

To: Clients of Eagle Point Capital  
From: Matt Franz and Dan Stuart, Principals  
Subject: Fall 2025 Portfolio Update  
Date: October 1, 2025

---

In this update, as in previous, our objective is to explain what you own and why you own it. First, however, we will briefly discuss the importance of low absolute valuations in our investment approach. Next, we will review each of our investments and recent transactions. Finally, we will conclude with a reminder of the “rule of three.” Attached, we include a reprint of our Fundamentals memo, which succinctly explains our goals and methods. Investing is simple but not easy, and success is made or lost on the application of fundamentals.

If you’re still looking for more, we encourage you to visit our website, [www.eaglepointcap.com](http://www.eaglepointcap.com), where we archive past letters, and our blog, [www.eaglepointcapital.substack.com](http://www.eaglepointcapital.substack.com), where we share some of our investment research.

Your quarterly brokerage statements will soon arrive in the mail. The statement will include your quarterly performance and holdings. You can access more detailed account information on the Interactive Brokers or Charles Schwab websites. Please contact us ([matt@eaglepointcap.com](mailto:matt@eaglepointcap.com) or [dan@eaglepointcap.com](mailto:dan@eaglepointcap.com)) with any questions.

\*\*\*\*\*

*“Successful investing comes from buying things well, not buying good things”*

– Howard Marks

Charlie Munger once said that “all intelligent investing is value investing.” Whether an investor pays a high or low valuation, they all think what they’re buying is cheap.

There are lots of ways to define “cheap”, which is why no two investment portfolios are the same. Some look for relative value: cheap versus the stock’s history, industry peers, or the broad market. Some look for cheap growth. Others, for cheap yield.

Our definition of “cheap” is a business that we expect will generate a meaningful percentage of its purchase price in distributable free cash flow annually.

### **The Benefits of Low Valuations**

Paying a low price relative to future distributable earnings is the best way we have found to limit the risk of permanent loss while earning attractive investment returns.

We prefer low absolute valuations, preferably in the form of a high free cash flow yield, for three reasons:

1. It provides an attractive base return that doesn’t depend on growth or attaining a higher valuation multiple;

2. It provides a low bar for a positive surprise since expectations are so low; and
3. It provides a soft stock price “floor” which reduces risk and provides asymmetrically higher returns.

A stock’s forward return is the sum of its yield, growth, and change in valuation multiple. When we invest at a 10-15%+ free cash flow yield, we don’t have to rely on growth, which is fickle and comes in spurts, or a change in valuation, which is outside of management’s control, to earn an attractive return. So long as we’re correct about the durability of the stock’s cash flows, we’re likely to do well. The fewer things we need to forecast, the more likely we are to succeed.

That’s not to say we ignore growth. We want growth, we just don’t want to pay for it. We aim to buy stocks at no-growth multiples (10%+ free cash flow yield) when we think they’re likely to grow, at least a little. If we’re wrong and growth doesn’t materialize, at least we haven’t overpaid for it. If we’re right and the stock does grow, we’ll earn an attractive free cash flow yield, an incremental return from growth, and likely benefit from multiple expansion. Good things tend to happen to cheap stocks, largely because expectations are so low.

Countless studies show that low multiple stocks outperform high multiple growth stocks. We like having the base rates on our side. Profits and growth rates mean revert because capitalism works. Companies earning high profits attract competitors, reducing their profits.

Professors Eugene Fama and Kenneth French examined the profits of an average of 2,304 firms per year for the period 1964–95 and reported their findings in a 1997 paper, “Forecasting Profitability and Earnings.” [Alpha Architect](#) summarized the results:

- There was a strong tendency for profits to revert to the mean.
- Reversion to the mean was strongest when profits were highest (greatest incentive for competition to enter) and lowest (greatest incentive to leave an industry and reallocate assets, thereby reducing competition and restoring profits).
- Abnormally low earnings tended to revert even faster than abnormally high profits.
- Reversion to the mean occurred at a rate of about 40% per annum.
- Real-world forecasts tended to underestimate the speed at which reversion to the mean in profitability occurred.

In the book *The Successful Investor Today: 14 Simple Truths You Must Know When You Invest*, author Larry E. Swedroe wrote:

“According to the researchers at Sanford C. Bernstein & Co., over an approximately 50-year period, ending in 2000 only 10% of companies in the S&P 500 have increased their earnings at an average rate of at least 20% a year for five years running. Only 3% have raised earnings at least 20% annually for a decade. And none have sustained 20% earnings growth for 15 years or more. In the long run, it’s just not possible for stock prices to rise faster than the earnings of the companies they represent.”

