OPTIMIST FUND

Q3 2023 Quarterly Letter

October 17, 2023

OPTIMIST FUND

To my fellow Optimists,

Q3 brought forth favourable developments in our largest holdings, reinforcing our positive outlook for Optimist Fund over the next 5 years.

Today, we own 16 underappreciated market leaders run by exceptional management teams who have significant growth opportunities.

We believe over the next 5 years, Optimist Fund has the potential to 5x+ in value.

Today remains an unusually attractive time to invest.

% Returns	**Optimist Fund***	**Benchmark****
2022* **	-51.4%	-17.5%
Q1	25.5%	11.9%
Q2	24.8%	8.1%
July	20.5%	3.0%
August	-4.3%	-2.8%
September	-11.1%	-5.3%
Q3	2.5%	-5.2%
YTD	60.5%	14.6%

Our portfolio fundamentals are inflecting positively.

Starting with our largest holding, **Carvana**. Q2 was an exceptional quarter that increased our conviction in our long-term thesis.

On July 17th Carvana released Q2 results that greatly exceeded expectations. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) was $155 million in the quarter, driven by sequentially stable unit volumes, a significant increase in gross profit per unit, and continued decreases in selling, general and administrative expenses. This was after they increased their Q2 guidance just a month prior to $50+ million in EBITDA.

They guided Q3 to another quarter of stable unit volumes and positive EBITDA.

3 weeks later, on August 8th at the J.P Morgan automotive conference, Carvana announced they expected adjusted EBITDA to be atleast $75 million in Q3. This is driven by their confidence in their cost structure improvements that is driving durable profitability enhancements.

As Carvana has stated before, they are operating a 3-step plan.

1. Get to adjusted EBITDA profitability.
2. Significantly improve unit economics.
3. Return to growth.

Carvana has now completed step 1 and Q3 will be another move towards completing step 2. At some point in the next 9 months, we expect Carvana to shift to step 3 and return to growth.

On July 17th Carvana also restructured their debt, which increases their financial flexibility and eliminates tail risks from a large dilutive equity raise. The punch line of the debt restructuring is Carvana lowered cash interest expense by over $430 million for the next two years in exchange for converting the debt from unsecured to secured. In our opinion, this is a very good deal for Carvana shareholders.

After the above-mentioned improvement in profitability and balance sheet flexibility, Carvana is now run-rate free cash flow positive.

Now the focus shifts to when will growth return. Our current base case assumption is for 20% plus revenue growth in 2024 at strong incremental margins that will deliver ~$1 billion in annual adjusted EBITDA.

As Carvana returns to growth and scales profits further, we believe the market will shift to focusing on Carvana's bull case of selling 2-3 million cars annually, generating a profit of approximately $2500 per car, which together generates an annual profit of $5-$7.5 billion dollars.

Carvana remains our largest holding. Their share price is currently ~$35, our 5-year target price remains $600.

Our **Uber** thesis is chugging along nicely with not much new to report. They continue to impress with another quarter of above expectation revenue growth and profitability. Adjusted EBITDA and free cash flow for the quarter was $916 million and $1.1 billion both up over 100% year-over-year. Uber continues to track in line with our thesis.

Wayfair also had a great quarter. Overall revenue came in better than expected as orders grew year-over-year, adjusted EBITDA margins improved dramatically from -3% a year ago to 4% and free cash flow was positive $128 million.

They guided Q3 to mid-single-digit revenue growth and continued adjusted EBITDA profitability. After 2 years of declining revenue, Wayfair is finally growing again. This positive inflection provides strong evidence for our investment case that we'll see double-digit growth in 2024 with scaling margins and free cash flow generation.

In mid-August they also had their first investor day where they walked through their growth expectation of mid-teens to mid-20% revenue growth on a normalized basis as well as increased their long-term adjusted EBITDA guidance from ~10% to 12-18%.

We are pleased with how this thesis is playing out and have continued to add to the position.

ACV Auctions has continued to execute well in a challenging wholesale automotive market. The wholesale market remains depressed, but they are starting to see improvements which will underpin a significant step up in growth and profitability in the coming years. Their Q2 results exceeded expectations both in terms of top and bottom-line performance, prompting another upward revision to their full-year guidance for 2023.

DoorDash continues to perform, growing orders, and gross merchandise volume by 18% and 20% organically and adjusted EBITDA by 171%. As the leading food delivery service in the United States, we believe DoorDash's long-term growth and margin potential is significantly underappreciated by the market.

