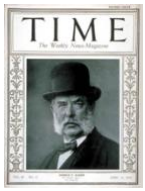
JDP
CAPITAL MANAGEMENT

Survivor & Thriver Fund, LP

2023 Half Year Letter
(edited for SEC compliance, 2024)



April 14, 1924

"To make money in stocks you must have the the vision to see them, the courage to buy them and the patience to hold them."
--George F. Baker

**George Baker was known as "Dean of American Banking", prominent investor, and 3rd richest person in the world behind Henry Ford and John D. Rockefeller*

Dear Partner,

The Partnership gained 25.9% net to investors in the first half of 2023 compared to a gain of 18.4% for the S&P 500 including dividends.

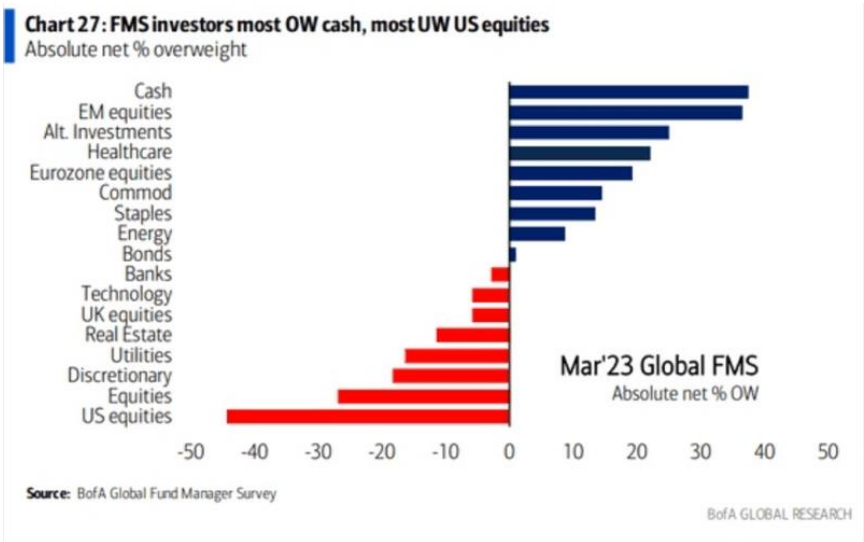
The first few months of 2023 was dominated by terribly negative sentiment that snowballed over from 2022 with the narrative sounding like this: "US markets are facing an earnings recession that is far from priced in, inflation is going to keep going up and interest rates will need to go much higher. Stocks are overvalued, investors are better off being out of the market and buying short-term treasuries yielding ~5%"

The failure of SBV Bank in early March turned up the bearish drumbeat even louder and on March 23rd the Bank of America Fund Survey reported that investor cash holdings relative to US stocks hit a *20-year low*.

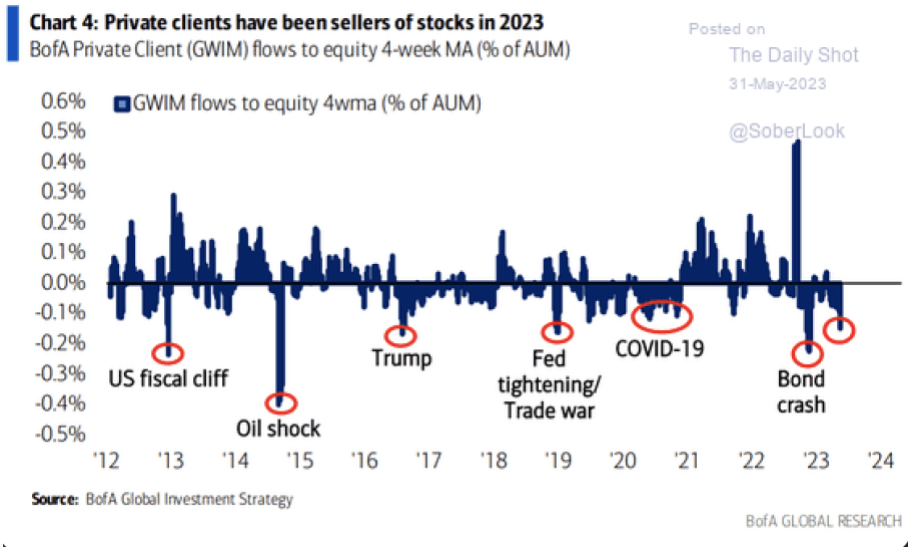
By April 18th the CNBC All-America Economic Survey found that 69% of Americans were negative on the economy.

