



January 16th, 2025

Recurve Capital – Q4 2024 Letter to Investors

	2021	2022	2023	2024
Recurve Gross	-1.9%	-51.3%	68.3%	76.5%
Recurve Net	-3.2%	-52.1%	66.7%	55.7%
S&P 500	26.9%	-19.4%	24.2%	23.3%
Russell 2000	13.7%	-21.6%	15.1%	10.0%

Introduction

As indicated in the table above, Recurve enjoyed excellent performance in 2024 and we have been able to recover from our 2022 drawdown faster than expected. Q4 was a nice quarter of outperformance, generating nearly +13% gross returns, which compares favorably to the S&P 500 (+2.1%), the Nasdaq (+6.2%), and the Russell 2000 (flat). It is unproductive to celebrate the recent past and much more valuable to discuss some of the key decisions we have made over the past few years which were the primary inputs to our return stream. As we approach Recurve’s 4-year anniversary, I’d like to put our strategy and performance in greater context.

To restate our goals, we aim to generate at least +15% compounded returns net to investors over a long-term horizon (5-years and beyond). We hope to make that journey as smooth and stress-free as possible for all partners involved, but sometimes the market environment brings unavoidable volatility which creates opportunities to materially enhance our long-term returns, most likely while sacrificing short-term returns. Recurve is hard-wired to take advantage of those types of environments – we run into them with open arms, even if others run away from them as fast as they can. We entered such a period in 2022 and have emerged stronger than ever exiting 2024. To summarize:

- 2022 brought elevated volatility and we completely re-oriented our portfolio during the drawdown, accentuating our downside volatility in the short term. The difference between our “no trading” portfolio and our actual performance was about -1,700 bps. I estimate -1,000 bps of that difference was generated by buying more of our current portfolio (i.e. what we own today), while the remainder was lost on mistakes or other positions we have since exited.

- 2023 introduced a more stable operating environment and we optimized our portfolio, leaning further into the companies that had the strongest long-term fundamentals and management teams. We captured the first leg of a multi-year recovery.
- 2024 was characterized by improved economic and macro stability without a recession, allowing our companies to navigate their markets without extraordinary supply or demand shocks. We captured the second leg of the multi-year recovery.

At the portfolio level, Recurve's performance looks more volatile than what we would expect over most other 4-year periods. Thankfully, the path we have taken has been accretive to performance so far, but we have yet to fully realize all the benefits from leaning into the volatility in 2022. It's a multi-year process and there are still some excess returns to be captured before the portfolio reverts to more normalized performance, which we expect to approximate the weighted-average growth rate in free cash flow per share on a longer-term basis.

Even with our strong returns from 2023 and 2024, about 1/3 of our portfolio has meaningfully underperformed the market since year-end 2022 – mostly due to the slow recovery of demand for home-related goods (Wayfair and RH, an industry-specific headwind), but also due to the complexity of Cogent's transformation before growth accelerates (a company-specific issue). We expect this pocket of our portfolio to contribute meaningfully to performance over the coming years as self-help initiatives translate into stronger competitive disruption in their markets, leading to accelerating growth and margin expansion for these companies. Our overall portfolio should benefit from those positions catching up, while others reach the later stages of capturing excess value created by the Covid-affected environment. In short, we believe we have a great roadmap ahead with several layers of contributions.

We did not add any new positions to the portfolio this year, but our rate of prospecting was higher than normal and there are several companies that we are ready to buy when conditions are right. The bench is strong, but not yet strong enough to break into the starting lineup.

Portfolio Lookback

It's always interesting to see how things changed over the course of a year. In 2021, 2022, and 2023, we made a lot of changes to the portfolio. 2024 was quite different. We didn't add any new investments to our portfolio all year (but we did subtract one – AWI). Instead, most of our activity was related to internal rebalancing between positions to optimize returns and to manage the overall risk/reward profile of the portfolio.

Below is a snapshot of our portfolio as of year-end 2023:

Company	Position on 12/29/2023
Cogent Communications	21.6%
Carvana	19.6%
Wayfair	13.5%
RH	11.1%
Amazon	10.8%
Armstrong World Industries	8.6%
Brunello Cucinelli	5.3%
Norwegian Cruise Line Holdings	4.4%
Royal Caribbean Group	4.2%
Total	99.0%

Based on the year's results, the top three knee-jerk conclusions are:

1. We nailed Carvana on sizing and trading.
2. We were oversized in Wayfair.
3. We were oversized in Cogent.

One year is too short a time frame to evaluate anything and we will never be perfect, but overall, nailing Carvana mattered much more than anything else.