Smartsheet's quarterly performance was strong after a mixed Q2. They beat on top and bottom line, delivered exceptional free cash flow margins of 19%, and raised the full year guidance on revenue and profits.

Overall, this is exactly what we wanted to see and continue to see Smartsheet as a durable high growth software company still in their early innings of growth.

Aggregate Portfolio Composition

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

Carvana	HelloFresh
Uber	Smartsheet
Wayfair	Colliers
DoorDash	Cricut
ACV Auctions	Fiverr

Exited and New Investments

During the quarter, we sold our investment position in Just Eat Takeaway and Phreesia. Both theses were tracking in line with our expectations, but we opted to reallocate capital into our top 10 holdings that today present a more favorable risk/reward profile.

In terms of new additions, we initiated a position in Fiverr, a freelance marketplace. We see promising prospects for their business and believe it aligns well with our investment strategy.

Fiverr is the creator of a service-as-a-product marketplace.

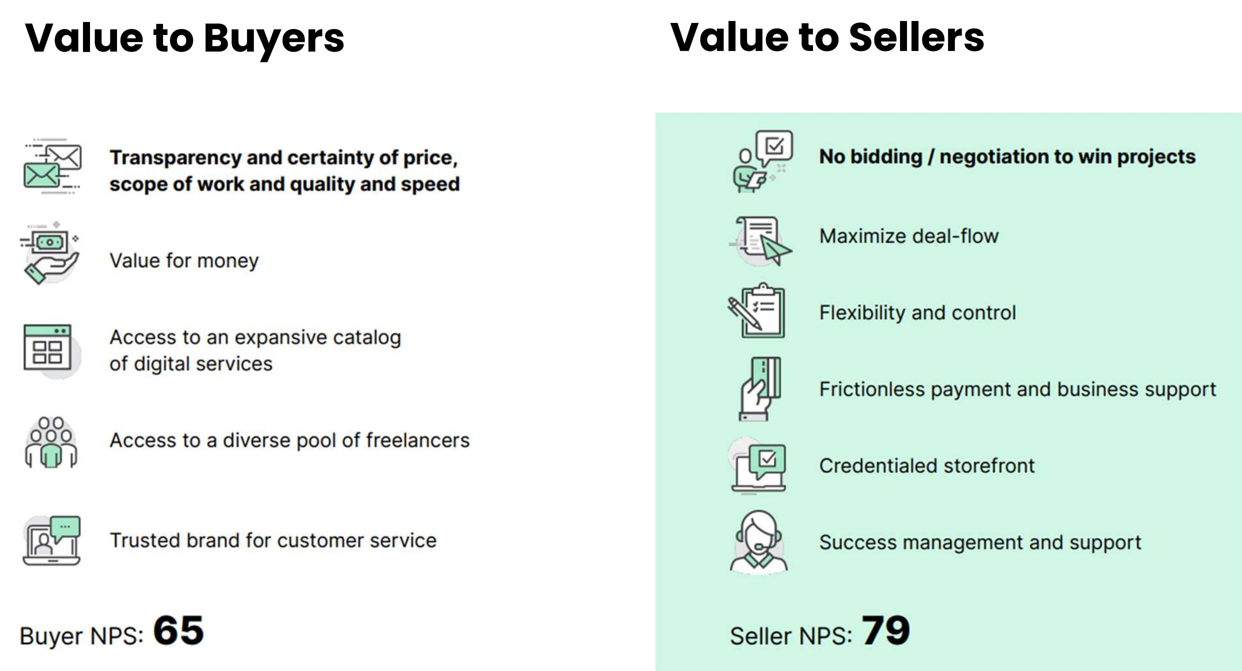
Historically, hiring freelancers has been a high friction endeavor. A company would post project details online or through a staffing company and receive proposals from freelancers for review.

The process was time consuming and uncertain.

In 2010, co-founder Micha Kaufman wanted to solve this problem and created Fiverr.

Fiverr is a global service-as-a-product marketplace that connects freelancers and businesses for digital services.

Instead of buyers posting what they were looking for and receiving proposals for review, freelancers post the services they provide in the form that can be purchased as a product. Buyers can then shop the service catalogue and purchase as they would when they buy goods on Amazon.