Investor sentiment nears pessimism seen at lows of past 20 years: BofA survey

Cash allocation, BofA suggested, jumped to 5.5 per cent from 5.2 per cent in January. February was, in fact, the 15th straight month when cash level stayed above the 5 per cent level.



Even as recently as May 31st, Bank of America reported that private clients continued to be net sellers of stocks despite large areas of the US market selling for earnings and dividend yields higher than money market funds.



This is not to say there is not wisdom in a crowd. Maybe the economy gets worse, maybe the major indexes will re-test their 2022 lows, and maybe all the sidelined cash will know *just when* to get back in... who knows.

What we do know is that the S&P 500 bottomed in October last year and has been climbing higher since. Gains so far this year were led by large tech but have since started to broaden out to other sectors.

Market bottoms surprise investors because they happen in the midst of blinding-fear about the physical economy. Dancing around stock prices based on positive or negative sentiment is almost guaranteed to do more harm than good to anyone's long-term performance.

Indexes are hard to beat is because they do not know what they own, and they never sell.

Identifying mega winners like Apple in the early 2000s, Nike in the mid 1980s or Starbucks in the mid 1990s is one thing, but developing to a framework for holding on long enough to capture the value these businesses created is where most investors fall short. The same is true for identifying structural losers and having a process for getting out of bad ideas.

Selected Portfolio Review

Last year most of our portfolio fell into the camp of declining growth as the macro picture deteriorated, while their gains in market share and competitive positioning accelerated. This group outperformed in the first half of 2023 with Spotify and Amazon back to well above our cost basis while Roku is underwater.

Spotify, Amazon, and Roku benefited from a perceived bottoming in advertising and IT budgets, cost cutting, a retrenchment in competition, and a boost from customers doing more with their largest partners.[1]

[1] JDP estimates, research

The underperforming side of the portfolio were either consumer cyclical or are undergoing a transition where progress is not yet obvious in the numbers.

Our basket of "busted SPACs, unprofitable tech, and small cap untouchables" materially outperformed as a group with individual stock performance being a mixed bag (see below).

Spotify (+103.3% in H1)

We have owned Spotify for just over 5 years. Although the stock has doubled this year to a market cap of $30 billion, we think the stock has substantial upside over the next few years based on the runway for margin expansion and operating earnings growth.

SPOT continued to gain share in paid subscribers and engagement over Apple Music and YouTube Music in 2022 and 2023 in the US and the non-US markets where they compete.[2]

The first quarter was possibly Spotify's best quarter since being a public company in our opinion. Monthly active users grew to 515 million while gross margins, operating income, ad-supported revenue, and outlook, all exceeded expectations.

Management set expectations for gross margin improvement and topline growth throughout 2023 from new subscribers, an improving ad market, cost reductions, and price increases.

Building on the stock's performance this year is the idea that Spotify is now in a position to negotiate a more favorable revenue-sharing deal with the music labels.

A win-win agreement would incentivize SPOT to raise premium subscription prices versus the current model where a lack of ability to realize incremental operating leverage on price hikes leaves little incentive to raise prices.

The big picture opportunity for both SPOT and the labels is clear: Spotify takes in *less than 10 cents per hour* across its platform today making music possibly the most under-monetized form of entertainment.[3] A more balanced revenue share deal would be a big step forward in empowering not only Spotify, but the digital service providers to begin closing the value gap between music and other digital entertainment.

