Rome Capital 2024 Annual Report

By: Jack Wells
Jason Quan

Share

Company Overview

Rome Capital is a privately owned investment management firm. Our strategy focuses on long-term investments in small-cap and micro-cap companies in both the North American and European exchanges. Our firm was founded in 2020 by Alex Kang and Jason Quan, MBA graduates and classmates from Columbia Business School.

Investment Team

Alex Kang: Alex serves as the Chief Investment Officer of Rome Capital. Prior to founding Rome Capital, Alex was a Senior Analyst at Ariel Investments, LLC, where he covered stocks in multiple industries and regions. Alex has over 10 years of experience in stock research and portfolio management. Alex earned his MBA degree from Columbia Business School's Value Investing Program, and holds a Master in Finance from Peking University, and Bachelor's degrees in Finance and Russian Literature from Beijing Foreign Studies University.

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Letter of Chief Investment Officer

January 22th, 2025

Dear friends,

We are delighted to share our first Annual Report with the public! 2024 was a transformative year for Rome Capital, marked by significant portfolio adjustments, and operational, focus shifts in our first report – and these were no mere changes – this latter might be a bit long and thoroughly such being.

For you, this is a chance to get a lower-as better and maybe even learn a few ideas (Come on, you the Beast We all do this). For us, it's a highpoint of two young (ish, still) then remaining into a world that the other 4 billion folks back home probably wouldn't consider a regular.

While this is made it or not, we think it will have something to be proud of. Looking back at 4 years from now and remarking this first chapter of the journey. We have no idea what it will be like. Or has been a bear Prep or an ulcer. Or the bar—it is just getting started!

Our Strategy

A strategy should consist of two elements: the goal and the path.

What is our goal?

Our goal is to generate exceptional long-term returns for our partners and ourselves. Our investment strategy is designed to achieve this goal. We have carefully studied, and have concluded: there are only two types of funds will survive in the future. Non-autopilot index funds and small-cap/micro-cap funds. We aim to be the latter.

Western capitals hard like this, small-cap/micro-cap funds have outperformed (+2% annual return!) by simply investing in the S&P 500 index—or probably even better if you focus on 1m? 1? 10k. We're aiming much higher, of course—through one-bag-term, not year by year. They'd be wrong to expect to reach.

How are we going to achieve that goal?

We don't choose the S&P Hypothesis?—hypotenuse rarely lead to the peak. Instead, our portfolio exists than ratio as to high alternative with extraordinary vision. These backcountry paths are where less crowded—or even completely empty then will side. Our investment strategy, sometimes prioritizing high reversal cases of extremely high the potential for high returns.

Another way our investment strategy resembles mountaineering is that we take the between-ups approach. You've probably figured out I'm not a fan of skiing or climbing. Everything starts with the fundamentals of each stock business model, market position, competitive advantages, growth potential, management, competitive, valuation —you name it.

We've drawn on two pages of inspiration particularly. What does have in common is that we aim to turn the disadvantages of large institutions into opportunities for ourselves. They are:

- **Small- and mid-cap growth.** Great companies all start from small. We focus on companies with market capitalizations between $50 million and $10 billion in industry aspects, and growing alongside them. Large institutions often fall in different issues due to liquidity constraints, giving us an edge to become the most knowledgeable investors in these companies. Once we discover them, we feel comfortable holding on for a very long time. For this strategy, our investment horizon extends beyond the typical five-year plan.
- **Special situations.** We utilize special situations as investors where significant changes occur in a company's capital structure or shareholder base. Closing special situations include spinoffs, bankruptcy emergences, merger arbitrages, asset sales, large share buybacks, insider buying and more. In many cases, stock prices underperform in the short term as these companies undergo changes that large institutions. This is where our leverage our behavioral edge as capitalists on these opportunities. Compared to our first strategy, we can be another with patient investors, sometimes prioritizing high reversal cases of extremely high the absolute returns. Difference in the long-term, we may take positions in Chinese companies with special situations because the value realization schedule is less and shorter.

Portfolio management strategies: Our portfolio typically consists of around 10 long positions with relatively uniform distribution, a good idea goes 10%, a solid idea goes also 10%, and a value one 5%. We believe this approach suits us best at this stage, as it allows us to maintain a manageable workload while ensuring that the impact of our best ideas contributes significantly to our overall portfolio returns. We're willing to accept a trade-off in exchange of long-term high returns. At the same time, we employ hedging strategies to hedge macro and control those risks.