We assess our portfolio management performance by looking at the breadth of participation across the portfolio and by comparing our actual results to two parallel scenarios: (1) our performance relative to an equal-weight portfolio of the same positions, and (2) our performance relative to the actual portfolio assuming no further trading over the evaluation period. Encouragingly, our actual performance has been better than both alternate scenarios across substantially all evaluation periods. The primary exception is at the end of 2022, when an equal-weight portfolio would have produced better forward returns by having significantly more exposure to Carvana at its record-low prices. These analyses give me comfort that we add value through our active management and optimization of the portfolio.

We care most about portfolio-level returns which largely depend on slugging percentages, but we also know that having a consistent batting average is important. As shown in the chart below, the median position in our portfolio returned +35% in 2024 on a total return basis (including dividends), below our actual performance but nicely above the returns for the major indices. Carvana's excellent performance in 2024 pulled our actual performance well above the median, but that was our intention given our large position size. We had healthy contributions across the portfolio, but we also benefited from great slugging percentages in 2023 and 2024.

Company	Position on 12/31/2024	2024 Gross Attribution	Total Return %
Carvana	38.4%	58.1%	284.1%
Cogent Communications	22.1%	3.5%	7.2%
RH	10.5%	4.3%	35.0%
Wayfair	6.4%	-3.4%	-28.2%
Royal Caribbean Group	6.3%	4.8%	79.0%
Norwegian Cruise Line Holdings	5.7%	2.6%	28.4%
Amazon	5.1%	4.1%	44.4%
Brunello Cucinelli	4.5%	1.1%	20.1%
Armstrong World Industries (Exited)	0.0%	1.6%	45.1%
Total	99.1%	76.7%	
Median Total Return			35.0%

Update on Carvana

We'll spend a little extra time on Carvana since it was the largest driver of performance and remains the largest position in the portfolio. First, I'd like to revisit our elevated level of concentration in the portfolio. As a reminder, we wrote the following in our Q2 2024 Letter to Investors:

"I don't expect this level of concentration to exist forever in our portfolio. It will evolve as new opportunities emerge and as relative performance evolves across the portfolio. For the time being, Recurve's portfolio likely will not correlate much at all with the major indices. Our performance likely will be more volatile than usual while we carry this level of concentration."

- Recurve Capital Q2 2024 Letter to Investors, July 2024

Looking forward, there will be a time when it will be appropriate to materially resize our position in Carvana. I see this as a transitory period during which we have allowed the position size to grow organically to capture maximum value from the market's misunderstanding of the company. We will rebalance the portfolio and decrease concentration when Carvana reaches a valuation at which I expect future performance to more closely approximate its growth in free cash flow per share. I do not expect to exit Carvana at that stage – we will rebalance it to a more normal size.

When that time comes, I expect several of our "bench" companies will enter the portfolio in a more diversified manner. Over time, I expect the best companies operated by the most talented management teams will migrate up the portfolio in size through stronger relative performance and opportunistic additions.

Now, let's discuss where we are in Carvana's journey.

Carvana is in the midst of a three-phase narrative change since year-end 2022, which we will describe below. We call it a narrative change because it is not a turnaround of a terrible company; rather, it was a great company that experienced a short-term disruption in growth and profitability, and re-prioritized its internal efforts to become self-sufficient earlier than originally planned. We'll walk through the phases below.

1. Remove balance sheet concerns – complete Q2 2023.

Using broad strokes, let's say this began in December 2022 when the Wall Street Journal reported that creditors were banding together to negotiate a debt restructuring with Carvana, and ended in July 2023 when the company restructured its Holdco debt. This process brought the stock from a low of \$3.90 to about \$40 – roughly the first ~10x.

2. Prove that Carvana operates the best business model in the sector – complete Q2 2024.

Starting in early 2023, we could observe that the business model was becoming increasingly efficient which was rapidly leading to self-sufficiency. By late 2023 and especially after Q1 2024, it was clear that this was the most profitable business model in the sector which could generate significant free cash flow even at flattish volumes. In Q2 2024, Carvana surpassed Carmax's adjusted EBITDA margins (and blew past them again in Q3 2024). There is more room to expand margins, but Carvana is now the clear leader in profitability and growth. In this phase, the stock rose from \$40 to \$125, the next ~3x.