At a minimum the next chapter in SPOT's relationship with the labels will likely carve out podcasts, audio books and other non-music revenue from music. Even in the case where non-music remains within the revenue share with the labels, our base case remains that Spotify will earn an ever-increasing slice of the label's promotional budgets to be spent on platform search and discovery (2-Sided Marketplace).

With the explosion in audio content and the number of songs uploaded to Spotify, the 2-Sided Marketplace has become critical for maximizing music right holder value similar to paid Google Search Rankings. Growth in 2-Sided Marketplace has helped drive Spotify's music margins to 28.6% in 1Q 2023, up from 25.9% in 1Q 2019.[4]

[2] JDP research
[3] Spotify 20F filings, JDP estimates
[4] Spotify earnings reports

Spotify's growing leverage over the labels and the value that a more balanced financial relationship would unlock has been at the core of our thesis since we made the investment.

Amazon (+55.2% in H1)

We added to Amazon in late 2022 after a year of the stocking being treated as a "source of funds" for investors that seemingly couldn't sell fast enough.

By December 2022 Amazon had dropped by ~50% to $84 per share hitting a 20-year low valuation based on normalized operating cash flow, gross profit, and NTM (next-twelve-months) EBITDA.[5]

Beginning in 2023 Amazon has started to make meaningful progress in digging its way out of the COVID capacity overbuild which had been the primary overhang on the stock. As a result, most of the company's profitability metrics improved dramatically in 1Q, both sequentially and over the prior year. Revenue grew 11% on a currency-neutral basis.[6]

Unpacking the growing Value of Amazon Prime

Even without adding new products Prime probably has years of pricing power. I found this Tweet from @kouroshshafi interesting: "JPM estimates the package of offerings is worth ~$1,225/year, 8.8x the $139 annual Prime subscription cost" (developed markets)

Figure 38: Unpacking the Value of Amazon Prime

Amazon Prime Component	Select Competitive Offerings: Service	Price	Estimated Prime Value: Annual	Monthly	Change in Value from 2022
1 Prime Delivery: 2-Day, 1-Day, & Same Day Free Shipping	Walmart+ ShopRunner Shipt	$98/year, $12.95/month $79/year $99/year, $10.99/month	$350	$29.17	↑
2 Amazon Grocery	Postmates Unlimited Instacart+ DashPass Uber One	$99.99/year, $9.99/month $99.99/year, $9.99/month $96/year, $9.99/month $99.99/year, $9.99/month	$324	$26.99	↑
3 Prime Video	Netflix Hulu Max Disney+ Apple TV+ Peacock Paramount+	$6.99 - $19.99/month $7.99/month (ads), $14.99/month (no ads) $9.99/month (ads) - $19.99/month $7.99/month (ads), $10.99 (no ads) $6.99/month $4.99/month (ads), $9.99/month (no ads) $4.99/month (ads), $9.99/month (no ads)	$156	$12.99	↑
4 Prime Music	Spotify Premium Apple Music YouTube Music Pandora Premium Deezer Amazon Music Unlimited	$9.99/month $10.99/month $9.99/month $9.99/month $10.99/month $10.99/month (non-Prime members)	$96	$7.99	↑
5 Prime Photos	iCloud Google Photos Google One Amazon Drive Dropbox Flickr	Free up to 5GB; $0.99/month for 50GB, $2.99/month for 200GB, $9.99/month for 2TB Free up to 15GB $1.99/month for 100GB, $2.99/month for 200GB, $9.99/month for 2TB $1.99/mo for 100GB, $6.99/mo for 1TB, $11.99/mo for 2TB Free up to 2GB; Plus for 2TB $11.99/month or $119.88/year Free up to 1k photos/videos; Pro $8.25/month, $71.99/year, $132.99/2 years	$24	$1.99	↔
6 Amazon First Reads & Prime Reading	Kindle Unlimited Scribd	$11.99/month $11.99/month	$120	$9.99	↑
7 Prime Gaming	Twitch Turbo Twitch Tier 1 Channel Twitch Tier 2 Channel Twitch Tier 3 Channel Luna+	$11.99/month $4.99/month $9.99/month $24.99/month $9.99/month	$156	$12.99	↑
Estimated Value of Prime			**$1,225**	**$102**	
Actual Prime Cost			**$139**	**$14.99**	
Multiple of Prime Value			**8.8x**	**6.8x**	