Source: Fiverr Q2 Investor Presentation

This format lowers the friction and cost for buyers and provides sellers an opportunity to sell smaller jobs in an economical manner.

Over the last 13 years, Fiverr has been rapidly growing their marketplace, adding sellers, services, and buyers. Today they are the largest service-as-a-product marketplace, with no direct competitor of comparable size.

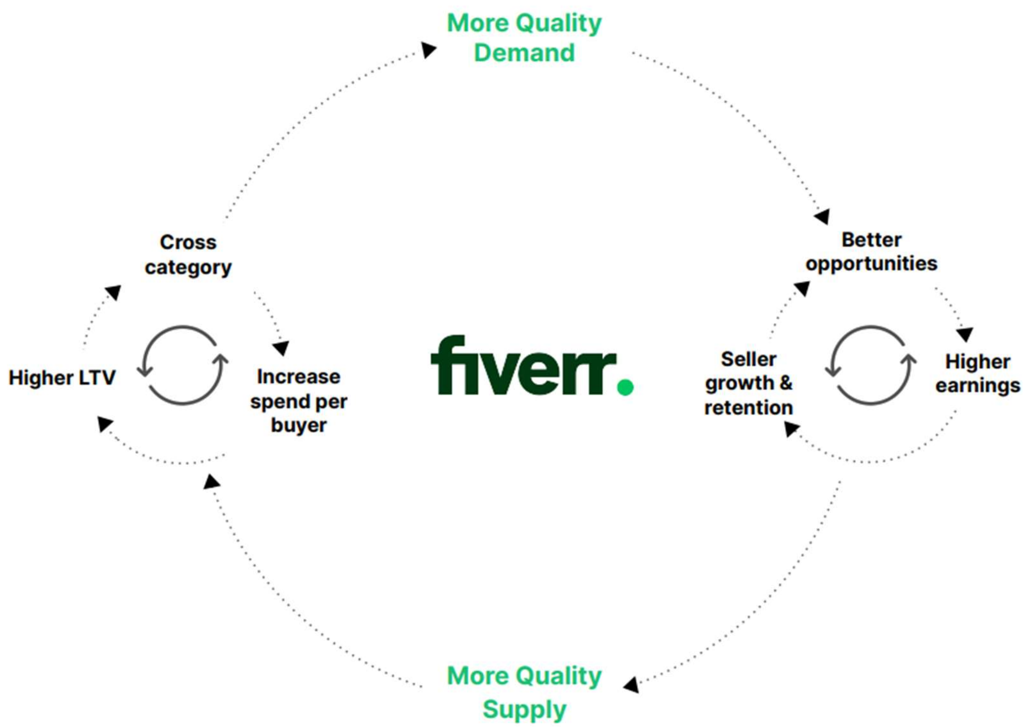
The freelance market is large and increasingly shifting online.

The freelance market in the U.S. is a ~$250B market of which 52% is technical and creative roles that can lend themselves to remote work. Of this market, Fiverr is less than 0.5% penetrated, but consistently gains share every year.

Given the size of the market and Fiverr's proven ability to onboard more buyers and sellers we believe there are decades of double-digit growth ahead for them.

Fiverr's scale is a competitive advantage.