3. Return to rapid growth – Began Q2 2024, still ongoing.

Carvana has returned to unit growth y/y, but has yet to surpass its prior peak in 2021 (~425,000 units sold). Consensus estimates forecast +22% unit growth in 2025 and +24% in 2026, but we expect Carvana to grow significantly faster. The best expression of our confidence in this occurring is Carvana's observable growth in inventory additions across 2024. Through alternative data providers, we track Carvana's production rates and other KPIs. Carvana ramped production steadily across 2024 to build inventory in anticipation of future growth, i.e. retail sales are up, but less than production. In 2024, we expect retail units sold will grow nearly +35%, but Carvana's monthly rate of vehicle production from YE 2023 to YE 2024 has increased over +70%.

At some point in the near future, inventory levels and days to sale will stabilize and Carvana's unit sales will more closely match its rate of production. We expect production to continue ramping for many years until Carvana's under-utilized asset capacity is fully operated and utilized. The company can generate additional customer traffic through advertising, referrals, and improved selection, and/or enhance conversion by giving value to customers via price adjustments, faster delivery times, better financing terms, and other tactics. Carvana's superior unit economics give the company many knobs to turn to optimize profitability and growth.

This phase of the narrative shift has begun and has resulted in the stock appreciating from \$125 to the current price. This is the phase that will generate, by far, the most equity value (in dollar terms) for the company, but likely the lowest IRRs relative to the prior two phases, when significant returns were realized rapidly.

Carvana's performance should approximate its annual growth in FCF/share once all three phases of the narrative shift are complete, at which point we should be able to benefit from the inherent

compounding of the business. However, we believe there is significant value to be created from the market's full realization of the last leg in this narrative shift.

Finally, it's worth noting that Carvana was the subject of a short attack by Hindenburg Research on January 2nd, 2025. We responded to what we believed were the most critical elements of that piece on our Insights page, which can be found [here](#).

The rest of this letter will discuss how we invest in disruption.

How Recurve Invests in Disruption

We own a portfolio of Builder Companies that have plenty of runway to grow, attractive business models, and great relationships with customers. They deliver faster/better/cheaper services to their customers and generate significant tangible and intangible value surpluses to their customers across various dimensions. We expect them to keep gaining market share. In a word, we expect them to be disruptive. Our goal is to find disruptive companies in non-disruptive industries, where that disruption can persist and grow over longer time frames. In contrast, many sectors in technology are characterized by ongoing disruption which makes them harder to underwrite on longer-term horizons.

What does disruption look like? How do we know it when we see it? It's easier to identify retrospectively, even though we are trying to identify it in real-time. For instance, Apple was incredibly disruptive to Blackberry and Nokia in 2007/2008, but remember how many naysayers there were back then? That users would insist on a physical keyboard? That there would be a competitive response which would destroy the economic profit pool? That Apple made a bad phone?

What about Tesla vs. the US auto OEMs? Tesla went through an evolution of being tiny, then small, then medium, then...disruptive. It forced the entire sector to reconsider its stance on EVs and it has destabilized much of the internal combustion industry that was not organized to evolve efficiently into EVs.

Disruption is more than growth – growth is necessary but not sufficient. Disruptive products, services, and companies are more enduring. They endure because customers love them, bringing them back as loyal customers time and again. For instance, Zoom Video had disruptive growth in 2020 during the Covid lockdowns, but its growth rate has collapsed since then. It took the market by storm, but it didn't have a second act. Microsoft Teams was a free alternative, and Zoom didn't offer anything demonstrably better. Disruption is revealed through *sustained* growth across cycles – not just a flash in the pan for one hot product cycle.

It's hard to know the shape of the growth curve for disruptive companies when they are in the late-early to middle stages, but that curvature is one of the primary drivers of future investment performance. For instance, let's look at Snowflake. In its investor materials, the company charted a path from \$554M in FY 2021 revenue to \$10B in FY 2029, a 30% 8-year revenue CAGR. The audacity of guiding to such a high growth trajectory suggested boundless opportunities for growth and disruption, and/or no competitive or execution concerns whatsoever. After repeatedly beating and raising its quarterly earnings expectations early in its public life, Snowflake's multiple expanded massively and traded at >100x gross profit at its peak. Investors assumed the company would continue its growth trajectory and, after a history of smashing expectations, most assumed actual results would exceed the \$10B target in 2029.