Source: JPMe & company websites. Notes: 1) Red numbers indicate the estimated value driver; 2) Select Prime benefits are limited to members in certain geographies

[5] Capital IQ, JDP estimates
[6] Amazon quarterly financial filings, JDP estimates

Amazon is a unique collection of market-leading businesses operating under the same common mission to continuously pass on value achieved with enormous scale to customers.

While many investors focus on AWS because of its outsized contribution to profitability, we have written in prior letters that we think the "money losing" consumer business is the most undervalued part of Amazon's long-term story.

AWS represents about 15% of total company revenue today and 100% of its operating income. An underappreciated runway of future Prime membership price increases and growth in higher-margin services built on top of ecommerce is not reflected in the valuation, in our view. For example, Amazon's $40+ billion advertising business could double in size within 5 years which would be similar to Meta's revenue in 2020.[7]

Even small improvements to services that most of us have come to depend on can have a profound impact on earnings durability at Amazon's scale. Recent new products like Buy with Prime (for non-Amazon sellers), Same-day Delivery, Amazon Clinic, RxPass (Amazon Pharmacy), Inspire (paid shopping app feed for influencers and brands) and Reviews from Amazon (reviews for non-Amazon products) are examples of ecosystem lock-in for both consumers and sellers that could be monetized for decades.[8]

Despite Amazon now having a $1.3 trillion market cap we like the stock because of the reinvestment opportunities, untapped pricing power of Prime, and a bottoming in cloud consumption spend (AWS).

Roku (+57.1% in H1)

We added to Roku after trimming in 2020 taking our cost basis down to $80 per share. Although the stock has recovered a bit off the 2022 low, Roku's enterprise value of ~$8.3 billion looks cheap relative to their structural position in connected TV that continues to grow even as the advertising recession putters along the bottom.[9]

On the 1Q earnings call Andy Wood reminded investors that "**the Roku TV operating system was once again the #1 selling TV OS in the U.S., achieving a record high TV unit share of 43%, which is more than the next 3 operating systems combined.**"

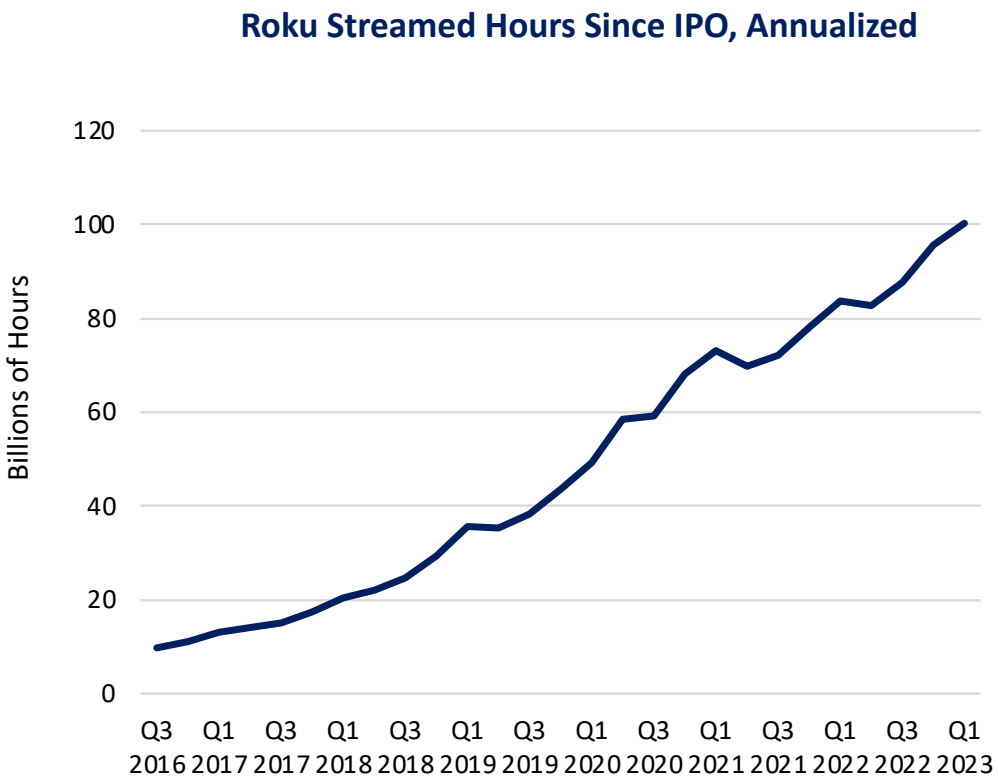
Roku's streamed hours reached 25.1 billion or 100 billion hours annualized in 1Q 2023, up 20% year over year, and 47% higher than COVID-distorted 4Q 2020.[10] Streamed hours *per day*, grew to 3.9 hours, up 8% from COVID-2020. In June, Nielson reported that The Roku Channel alone represented 1.2% of all US TV viewing hours.