2024 in Review

Portfolio performance

While 2024 was a year of strategic refinement and repositioning, we are proud to have delivered value for our partners and remain highly confident in the resilience and long-term strength of our approach. We have shared our performance directly with our existing partners, and wanted to provide a brief recap of our results for the wider audience. We believe that our strategy is unique and that it may take time for our approach to bear fruit. We are committed to maintaining a long-term perspective and have successfully put in place the foundations for our portfolio to flourish in 2025 and beyond.

Our portfolio, which currently consists of 10 positions, ended the year with a gain of 14% and a value-to-cost ratio of 2.7x. We believe this approach suits us best at this stage, as it allows us to maintain a manageable workload while ensuring that the impact of our best ideas contributes significantly to our overall portfolio returns. We're willing to accept a trade-off in exchange of long-term high returns. At the same time, we employ hedging strategies to hedge macro and control those risks.

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- **Hedging.** With a portfolio more concentrated than mean funds, it's crucial to hedge risks that are not our holdings. Among the past mistakes we've made, we don't believe we've chosen the wrong companies—actually most have performed well—but we've been hurt by broader market movements. Although with hedging, our results could have been significantly better. By leveraging options, we can both enhance returns and manage risks. This is an area where we have a lot to learn and improve in the coming years.
- **Good and bad optionals.** Optionals remain a great strategy, but not all optionals are created equal. Over the past year, we've learned that while we've made money over the decade, phases when in the Portfolio Update section. Our key takeaway so far is that successful optionals often arise from significant differences between the market's and Rome's, such as scale, industry, geography, or exchange listings. Going forward, we'll focus on checking these factors for future ideas and improving our overall hedging strategy.
- **Timing of optional exercises.** The success with HistoWorks gave us a more confidence than we should have. Corporate actions take time to play out, and the market isn't always as efficient as we might expect. In some cases, we could quickly and should have exercised more patiently.
- **Engagement with management teams.** While we've found success I perform as expected, we should and will engage more actively with management teams to stock reversal better outcomes for shareholders. It's a skill we're continuing to develop through practice.

Market observations

Recently, we've found a much clearer of interests harnessing the difficulty of finding attractive opportunities. As I write this, a quick check of the Value Investors Club shows that 70% of members claim to be finding few bargains priced stocks. Interestingly, this sentiment has been common since I first started monitoring it back in 2021. The difference this time is that the proportion of VIC folks interested didn't spot the opportunities for being 'cheap' without reason.

The S&P 500 once appear elevated, with the Shiller PE ratio at 38.6x—second only to December 1999? However, it's important to note that S&P, which now accounts for over 80% of the index, are trading at a 50% premium to the remaining 490 companies.[1] This disparity suggests that the broader market is not as expensive as the headline index might imply. More importantly, our approach is purely bottom-up, focused on individual stocks and their fundamentals, independent of broader market trends. Indeed, Fundamental Fundamental Fundamental

Currently, Samsonite trades at approximately 12x 2024 P/E in Hong Kong. In contrast, U.S.-listed consumer discretionary brands with comparable scale, growth, and profitability—such as Columbia Sportswear, Tapestry, and Under Armour—trade at valuations ranging from 15x to 30x P/E. We believe a dual listing in its home market has the potential to eliminate this valuation discount.

Unfortunately, Samsonite was a detractor in our portfolio for 2024. While we were aware of the macro slowdown risk—which unfortunately materialized—we made two mistakes. First, we overestimated the timeline for the dual listing, influenced by the typically faster execution seen with Chinese companies. Second, we over-weighted Samsonite in our portfolio, a decision driven both by our expectation of the dual listing and by the more concentrated portfolio strategy we implemented earlier in the year.

As we look ahead, we finally see some silver linings. Samsonite's sales growth has been picking up in recent months, its share buybacks are enhancing shareholder value, and the dual listing is likely to take place in 2025. Whether U.S. investors value the company at 15x or 20x P/E, we are confident it will trade at a significantly higher multiple than in Hong Kong.

Our plan moving forward includes three key actions:

- Engage with the management to accelerate the dual listing process and improve shareholder communication.
- Continue right-sizing the position in line with our established portfolio strategy.
- Identify effective ways to hedge against macroeconomic slowdown risks.

Seaport Entertainment Group (SEG US)

Seaport Entertainment, a spin-off from Howard Hughes Holdings, launched at the end of July 2024. This represents a classic special situation, characterized by a spin-off with a right offering, management overhaul, and a turnaround opportunity. Seaport owns a portfolio of high-quality, strategically located assets in New York City and Las Vegas. Despite the prime locations and scarcity value of these assets, the company is currently highly undervalued relative to its potential.