If we look at estimates 3 years later, analysts now expect \$8B of revenue in 2030, a -20% downgrade to the long-term target. Expectations in 2025 and beyond are for growth to be in the low- to mid-20s – nothing to scoff at, but well below the 30% CAGR. The multiple has contracted from >100x to <20x gross profit. Shares have fallen from a peak of \$402 to roughly \$154/share at year end 2024.

There are several important lessons here. First, entry valuation matters even when revenues will 15x over 8 years. Paying >100x gross profit requires many years of unimpeded growth and margin expansion, and no major disappointments along the way to the long-term endpoints. That hasn't happened. Second, in technology industries, it's *really* hard to underwrite to 8-year time frames – especially when you set the bar at a 20-fold increase in revenues. The complexion of the growth curve matters tremendously – especially when you're starting at an extraordinarily elevated valuation.

We own disruptors that are priced conservatively for the level of growth and disruption I expect over the medium- to long-term. Our Builder Companies often take longer to scale than a hyper-growth software business like Snowflake because many are built upon physical infrastructure which cannot be turned up on demand. The offset to their slower scaling speed is that they can sustain their growth for longer and end up more competitively differentiated. This dynamic also can make them more confusing to analyze which often makes them fertile hunting ground for new ideas.

Now, let's move from a theoretical discussion to a practical one. Below I will provide some more details about the disruption we are expecting to see from our portfolio companies and the valuations that I see for them.

Valuation

First, the table below shows valuations for our companies across four dimensions: 2026 valuations at our cost basis, 2026 valuation at year-end prices, 2028 valuations at our cost basis, and 2028 valuations at year-end prices. I wanted to share measures of near-term and medium-term valuation. These are based on our current forecasts for future earnings – not based on sell-side estimates.

Recurve Position	Weight 12/31/2024	EPS or FCF/share Valuations				
		2026 @ Basis	2026 @ Market	2028 @ Basis	2028 @ Market	2026-2028 CAGR
CVNA	38.4%	5.9x	23.9x	2.5x	10.1x	53%
CCOI	22.1%	7.3x	10.2x	6.1x	8.5x	10%
RH	10.5%	12.9x	13.7x	7.7x	8.2x	29%
W	6.4%	44.7x	18.0x	12.8x	5.2x	87%
RCL	6.3%	13.0x	24.0x	7.9x	14.6x	28%
NCLH	5.7%	5.0x	7.8x	3.1x	4.9x	26%
AMZN	5.1%	6.1x	12.2x	4.2x	8.4x	20%
BC IM	4.5%	15.1x	31.8x	10.6x	22.4x	19%
<i>Median</i>		<i>10.1x</i>	<i>15.9x</i>	<i>6.9x</i>	<i>8.5x</i>	<i>27%</i>
<i>Weighted Average</i>		<i>9.5x</i>	<i>18.2x</i>	<i>5.0x</i>	<i>9.5x</i>	<i>37%</i>

Source: Recurve Capital Estimates

Let's highlight a few things from this chart before we get into the company-specific commentary below.

1. We clearly overpaid for Wayfair and we are still down significantly on the position. Growth was in a far different place when we initiated and the industry pressures on growth have been much worse than I expected. The company has been gaining share for the last two years, but has had a difficult time delivering positive growth due to sustained declines in the housing market. I also added to the position at too-expensive valuations during 2022's selloff. Our IRR on Wayfair from

our cost basis will be challenged for a long time, but I hope and expect the IRR going forward will be strong. We don't have to make it back the way we lost it, but I think the company is well positioned to disrupt, grow, and generate much better returns going forward – especially since it has demonstrated excellent market share gains since the global supply chain disruptions normalized in 2022.

2. While it would be nice to acquire everything at 2.5x our medium-term estimate of EPS, we were able to do so in Carvana only because of the distressed environment in 2022. These events will be relatively rare but we will try to take advantage of them selectively. Even now, the stock is attractive based on our estimates across all time horizons.
3. Our cruise stocks look so cheap (at our basis and at market) because the market views them as cyclicals sitting at or near peak earnings, not as secular growth stories riding a decades-long wave of disruption in the leisure/vacation market. This disagreement with the market is why I wrote an [Insight on why I believe the sector deserves a narrative change](#).