When TV advertising budgets eventually recover, we think Roku is positioned to take back much more than it lost in the last 18 months.

In 1Q 2023 revenue was up 1% and all financial metrics were generally terrible. Gross profit was down 7%, ARPU was down 5%, and the 2Q guide was equally soft.

[7] JDP research, estimates
[8] JDP opinion
[9] JDP research, Roku company filings, JDP opinion
[10] Roku investor presentation

Management has responded with a 12% reduction in employees between November and March, but EBITDA is still not estimated to return to positive until next year. Roku is operating within internally generated cash flow, has no debt, and $1.8 billion in cash.[11]



Adding to Roku's tailwind has been an acceleration in cord cutting and adoption of free streaming TV since the advertising recession began in late 2021.

On May 12, 2023 Variety wrote an article titled: "Cord-Cutting Hits All-Time High in Q1, as U.S. Pay-TV Subscriptions Fall to Lowest Levels Since 1992" which did a great job of summarizing the cord-cutting transition.

It is difficult to imagine advertisers sticking with linear TV when based on viewership deterioration, and the difficulty of quantifying return on ad-spend, compared CTV.

In summary, we think Roku's market position is stronger, more differentiated, and more valuable today than when the stock price was 4x higher in 2020.

Medifast (-20.1% in H1)

We added to our Medifast (MED) position this year taking our cost basis down to $100 per share. With an enterprise value of ~$790 million and an 8% dividend, MED trades for 4.5x trailing EBIT, ~10x our estimate of trough FY 2023 EBIT, and 3x our estimate of 2025 EBIT.[12] MED has no debt and returns the bulk of its earnings to shareholders in the form of dividends

[11] Roku SEC filings, JDP research
[12] Capital IQ, JDP research

and buybacks.[13] The company is in the midst of repositioning its lineup to add weight management and wellness products.

CEO Dan Chard has successfully navigated past challenges including the 2017 transition to the direct-to-consumer sales model supported by their ~60,000 outside sales coaches.

Dan was installed by an activist investor in late 2016 and his record since then has been excellent. Over the next six years Dan grew MED's revenue by 500% and operating earnings by 600% without any outside capital or debt.[14] Also during that time, Medifast's EBITDA went from $32.2 million in 2016 to $227.3 million in 2022, a 7x increase.[15]

We would like to see the company cut its 8% dividend and repurpose the cash flow towards new products or a small acquisition that would diversify the product portfolio.