Warren Buffett has even weighed in on the topic. In Berkshire Hathaway’s [2000 Letter To Shareholders](#), he wrote:

“Here’s a test: Examine the record of, say, the 200 highest earning companies from 1970 or 1980 and tabulate how many have increased per-share earnings by 15% annually since those dates. You will find that only a handful have. I would wager you a very significant sum that fewer than 10 of the 200 most profitable companies in 2000 will attain 15% annual growth in earnings-per-share over the next 20 years.”

Growth is mean reverting and rarely persistent. Paying high multiples for growth and expecting growth to continue is statistically unlikely to work over the long run. Buying businesses at low valuations which do not imply any growth puts us on the right side of mean reversion.

Minimizing risk of permanent loss is the most important reason we prefer low valuations. A high free cash flow yield reduces risk by creating a soft floor under the stock price. A stock that’s trading at a 10% free cash flow yield and returning 70% of that to shareholders via dividends and buybacks will yield 7%. Repurchases create demand for the stock that can support the price or push it higher. Dividends attract yield-seeking investors who buy shares and push it higher. The market is competitive and the ability to earn high-single digit yields that are well covered and durable don’t last long.

If such a stock were to decline 50%, it’d trade at a 20% free cash flow yield and 14% dividend yield. So long as the cash flows were stable, that would be a screaming bargain that almost any investor would clamor to buy, boosting the stock’s price in the process.

**There are a few crucial caveats about how a low absolute valuation creates a soft price floor.**

First, in the short term anything can happen. Cheap stocks can absolutely get cheaper, especially during a market panic like March 2020. It’s a soft floor, not a hard one.

Second, the company’s cash flow must actually be distributable, and actively be distributed. Some capital-intensive companies, like equipment lessors and automotive OEMs, must perpetually reinvest in excess of their depreciation charge merely to maintain their competitive position. The cash these companies produce is entirely consumed by the business and never distributable in meaningful amounts to shareholders. Their earnings are overstated, making them look cheap, but not relative to actual shareholder distributions.

Third, the company must not be overearning. If margins or volumes are elevated, the stock may appear optically cheap. It will look less attractive on a normalized basis.

Fourth, the company must not be over leveraged. A business with a lot of debt may look cheap relative to its market capitalization but expensive relative to its enterprise value (debt + equity - cash). Deleveraging shifts enterprise value from creditors to shareholders, but comes with its own risks. A company with substantial debts is more fragile, less able to invest in maintenance or growth, and more susceptible to external shocks. The risk of permanent loss is higher in highly indebted companies.

Stocks with any of these warning signs could be value traps. They look cheap, but they’re often fairly priced or even expensive relative to their future distributable cash flows.

### **Example: British American Tobacco In 2024**

In [March 2024 we bought](#) British America Tobacco (BTI) at a 16% free cash flow yield. The dividend yield alone was 10%, and it was well covered. Such a pessimistic valuation wasn't without reason. Cigarette volumes were declining faster than expected, prompting large non-cash impairment charges of previously acquired brands. The government was threatening to ban menthol cigarettes, one of the company's most important products. And competition from illicit Chinese vapes was undermining the company's reduced risk products and the substantial investment it made into them. Investors hated the uncertainty and fled the stock, leaving an extremely low valuation in their wake.

Our analysis suggested that the company's free cash flow was at least stable and reasonably likely to grow over time. Tobacco companies benefit from government regulations which limit competition. Consumers are also extremely brand loyal. Together, these grant tobacco companies substantial pricing power. Historically, the tobacco industry has been more than able to offset secular cigarette volume declines with price increases. BTI has low capital requirements and doesn't need to reinvest much, leaving the vast majority of its cash flows available for distribution. The company was distributing the majority of its free cash flow, in-line with its multi-decade history. While BTI did face headwinds, they were unlikely to reduce free cash flow materially like the market was implying.

The combination of a low valuation, high dividend yield, and stable business created an asymmetric risk/reward opportunity to earn attractive returns with minimal risk of permanent loss.

### **The Problems With High Valuations**

We've never met an investor who prefers high valuations, but someone owns Tesla at 217x, Spotify at 76x, and Costco at 50x. These shareholders probably still think that their stocks are cheap. They're just defining "cheap" differently than we would.

Investors justify high valuation multiples based on high future growth prospects or an attractive relative valuation, either to the stock's own history, industry peers, or the broad market.