My goal is to deploy capital with a double-digit implied earnings yield on a weighted-average basis, i.e. I want medium-term owner's earnings multiples to be <10x. I expect our companies to grow EPS at least 15% per annum for the foreseeable future, and often much faster than that. A >10% yield + >15% EPS growth translates into a >25% annual return target for each position. Accommodating for mistakes, macro surprises, and other externalities, that's how we derive Recurve's >15% target annual return. This is the basic algorithm that should generate performance for Recurve. We are willing to be flexible within this framework to adjust to nuanced differences between growth opportunities. For instance, Brunello Cucinelli likely never will trade for <10x owner's earnings.

As long as medium-term valuations are not obscenely elevated, we are inclined to leave positions alone rather than get overly tactical with our position sizes. We evolved to this stance over the past few years. In our first two years, we were a bit too eager to trade around positions tactically, thinking there was some extra return to be extracted from the up-and-down chop of the market. In the last two years, I've been a lot more disciplined about letting fundamentals and valuations (not volatility) guide our trading activity.

Next, we'll discuss the high-level reasons we think our companies are disruptive in their industries and I'll try to give some additional context to their valuations above and beyond the table shown above. It's a good refresher on what we own and why we own them. I hope it will be clear why I feel so excited about the forward prospects of our companies and our portfolio.

1. Carvana – 38.4% as of 12/31/2024

Carvana is disrupting the auto retailing business. It has 1% market share in a fragmented end market in which the largest player has 2% market share. There are >40,000 independent used auto dealers that have less scale and less reach than Carvana. There are ~40 million used cars sold in the US each year and ~16 million new cars sold. Carvana has reconditioning capacity to produce about 1.35 million units today which can be expanded to 3.2 million units with relatively light investment.

The company can utilize its vertical infrastructure to sell company-owned or 3rd party inventory. There are no obvious competitive impediments to growth – particularly because it offers a superior retail experience, compelling delivery services, and faster/better/cheaper production costs for similar reconditioning quality compared to its competitive set. There may be limits to pure e-commerce penetration, but the business can multiply many more times before we start feeling that maturation, and

by then the company would have sensible omnichannel options that should continue to disrupt while still utilizing its scaled production and distribution infrastructure.

While there are some eye-popping blue-sky scenarios for Carvana, there are two primary valuation checkpoints I use today to analyze valuation. The first is Carvana's earnings power is if it were to fully utilize its current infrastructure without any growth capex (the 1.35 million units). The second is what its earnings power would be if it expanded its capacity to the full 3.2 million units possible within the Carvana + ADESA footprint.

I believe Carvana could generate over \$5 billion of EBITDA in the first case which would translate into about \$15-20/share of earnings. This case is reasonable on a 3-4 year time frame based on how I expect the company to grow (I expect it to land somewhere in the 2027-2028 time frame). In the second case, including ADESA expansions, Carvana should be able to generate over \$15 billion of EBITDA and roughly \$55-60/share of EPS. This is more of a 6-8 year outcome unless the company returns to its prior >70% growth rates, which is well above my modeling expectations.

Even at today's prices, the stock is trading around 10x medium-term EPS, with visibility for that EPS to >3x with modest investment of only \$1-1.5 billion spread out over many years (which has already begun).

Today, it's difficult to know how big the opportunity could become for Carvana because it has only 1% market share and e-commerce is a relatively immature modality for this industry. Could it become 20% of the used auto market? 30% or more? Will it serve a portion of the new auto market? My imagination can see earnings power far greater than what I've described above, but we don't need to take a view on that (yet) to believe the stock is a great opportunity today.

2. Cogent Communications – 22.0% as of 12/31/2024

Cogent is a slow-motion disruption machine in B2B connectivity markets. It has been undercutting competitors since it was founded, gaining volume and dollar market share for 25 years and counting. Its disruptive network and go-to-market strategies have allowed it to capture >25% market share in global internet traffic and about 20% tenant share in its corporate office footprint by leveraging its industry-leading cost structure to undercut its competitors and gain share through aggressive pricing that still generates high incremental margins on growth.