The stock has declined because revenue is declining, and the market is worried about the impact of the new weigh loss drug Ozempic, and other GLP-1 based drugs on traditional food-based weight loss programs. Ozempic is a weekly injection that costs roughly $1,000 per month with rapid growth especially in wealthier US cities.[16]

Although the recent revenue decline is more related to the cyclicality of MED's *boom-bust-boom* direct-to-consumer business model, GLP-1 drugs are also a concern. Weight management drugs have been around longer than Medifast has been in business, but Ozempic seems to be more effective than other drugs although the cost today might be prohibitive for many. For to Medifast survive there will need to be people that prefer traditional food-like weight loss products over drugs to lose weight.

Highly flexible cost structure helps manage a decline in revenue.

MED has an unusually flexible cost structure with a largely commission-based employee base, software-like margins, and low maintenance CapEx. This allows MED to absorb cyclical downturns with with less impact to profitability than most businesses.[17] On the other hand, even small upswings in revenue growth can have an outsized positive impact to profitability.

In 1Q 2023 revenue declined 16% while SG&A expenses declined 22% and operating earnings declined by only 2.9%. The company stated on the earnings call that 2Q revenue will decline to $250 million which erases the last three years of growth.

As a coach saturates her network there is a natural decline in productivity. The process of re-energizing thousands of coaches and attracting new ones can be slow and less straightforward than payroll employees. The company has a long track record of re-energizing and re-building coach activity with bonus programs and new products.

Based on the stock's left-for-dead valuation, flexible cost structure and proven leadership team, Medifast's risk/reward seems attractive.

[13] Capital IQ
[14] Capital IQ
[15] Capital IQ
[16] JDP research
[17] JDP research and estimates

New Position - Qualcomm (+8.3% in H1)

We initiated a starter position in Qualcomm (QCOM) earlier in this year at a price of $120 per share. QCOM is making good progress in diversifying its end markets away from mobile phones and into connected car infrastructure and software for the large legacy auto manufacturers.

A depressed valuation of ~13x trough operating earnings provides a margin of safety with multiple paths to win while we continue to research the thesis.[18]

The consolidation of the mobile phone industry and Apple's move to develop their own chips forced QCOM to re-position itself to the next big multi-decade opportunity.

Mobile phone sales are cyclical and suppliers like QCOM are at the tail-end of the demand bullwhip. Several years ago, QCOM set out to diversify its end markets and has quietly become a major supplier to traditional auto OEM next-generation vehicle cockpits and the connectivity for autonomous driving.

One of the long-tail opportunities we like is the potential for revenue sharing with vehicle software subscriptions that could be valued at a higher multiple with less cyclicality than the semiconductor business.

In 1Q 2023 QCOM's auto revenue grew 20% YoY with a run rate of ~$1.8 billion annually. New deals announced included a partnership with Mercedes-Benz to supply the Snapdragon Digital Cockpit, and twelve other Snapdragon 5G platform designs with other auto OEMs. Although auto is still less than 5% of revenue, QCOM has announced 150 development programs with auto OEMs over the next 18 to 36 months and backlog of over $30 billion.[19]

Legacy auto OEMs are just getting started in the EV/connected car transition. In 2022 GM only sold 39,000 all-electric cars (<1% of vehicles sold), Ford sold 61,500 (1.5% of vehicles sold) and VW group sold 572,000 (6.9% of vehicles sold).[20]

QCOM's position as a top supplier to the EV transition should become more front-and-center as the legacy auto manufacturers are forced to quickly play catch up to Tesla and Chinese EV manufacturers with software-based vehicle platforms.

While auto is showing signs of taking off, handset revenue declined 17% YoY in 1Q as mobile phone unit sales have not recovered in the US or China from the COVID peak.

QCOM is not a full position for the fund because I find it difficult to underwrite the recovery in mobile phone sales (net of Apple) while the auto and IoT segments are still small contributors. Any major progress in auto and the IoT segments in combination with further declines in the stock price might allow us to add to the position.