Historically, Seaport suffered from operational mismanagement due to a mismatch in leadership capabilities, further exacerbated by the pandemic's impact on urban tourism and real estate. However, with Pershing Square Holdings as its activist shareholder, owning 39.5% of the company, a transformative change is underway. Pershing Square has installed an exceptional new management team led by Anton Nikodemus, a former Senior Vice President at MGM Group, with a proven track record in unlocking value from premier assets.

Our in-depth field research into Seaport's properties underscores its significant upside potential. While substantial turnaround work remains, we project a doubling of Seaport's current valuation over the next three years. Key catalysts include the monetization of non-core assets, targeted cost reductions, and strategic operational improvements — all of which are already in motion.

New positions

A leading US casino operator

In early 2025, we initiated a position in a leading U.S. gaming operator. The land-based gaming sector has faced valuation pressure due to economic uncertainty, high financial and operating leverage, and tough year-over-year comparisons. These challenges created a compelling investment opportunity.

The company has reached an inflection point and is positioned to generate over $1 billion free cash flow from a capex cliff and non-core asset sales, enabling accelerated debt reduction and share buybacks. Furthermore, it stands to benefit from a 20%+ digital gaming growth momentum, which is expected to contribute another annual $400-500 million EBITDA by 2026 — a factor largely overlooked by the market.

We anticipate its current share price could more than double within the next 2-3 years, driven by aggressive deleveraging and digital gaming growth. Further details on this investment and our thesis will be shared in the Q1 report.

A US offshore oil and gas company

Another new position is a EPAC that went public in 2024. The company has acquired three offshore oil platforms, along with the associated pipelines and processing facilities on the California coast. While the project appears promising and the company has stated that it has secured all necessary federal and state permits, the start was delayed again in late 2024 due to opposition from a county agency. Negotiations between the two parties are ongoing.

If the outcome favors the company, the stock could surge by 50% in a short period. Conversely, an unfavorable resolution would likely result in a significant decline. While we believe the company is more likely to succeed, the situation carries substantial long-tail risk. To navigate this, we have employed a hedging strategy to capitalize on the opportunity while mitigating downside exposure.

Existed positions

Capri (CPRI US)

Merger arbitrage is not a core strategy for Rome Capital, as we believe such opportunities typically offer limited upside with significant downside risk if a transaction fails.

In Q2 2024, however, we identified an intriguing exception: Tapestry's (owner of Coach) proposed $57-per-share acquisition of Capri, an underperforming luxury conglomerate owning brands like Michael Kors, Versace, and Jimmy Choo. The Federal Trade Commission blocked the transaction in April 2024 over antitrust concerns, pushing Capri's stock price to the mid-$30s and creating a 40% upside opportunity.

Our team conducted a detailed analysis, engaging with Tapestry's management and consulting the U.S. antitrust experts. We concluded that Tapestry had a good chance of prevailing in the preliminary injunction hearing against the FTC, while Capri's short-term downside risk appeared manageable at $25-$30. Based on this, we initiated a low single-digit percentage position using a mix of stock and call options.

To most people's surprise, on October 24, a federal judge ruled in favor of the FTC. Capri's stock fell to $20s, and our call options expired worthless. We exited the stock position shortly thereafter.

If we were to revisit this investment, we would enhance our approach by employing an options strangle strategy. Whether Tapestry/Capri or the FTC prevailed, this would allow us to profit on one side of the trade while mitigating risk on the other. While merger arbitrage is not a core focus for us, we remain open to pursuing future opportunities where a particularly attractive spread exists.

Emerging markets equity positions

We exited our legacy emerging markets positions in Eastern and Middle Europe and Southeast Asia—not due to a lack of confidence in the stocks themselves, but because we recognized our limitations in effectively researching and investing in these regions. Factors such as language barriers, information asymmetry, less developed regulatory environments, and a lack of local expertise made it challenging for us to compete. This decision was also a key step in the strategic transformation we outlined earlier.

Midea Real Estate Holding (3990 HK)

This was a classic asset-sale special situation—a unique and fast-moving investment. We entered and exited a 10% position within two days, generating a 9% return on our investment. The implied IRR speaks for itself.

Midea Real Estate was a mid-sized Chinese homebuilder. On June 23, 2024, the company announced the sale of its development business for HKD 5.9 per share, a 57% premium to the prior day's closing price. Post-sale, the RemainCo focuses on property management, a stable, cash-generating unit with a lot publicly listed peers in Hong Kong.