The company is on the cusp of entering the optical transport market (aka Wavelengths) with a new, purpose-built network that can compete and disrupt on multiple dimensions – on installation speeds (weeks vs. months/quarters), on route uniqueness (90% unique), and on pricing (it has no cost basis and has more efficient variable operational costs). It is *more* disruptive to the Wavelength market than it has been in the internet market, where price and installation speed were its primary dimensions of value. Any of its Wavelength attributes would be enough to win significant market share, but having all at its disposal significantly enhances Cogent's odds of success.

If we are right about Cogent's medium-term growth potential from its latest investments in vertical infrastructure, it should generate more than \$10/share of free cash flow toward the end of this decade, which puts the stock at about 7x our forecasted estimate. Adjusting for the cumulative dividends paid between here and there (most of which are classified as return of capital), today's price is closer to 4-5x.

Another unique consideration is that Cogent has billions of dollars of unused, non-core assets (most of which are carried at \$0 on its balance sheet) that it is in the process of preparing to monetize. Successfully selling large portions of its non-core portfolio likely would raise gross proceeds in excess of 50% of its current market cap.

Cogent is a large position in the portfolio because the betting dynamics are highly favorable at current prices. This is a Mohnish Pabrai-like “Dhandho Investor” situation – heads we win; tails we don’t lose too much.

3. Cruise companies (RCL and NCLH) – 12% of assets as of 12/31/2024

The cruise lines are disruptive in the vacation market. They offer extraordinary, high-satisfaction experiences at great value compared to land-based alternatives. The scale of demand they generate in their businesses allows them to build bigger and better assets, including new portfolios of private destinations which elevate satisfaction while keeping customers (and their wallets) captive within the cruise ecosystem all day. These private destinations magnify the returns of all the vessels that visit these destinations and improve ROIC across their asset portfolios. They have meaningful opportunities to continue these and other innovative expansions over the coming decades. I recommend reading our recent Insight about [RCL’s private resorts](#).

With only 2% market share in vacations and less than 10% of all Americans ever having taken a cruise (but with high repeat rates), the sector has a long way to go before it reaches maturity – especially as the operators keep elevating the quality of the assets and the experiences they can deliver to guests. There remains a significant price differential between cruise vacations and their land-based alternatives, but cruising is not just a value play. The experience is unique and compelling outside of its superior economic value. These are not like customers looking to trade down from a Ritz Carlton to a Marriott to save money – these are vacationers looking for a unique experience that only cruising can deliver.

RCL and NCLH trade at relatively modest P/E multiples. They have highly visible future capacity growth since newbuild pipelines are contracted years in advance. Their normalized growth algorithm is straightforward and reminds me of the old cable equity algorithm (back when there was growth in cable!): modest capacity growth + modest pricing growth + cost growth below inflation = HSD/LDD revenue growth and LDD-mid-teens earnings growth. If we layer on accretive balance sheet actions that are now opening up in the post-Covid recovery period (reducing interest expense and returning capital to shareholders), we can get to >20% medium-term EPS CAGRs.

Both RCL and NCLH trade at undemanding valuations because most investors treat them as cyclicals trading at or near peak earnings or peak pricing power. There will always be periods of relative strength and weakness, but the long-term trendline on pricing is up – well above inflation. It would take a severe recession for pricing to turn negative.

4. RH – 10.5% of assets as of 12/31/2024

RH is disrupting the premium and luxury furniture market by curating tasteful collections and creating direct retail relationships for designer goods and services, most of which traditionally require cumbersome and expensive designer intermediaries. It is an upscale brand delivering high-quality, turnkey products and services while supporting members with interior designer services and best-in-class delivery for customers. It also has a small but growing hospitality segment that is highly synergistic with its product business, whereby hospitality customers interact with the brand on a regular basis,

enabling RH to generate revenue from its “marketing.” The brand could be many multiples larger than it is today, and it would still be a small player in its end markets.

RH is in the middle innings of a post-Covid rebound powered by an aggressive brand refresh that should position it for multi-year growth CAGRs above its pre-Covid 8-12% growth algorithm. It also has embarked on an aggressive international launch plan which has hurt margins by frontloading launch costs ahead of meaningful revenue growth, but those markets should be nice contributors in the coming years.

