes long-term goals that are forward-looking, are subject to significant business, economic, regulatory and competitive uncertainties and contingencies, many of which are beyond the control of the Company and its management, and are based upon assumptions with respect to future decisions, which are subject to change. Actual results will vary and those variations may be material. For discussion of some of the important factors that could cause these variations, please consult the "Risk Factors" section of the Company's registration statement on Form S-1. Nothing on this slide should be regarded as a representatio by any person that these goals will be achieved and the Company undertakes no duty to update its goals.

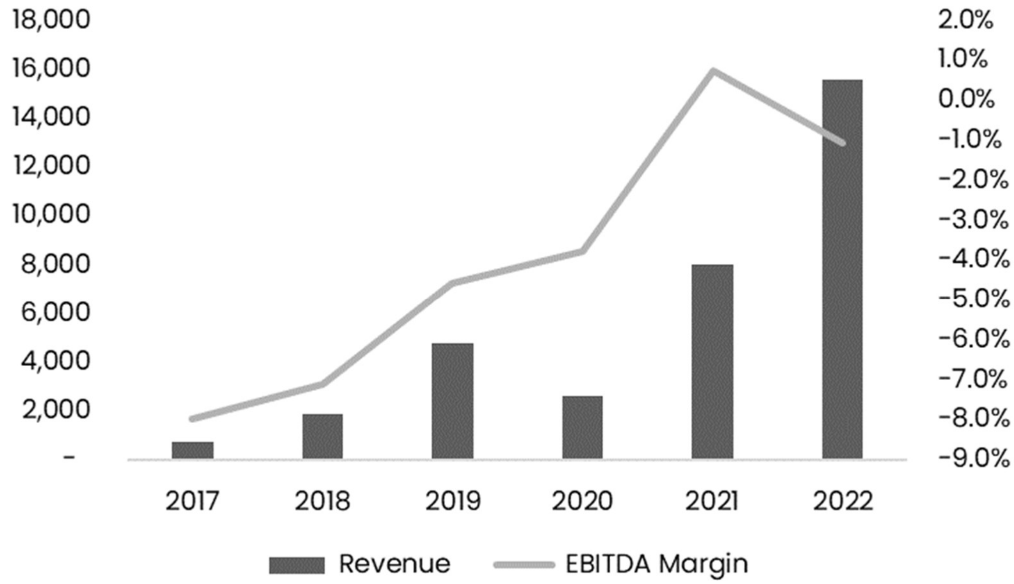
Source: Opendoor May 2022 Investor Presentation

Today they have a diverse range of markets. Some have already reached their long-term profit margin targets, some have exceeded those targets as you can see in the far-left markets in the image below, and other younger markets are still below their targets.



Source: Opendoor May 2022 Investor Presentation

Opendoor has outlined a clear strategy to reach their long-term margin targets and has been making steady progress towards them over the years as they scale their business.



Source: Company Financial Reports

We believe iBuying will become a monopolistic market structure.

Opendoor currently holds a dominant position with 80% market share. This leading position provides them with significant competitive advantages that we expect to strengthen over time.

Firstly, Opendoor's substantial investment in research and development, with a budget >10x that of its closest competitor Offerpad, enables them to deliver a superior customer experience. This investment will be challenging for Offerpad to match, further solidifying Opendoor's competitive edge.

Secondly, their strong brand recognition. Opendoor operates in over 50 markets, compared to Offerpad's presence in 25. Opendoor has established itself as the go-to name in iBuying, like how Uber is synonymous with ridesharing. This strong brand recognition gives Opendoor a distinct advantage in customer acquisition.

Thirdly, they have bargaining power with realtors. Opendoor sells its inventory to buyers who typically engage real estate agents and bear the responsibility of paying buyside agent commissions. With larger market share, Opendoor holds greater bargaining power with realtors. This advantage allows them to negotiate more favorable terms giving them the optionality to lower service fees, driving increased customer adoption. Smaller players do not have this bargaining power thus would be unable to match Opendoor’s economics.

And fourth, they have a lower cost of financing. Opendoor's national presence across multiple markets reduces market-specific risks compared to a less diversified iBuyer. Opendoor has consistently had atleast a 0.50% lower cost of financing as their smaller peer Offerpad. As Opendoor continues to scale, they may explore securitizing debt, leading to even lower financing costs. This option is only viable with significant scale, further solidifying Opendoor's competitive position.

Overall, Opendoor possesses durable competitive advantages that position them for substantial future returns. Their investments in customer experience, strong brand recognition, bargaining power with realtors, and lower cost of financing contribute to their leading position in the iBuyer market.

Opendoor's ability to weather the largest relative increase in interest rates over the past century demonstrates the resilience and staying power of their business.

Historically there had been a bear case that the housing market could turn and result in significant losses for Opendoor. This exact scenario unfolded in the past 12 months.

During Q2 of 2022, Opendoor purchased many homes at peak prices, unaware that the Federal Reserve would raise interest rates to the extent they did. Consequently, Opendoor incurred substantial losses by selling this inventory below what they paid for it. However, since Q2 of 2022, Opendoor has adjusted their offers to align with the new market environment which is resulting in strong margin improvements.

Currently, Opendoor has sold approximately 98% of the Q2 2022 cohort homes, indicating that Q3 and Q4 of this year are expected to witness significant margin improvements, bringing them closer to achieving free cash flow breakeven. With over $1.2 billion in cash and their free cash flow burn rate going from ~-$200 million to near breakeven in the next 4 quarters Opendoor has plenty of liquidity to execute against their plan. This progress will demonstrate Opendoor's resilience and ability to overcome severe market challenges.

Opendoor is a cyclical business and will likely experience losses during exceptional events when the housing market rapidly turns negative on a go forward basis. However, this characteristic is inherent to the cyclical nature of the industry rather than a structural flaw in Opendoor's business model.

Now that Opendoor is through the worst of this cyclical drawdown, we believe we are now at the beginning of a cycle of expanding margins and improving growth.

Overall, Opendoor is poised to prove its staying power over the next 6-12 months by driving margin improvements and demonstrating their ability to navigate cyclical challenges. Post 2023, we expect the business will return to robust revenue growth rates while reaching positive net income.

There is significant upside potential for Opendoor by replicating the penetration rates achieved in their oldest markets across the United States.

In the next 5 years we believe Opendoor could replicate their 5% market penetration in cities like Phoenix and Charlotte across their current market footprint, which would translate to approximately $40 billion in revenue and by our estimate, $0.8-$1.6 billion in annual free cash flow.

Applying a 25x multiple to $1.2 billion in annual free cash flow gets us to a $30 billion market cap company and a $45 stock as compared to the current price of ~$4. We view the risk/reward as highly attractive.

Closing Remarks

We express our gratitude to our investors for joining us on this journey as growth-focused small/mid cap investors. We remain firm in our beliefs and continue to see tremendous opportunities in the market. We believe that we are still in the early stages of a strong, multi-year recovery, which holds great potential for significant rewards for our investors.

If you have any questions or would like to discuss any specific holdings in our fund, 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

*Rates of return are for Class E 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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