### **Example: Lululemon in 2021**

Lululemon demonstrates the danger of a high valuation multiple that underwrites enduring growth. In 2021 sales grew 44% and earnings grew 62% as lockdowns and stimulus left consumers flush with cash to spend online. Investors expected the good times to continue and bid the stock up to 58x free cash flow

Since then, free cash flow per share has doubled but Lululemon's valuation multiple has contracted from 58x to 15x. The stock has lost 65% of its value. Investors were right about Lulu's growth but overpaid for it and lost their shirts (pun intended).

Now the pendulum has swung in the opposite direction, and investors are pessimistic that Lululemon can continue growing. Inflation has strained consumers who are pulling back on discretionary purchases. Fashion trends are moving away from Lulu's skin-tight fits, and new competition from Alo, Vuori, and Fabletics has heated up. Lulu's high valuation did not discount

any of these possibilities, pricing the stock for perfection, and leaving the stock vulnerable to disappointment.

### **Example: Charter Communications in 2021**

Another pitfall we see are investors who buy the dip on high valuation stocks as soon as an obscenely high valuation becomes merely expensive. Investors that anchor to a prior valuation multiple to justify today's relative cheapness risk overlooking deteriorating fundamentals and earning power.

When growth slows, high multiples tend to collapse. Investors get hit with a double whammy: lower growth and a lower multiple. The stock can easily get cut in half, or more. Charter is a good example of this and shows that it doesn't just happen to buzzy tech stocks.

In 2021 Charter traded for 28x earnings. In 2022 earnings per share grew 26% but a declining subscriber count caused the stock to fall 50%. By year end Charter traded for 13x earnings, and looked like a relative bargain – its price was half off the prior year, and earnings were growing.

Investors who bought the dip were disappointed. Today the stock is 35% lower and trades for 7x earnings. Subscriber losses have continued as new competitors have entered Charter's markets and underpriced them to steal share. Earnings are up 50% since 2021 but the stock is down 70%.

That Charter appeared cheap relative to the broad market, its peers, or its own history was moot. The stock's valuation implied growth and the market's expectations for growth changed for the worse. Investing is hard, and absolute valuation matters.

### **Conclusion**

There are no bad assets, only bad valuations. Any company can be a good investment if the price is low enough, just as any company, no matter how wonderful, can be a bad investment if the price is too high.

Properly matching the price we pay with the cash flows we anticipate receiving is the most important thing we do at EPC. Sometimes a premium valuation is warranted, much like how a Ferrari should trade for a premium to a Fiat. The trick is to make sure you never pay a Ferrari price for what turns out to be a Fiat. Few companies sustain high growth rates for long, so it is an easy mistake to make.

We prefer to pay low prices for everything. If we get a Ferrari, great! If not, at least we haven't overpaid.

A lower valuation always increases our margin of safety and reduces our risk. In the highly uncertain world of the stock market, the price we pay is one of the only factors that is 100% under our control, which is why we put such an emphasis on it.

\*\*\*\*\*

Eagle Point Capital — Fall 2025 Portfolio Update  
October 1, 2025

Attached to this letter, we've written more about each of our investments to explain what they are, why we own them, how they've performed, and our expectations for their future. We also explain the recent changes we've made to our portfolio.

But first, we'd be remiss if we did not thank you for your continued support and trust. Investment managers can only afford to be as patient as their clients allow. Your patience and trust contribute as much to our success as anything we do at Eagle Point Capital.

We are grateful for your support for EPC's long-term approach to investing. Our clients have proven to be exceptional and stoic investors, which provides us all with a significant competitive advantage. We are honored that you entrust us with your capital, and we are proud to be your investment partners.

Please contact us ([matt@eaglepointcap.com](mailto:matt@eaglepointcap.com) or [dan@eaglepointcap.com](mailto:dan@eaglepointcap.com)) with any questions about your account or your investments. If you know any like-minded investors who would enjoy this letter, please forward it to them or put them in contact with us.

Best,

Matt and Dan

The portfolio specific portion of this letter is for current and prospective clients only. Paid subscribers to our Substack newsletter ([EaglePointCapital.Substack.Com](https://EaglePointCapital.Substack.Com)) receive the entire letter 45 days after our clients (on or about November 15, 2025).

If you'd like to invest with us please contact us ([info@eaglepointcap.com](mailto:info@eaglepointcap.com)).