We pencil out medium-term EPS scenarios ranging from \$40-60, depending on the shape of the growth curve as the refresh cycle matures. This is an unusually wide range of outcomes, but we see the stock trading in the range of fair to highly attractive given the fundamental backdrop amidst an uncertain industry backdrop.

5. Wayfair – 6.4% of assets as of 12/31/2024

Wayfair is building a disruptive platform in the home furnishings market. It brings a purpose-built, best-in-class hybrid marketplace with verticalized capabilities where they can facilitate supplier onramps and differentiation to consumers – ocean freight, logistics, storage, fulfillment, and delivery. Wayfair opens the enormous global supplier base of home goods (historically more B2B oriented) to retail customers in a B2C format and uses its marketplace model to drive competition among suppliers and improve value delivered to consumers. It then uses its vertical infrastructure to power high-quality delivery services, ensuring high customer satisfaction and high repeat customer rates.

The company’s improved post-Covid discipline has demonstrated the quality and scalability of its business model. Wayfair’s future valuation is highly dependent on how quickly it can grow revenues which is how it will more rapidly expand margins and generate significant free cash flow. This is the primary area we’ve been wrong so far. After years of severe pressure across the category in the post-Covid era, how Wayfair and the home goods industry rebounds will be significant inputs for future IRRs. I expect an eventual return to LDD revenue growth, accompanied by disciplined cost controls and attractive mid-teens or better incremental margins (vs. around 5% today). I estimate the stock is trading at about 20x my estimate of 2026 FCF/share, and about 6x my estimate of 2028 FCF/share.

As mentioned above, I have been consistently wrong on Wayfair’s growth trajectory. However, I believe its competitive advantages and disruptive positioning in the sector should generate strong growth for many years to come.

I wouldn’t be surprised if some readers would argue that I am stubbornly holding onto this position. Rest assured the decision to stick with Wayfair has caused significant internal battles and consternation. I hope that our track record of having exited several other positions in the last two years to improve our portfolio elsewhere is evidence that I am willing to move on from long-standing positions if it is optimal to do so. It goes without saying that by still holding Wayfair today, I expect that our forward returns will be strong and worthwhile from here.

6. Amazon - 5.1% of assets as of 12/31/2024

Amazon has been an agent of disruption for a long time in retail, cloud computing, and beyond. Its consumer business is incomparable for small parcel, general merchandise. Prime delivery windows keep shrinking, which keeps pulling more market share Amazon’s way. It has an amazing transportation, fulfillment, and logistics network capable of service levels that were unthinkable at current prices just a

couple decades ago. Additionally, AWS is a leader in cloud verticalization, powered by proprietary semiconductors, hardware, software, facilities, and more. Amazon's customer-centricity is the driving force behind its continuous innovation and disruption. As the juggernaut disruptor, it is likely the world's best company at solving really hard problems for customers at massive scale.

Amazon does not trade at a mid-single multiple of medium-term FCF/share or EPS. Our cost basis was less than 10x our estimate of 2028 FCF. However, few companies reinvest at the rate Amazon does and, theoretically, it could double the free cash flow I model simply by moderating its reinvestments for a year or two – but that may not be a great outcome for long-term investors. This is why it is important to evaluate companies based on owner's earnings, not reported earnings. For instance, a private owner of Amazon might shut down Project Kuiper and Alexa and massively increase EPS and FCF/share.

7. Brunello Cucinelli – 4.5% of assets as of 12/31/2024

Cucinelli is not disruptive in a way that would be felt directly by competitors, but it has a long runway of growth ahead. It is underpenetrated in many key markets, including China, where it contributes only 12% of revenue compared to other, larger luxury brands like Hermes, which generates nearly 50% of its revenues in the region. Cucinelli's low current market share but premier standing among luxury brands gives it significant long-term runway to grow >10% for the foreseeable future.

Cucinelli's valuation is not cheap, but its valuation requires some additional context. First, it intentionally under-earns. It has 90% product margins, but only mid-teens EBIT margins. It pays wages 20% above average and part of its brand promise is "humanistic capitalism," which is a pursuit of fair compensation and humane treatment across the value chain. The company also invests heavily in sales and marketing (especially events) and has less fixed cost leverage than its peers due to its smaller size and less maturity across global markets. If it were to be acquired by a larger company with existing corporate overhead and global operations, its EBIT margins could double (or more) pretty easily, but that might also risk the brand's reputation.