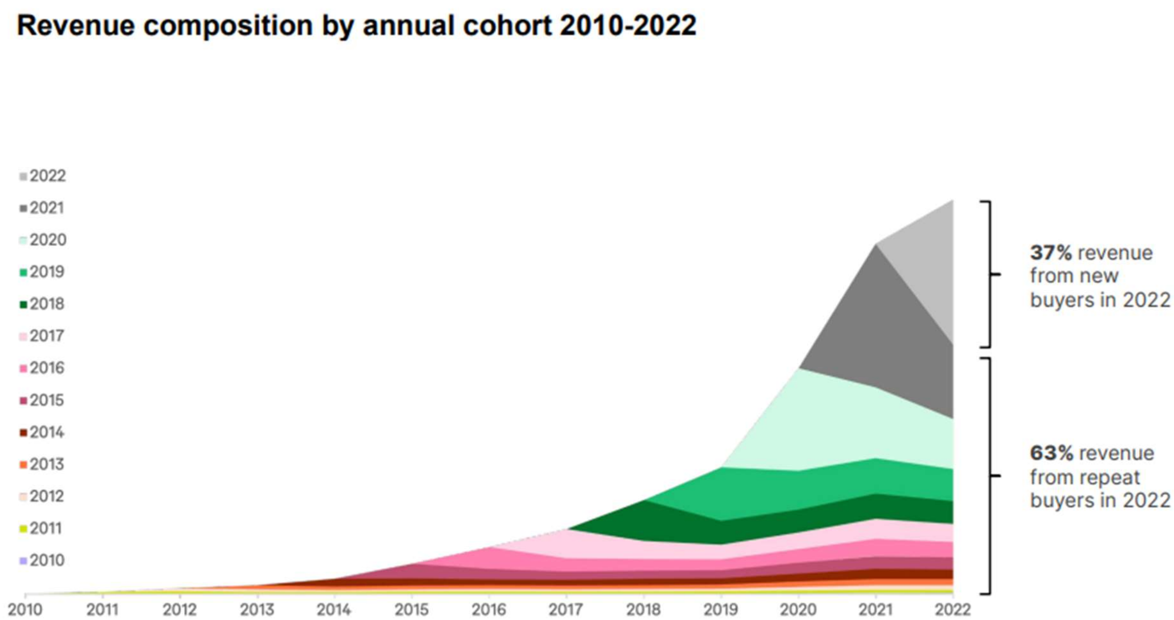
If you are a seller, you are looking for buyers, and if you are a buyer you head to where the sellers are. Fiverr demonstrates marketplace network effects, like Amazon, eBay and other large 3rd party marketplaces. As they get bigger, the product gets better which allows them to get even bigger. Market leadership is critically important and Fiverr has it.



Source: Fiverr Q2 Investor Presentation

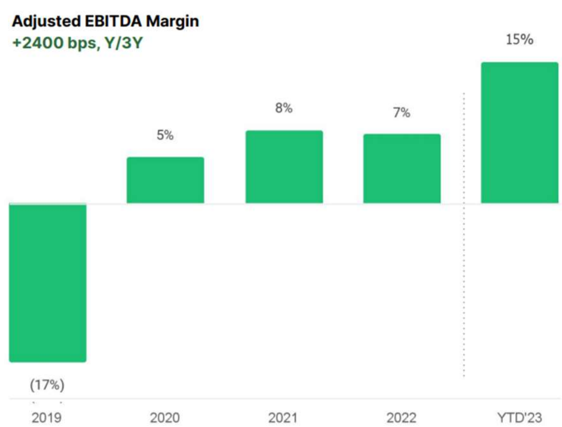
Fiverr has exceptional unit economics enabling significant margin expansion potential.

When Fiverr invests $100 in sales and marketing, they generate a contribution profit of $60 in year one and then $40 annually thereafter. Given their strong unit economics with approximately 2-year paybacks and sticky customer cohorts that deliver 80%+ contribution margins, they continue to invest aggressively to acquire as many customers as possible.



Source: Fiverr Q2 Investor Presentation

Even though they have invested aggressively, their robust unit economics have already translated to a consolidated mid-teen adjusted EBITDA and free cash flow margin. Given the asset light nature of the business on a long-term basis we believe adjusted EBITDA and free cash flow margins can surpass 30%.



Source: Fiverr Q2 Investor Presentation

Fiverr has 9x appreciation potential over the next 5 years.

Over the next five years we believe Fiver can grow revenue at 23% compounded annual growth rate while delivering ~30% incremental free cash flow margins. After applying a free cash flow multiple of 32x we get to a $230 stock price implying over 800% upside or a 56% compounded annual return.

Fiverr Financials	2018 - Q2 2023 LTM	2022 - 2028E
Revenue Growth	46%	23%
Incremental FCF Margin	37%	30%

Source: Company financial statements and Optimist Fund estimates

As you can see from the table above, our forward outlook assumes less growth and lower incremental margins than what has been achieved historically.

Today Fiverr is an exceptionally cheap stock. They have a market cap of ~$900 million, have $230 million of net cash, and generate ~$70-$80 million in annual free cash flow on a run-rate basis. This equates to around 8x free cash flow ex-cash, an extremely attractive near-term valuation for a business of this quality.

Roughly 2 years ago Fiverr was a $270+ stock trading at ~20x sales. Now it is a ~$25 stock trading at ~8x run-rate free cash flow. The opportunities in the small cap growth company space are truly incredible right now.

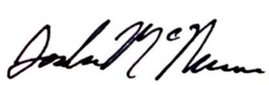
Closing Remarks

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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