## The Rule of Three

Francois Rochon of Giverny Capital is one of the investors we admire most. He coined the Rule of Three, which we've decided to adopt as our own. It is a rule of thumb based on empirical stock market data that will help level-set expectations.

1. One out of every three years, the stock market will decline by 10% or more.
2. One out of every three stocks we buy will not perform as expected.
3. One out of every three years, we will underperform the index.

Every few years, people forget that stock prices crash every few years. This is good news since crashes produce bargains, and bargains tend to produce higher returns. When we think and act like long-term business owners, volatility becomes our friend and not our foe.

## Fundamentals

Attached is a copy of a short memo outlining our fundamentals. It explains our goals and methods. Investing is simple but not easy, and success is made or lost on the application of fundamentals.

Once, after winning two consecutive national championships, the Green Bay Packers lost a game due to sloppy play. Coach Lombardi called a meeting the very next day. When all the players were assembled, Lombardi held a football high up in the air and declared, “Gentlemen, this is a football!” From the back of the room, running back Paul Hornung shouted back, “Coach, can you slow down?”

In investing, as in football, success is made or lost on the application of the fundamentals. This document sets forth the fundamental operating principles of Eagle Point Capital. Through the up and down markets ahead, we will always return to the principles below to inform our attitudes and actions.

- Our objective is to avoid the permanent loss of capital while maximizing the increase in long-term, after-tax purchasing power of our funds. Put another way, we aim to build an indestructible long-term compounding machine.
- To achieve this objective we seek to make concentrated investments in businesses that:
  - (1) We understand.
  - (2) Have a demonstrated and enduring competitive advantage.
  - (3) Have a resilient balance sheet.
  - (4) Have honest and able management who run the company for the benefit of shareholders.
  - (5) Can be purchased for a reasonable price that affords a margin of safety.
- In other words, we aim to purchase, at a rational price, interests in easily-understandable businesses whose earnings are virtually certain to be materially higher five, ten, and twenty years from now. We prefer cockroach-like businesses — very hardy and almost impossible to kill.
- We think independently and do our own research. We don’t rely on the opinions of analysts or journalists, both of whom may have different motivations than ours. We rely primarily on S.E.C. filings for information.
- We do not diversify excessively. Good investments are hard to come by and we would rather concentrate our capital into our best ideas than spread among many mediocre ones. We typically own six to ten businesses and put 10% of our capital, at our cost, into each.
- We think and act like business owners. As owners, we focus on the fundamentals of the business and do not obsess over price fluctuations. When possible, we use periods of unjustified pessimism to purchase high quality companies at attractive prices. Likewise, we prefer to use

periods of unjustified optimism to sell companies for more than we feel they are reasonably worth. The market is our servant and not our master.

- The best way to measure our success is to compare Eagle Point Capital's return, after fees, to the S&P 500's total return (including the reinvestment of dividends) over five-year periods. Measurement over a shorter timeframe may reflect luck more than skill. The S&P 500 is our benchmark because it is widely followed, offers the potential for large, low-cost investments, and, we expect, will produce satisfactory long-term returns. Over time, we expect good relative returns to the S&P 500 to become excellent absolute returns.
- All accounts are managed *pari passu*. Clients may elect one of two fee structures:
  1. A two percent annual fee on assets under management charged quarterly in arrears.
  2. 25% share of profits in excess of a 6% hurdle rate, subject to a high water mark, charged annually in arrears. This option carries no management fee.
- Clients will receive a letter twice a year detailing what they own and why they own it. Our reports will be candid, emphasizing the positive and negative factors important to appraising intrinsic business value. Our guideline is to tell you the business facts we would want to know if our positions were reversed. We owe you no less.
- Eagle Point Capital is not in the business of predicting the general stock market or business fluctuations. If you think we can do this or that it is essential to an investment program you would be best suited looking elsewhere.
- We cannot guarantee results to clients. What we can and do promise is that:
  - Our investments will be chosen on the basis of value, not popularity;
  - We will attempt to bring risk of permanent capital loss (not short term quotational loss) to an absolute minimum by obtaining a wide margin of safety in each investment; and
  - We have virtually our entire net worth invested alongside Eagle Point Capital's clients. We eat our own cooking.

Many of you who are already familiar with Eagle Point Capital may feel, like Paul Hornung, that this material is unduly repetitive. However, we would rather have many bored clients than a single client with any basic misconceptions. As Charlie Munger says "A majority of life's errors are caused by forgetting what one is really trying to do." A firm grasp of our fundamental operating principles will help us stay the course in the future.