The company has a conservative growth algorithm of modest price increases, modest store expansion, modest expectations of same-store sales volume growth, and sensible category expansion. None of these generate earth-shattering numbers, but together they generate top line growth >10% consistently, somewhat similar to the growth algorithm the cruise industry uses. Margins should expand every year from fixed cost leverage, and earnings growth will exceed revenue growth.

Cucinelli is an interesting thought exercise on valuation. What would you pay for a company that could grow >10%/year for the foreseeable future with mature EBIT margins >40% that are currently 17%? The DCF value is about 8x higher than current prices.

Thankfully, our acquisition prices are about 50% below current trading levels. For an ultra-luxury company with extremely loyal customers and resilient growth, I feel great about Cucinelli long-term. I will be disciplined about our entry and exit prices given how elevated Cucinelli's valuation is relative to the rest of the portfolio.

Closing

We are four years into what I hope and expect to be a multi-decade journey for Recurve Capital. We have come a long way in the past few years but, in many ways, we are just getting started. We have emerged from the 2022 drawdown stronger than ever and I feel highly confident in the disruptors we own, the valuations we acquired them at, and the return potential from where we stand today.

In all our materials I try to highlight how we do things here at Recurve: what we are trying to accomplish, how we try to do that, and why we think we should succeed. I hope this letter helped describe our strategy and our process in more detail, but also our evolution over the last few years.

As always, thank you for your support and interest in Recurve Capital.

A handwritten signature in black ink, appearing to be 'A. Chan', written in a cursive style.

Aaron Chan, Founder & Managing Partner

IMPORTANT DISCLOSURES

Confidentiality. This document is confidential and may not be forwarded, copied or otherwise distributed, in whole or in part, without the prior written consent of Recurve Capital LLC (“**Recurve**”). This document is solely to provide general background information about Recurve and to determine your level of interest in the fund to be managed by Recurve (the “**Fund**”). It may not be used for any other purposes. The information herein is a summary only and is intended to be reviewed in detail with Recurve. Prospective investors should not rely solely on the contents of this document or any information herein in connection with any prospective investment.

No Offer or Solicitation. This document does not constitute an offer to sell any securities of the Fund. Such an offer may only be made after you have received the Fund’s offering documents. Any decision to invest in a Fund must be based solely on the information in the Fund’s offering documents, regardless of any information investors may have been otherwise furnished. All of the information herein is subject to, and qualified in its entirety by, the terms described in the Fund’s offering documents. Before you make an investment in the Fund, you should carefully and thoroughly review those offering documents. Recurve cannot assure investors that the Fund will achieve its investment objectives. Further, many of the investment techniques and activities described in this document are high risk activities that could result in substantial or complete losses.

No Duty to Update. The statements herein are subject to change at any time in Recurve’s sole discretion. Recurve is not obligated to revise or update any such statements for any reason or to notify you of any such change, revision or update. For example, the discussions regarding investment objectives, processes, typical or ideal portfolio construction, gross or net exposure, position sizing, other portfolio limitations, other investment characteristics and team composition represent Recurve’s current focus and intentions and are subject to change at any time without notice. Depending on conditions and trends in securities markets and the economy generally, Recurve may pursue any objective, employ any technique or purchase any type of security that it considers appropriate and in the best interest of the Fund.

Forward Looking Statements. This document contains forward-looking statements based on Recurve’s expectations and projections about its future investment methods and techniques and its team. Those statements are sometimes indicated by words such as “targets,” “expects,” “believes,” “will,” “ideal” and similar expressions. In addition, any statements that refer to expectations, annual returns, projections or characterizations of future portfolio composition, events or circumstances, including any underlying assumptions, are forward-looking statements. Such statements are not guarantees of future performance or approach and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Prospective investors are cautioned not to invest based on these forward-looking statements and projections. Recurve’s investment approach and an investor’s returns could differ materially and adversely from those expressed or implied in any forward-looking statements as a result of various factors.

No Representation as to Accuracy of Information. Certain information contained herein has been provided by, or obtained from, third party sources. While Recurve believes that such sources are reliable, it cannot guarantee the accuracy of any such information and does not represent that such information is accurate or complete.

Service Mark and Copyright Information. The “Recurve Capital” name and mark is a service mark of Recurve.