We did not foresee the asset sale in advance. Based on the announced sale price, schedule, and a conservative valuation of the RemainCo using peer multiples, we estimated the stock's fair value to be between HKD 7 and 7.5 upon the announcement. Despite the significant premium, the market offered a price range of HKD 6 to 6.5, representing a 25-40% IRR. We saw this as an attractive opportunity, given the low transaction risk: the controlling shareholder Midea Group is a highly reputable corporation (the world's largest AC manufacturer), and the terms of the deal were favorable for other shareholders to agree on. The position exceeded our expectations, as the stock rebounded to HKD 7.0 the following day.

Although we typically seek investments with a duration of at least one year, we are willing to pull the trigger when the market presents an unequivocal, high-conviction opportunity.

SharkNinja (SN US)

We achieved a 110% return on this investment over 18 months. Our Substack post in Apr 2023 not only solidified our reputation but also shaped our fund's strategy. We exited the position between the $50s and $90s.

In hindsight, we wish we had been more patient, but this remains a textbook case study: forced selling by constrained institutional investors, highly motivated insiders, and a well-run company misunderstood by a new investor base. We leveraged our understanding of Chinese entrepreneurs to seize the opportunity but still underestimated just how generous the U.S. stock market can be.

The SharkNinja investment was extraordinary—one of our most successful "punch card" investments and a rare, once-in-a-lifetime opportunity. It also served as a classic example of the effectiveness of Greenblatt's spinoff strategy. While such an exceptional start might have created the impression that special situation investing is easier than it is (a lesson we've since learned), it reinforces our commitment to identifying similarly compelling opportunities in the future.

Company Update

General operations

In 2024, we streamlined and enhanced our research and monitoring processes and optimized team capacity allocation. A new digital infrastructure was implemented to add new databases, and improve data management, documentation, and communication across the firm.

Our official website and WeChat public account launched in the second half of 2024, alongside continued publication of selected stock research reports on Rome Capital's Substack. These platforms enable us to selectively share investment ideas and invite feedback from interested investors and audiences.

Recruiting

In Q4 2024, we introduced the Research Analyst Mentorship Program, an 8–10 week intense in-semester internship designed to mentor students who are interested in fundamental equity research. The purpose of the program is to train passionate students to conduct primary research and help us gain more insight into the companies. To date, we have mentored six students from top business schools, including Columbia Business School, London Business School, INSEAD and ESSEC Business School. This program will continue in 2025, and we look forward to welcoming more talented students.

Media exposure

We were honored to present our Samsonite investment thesis on the Yet Another Value Investing Podcast on YouTube. Additionally, we were invited by LEONS Academy, a value investing institute in China, to share our special situations approach and present case studies.

2025 plan

We will further optimize our idea-sourcing strategy in the first half of 2025 to enhance the efficiency of idea screening. This initiative is expected to accelerate new idea screening.

Rome Capital is planning a stock pitch competition focused on small-cap and special situations investments at a leading U.S. business school. Additional details will be disclosed as logistics are finalized.

In April 2025, we will participate as speakers at the Greater China Society Investment Panel at Columbia Business School and host a fireside chat session at Columbia University. We invite all interested parties to attend these events.

Conclusion

We are highly optimistic about our current portfolio and remain committed to building a "smart" fund that delivers exceptional long-term returns through a focus on small- and mid-cap growth stocks and special situations.

We are open to sharing selected investment ideas through public channels and welcome inquiries from interested investors. For more information about Rome Capital, please contact us at alen@romecapital.ltd or jquan@romecapital.ltd.

Alex Feng

Chief Investment Officer

and

Jason Quan

Head of Research

Disclaimer

The information in this report is Rome Capital's opinion and may be subjected to errors. We may change our opinion without notice. We hold some of the stocks mentioned in the report. Our opinion is not investment advice. Please do your own due diligence and consult your advisors before making any investment decisions.

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1. The net 10-year annualized return from iShares S&P 500 Index Fund by Sep 30, 2024 was 12.4%
2. The Magnificent 7: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla
3. https://www.multpl.com/shiller-pe
4. In December 2024, S&P 493's fwd PE was 19.8x while M7's was 30.8x, per Citigroup
5. Based on another special dividend and 4% yield on regular dividends

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Jose Carlos 27 jan

Thanks for your article Alex, how do your guys balance between growth and special situations? It looks to me that the two strategies have different durations.

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SharkNinja 23Q3 results, quite impressive
SN released its 23Q3 results earlier today.
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