[18] Capital IQ, JDP estimates
[19] Qualcomm SEC filings
[20] Wikipedia, JDP research

New Position - Paramount Global (-5.75% in H1)

The Partnership initiated a position in Paramount Global (PARA) in late 2022 at $19 per share. PARA is an investment with an unusually wide range of potential outcomes that we think span between a loss, or a multi-bagger. The range of outcomes includes everything from a sale of the business to various going-concern outcomes based on reasonable success in the transition to streaming.

PARA is a top five global media conglomerate in terms of revenue, film production catalogue and reach. The business has a long list of well-known and iconic media assets including Paramount Pictures, CBS and CW networks, Showtime, BET, PlutoTV, Nickelodeon, MTV, NFL broadcast rights through 2033, Simon & Schuster books, valuable real estate in NYC and Los Angeles, Paramount+ streaming app and a hodgepodge of media rights.

PARA is controlled by Shari Redstone who is reportedly motivated to quickly move the business forward, or sell it, after the dividend cut has limited the funding for her family's private ownership of Showcase Superlux, Cinema de Lux, Showcase Cinemas and Multiplex Cinemas (National Amusements Inc.).

PARA's risk/return profile has attracted several high-profile investors including Berkshire Hathaway (12% of the stock), BDT and Mario Gabelli who presumably see PARA as a mispriced bet where the value of a collection of prized media assets exceeds the current enterprise value.

Three scenarios we think are reasonable today from the recent $15.90 price:

Scenario 1: -5% to +57% upside or $15 to $25 per share. This scenario assumes failure across management's operational goals over the next 24 months including:

a) failure to sell non-core assets besides Simon & Schuster (in process today),
b) streaming capex spend (Paramount+ PlutoTV) does not peak in 2023 as stated,
c) Paramount+ subscribers stop growing and monetization per user plateaus,
d) management fails to manage the declining legacy broadcast assets in a way that contributes positively to net cash,
e) Paramount Pictures reverses course on its content licensing strategy with its competition and the large TV operating systems (Roku, AndroidTV, Fire, Apple) in a push to build "the next Netflix",
f) little progress is made on paying down debt and management decides to re-up on a cash flow break-even strategy over profitability.

Scenario 2: +88% to +151% upside or $30 to $40 per share. This scenario assumes PARA is sold to a strategic buyer within 24 months after management divests non-core businesses like Simon & Schuster, BET, Nickelodeon and other broadcast assets. Divestiture proceeds and cash flow are used to reduce net debt below $5 billion with NOLs offsetting tax liability before the entire business is sold.

Scenario 3: +88% to 400%+ upside or $30 to $80+ per share over multiple year. This scenario assumes PARA remains public and management does a reasonable job of executing its strategy to become a highly profitable media business with sustainable growth. *We prefer a version of this scenario* because remaining independent and attractive seems very achievable with the right partnerships and a de-risked capital structure.

a) all assets not supporting the DTC streaming strategy are sold with proceeds used to pay down debt,
b) broadcast assets that cannot be sold are put in runoff and optimized for cash to pay down debt,
c) Paramount+ flips to profitability as planned in 2024 with path to 100+ million subscribers by 2025/2026,
d) Paramount+ demonstrates the ability to grow average revenue per user (ARPU) to $10+ per month with a combination of ad-supported revenue,
e) Paramount Studios continues to become more profitable with advertising revenue-share production and distribution partnerships with the major CTV operating systems (Roku, AndroidTV, Fire, Apple),
f) 50% reduction in net-debt by FY 2025 to $7 billion,
g) Path to sustainable 20% EBITDA margins on ~$20 billion in revenue.

Basket Update

In late 2022 we had purchased a basket of busted SPACs, unprofitable tech, and small cap "untouchables". Performance was a mixed bag but overall, the basket outperformed. Here are the returns by stock for the first half of 2023.

Stock A	Stock B	Stock C	Stock D	Stock E	Stock F	Stock G	Stock H
-10% (Sold Out)	-7.9%	-2.9%	3%	+24.2%	+31.8%	+57.6%	+192.9%

LOOKING FORWARD

I am excited about our portfolio because it represents incredible value. The progress that our companies have made over the last 18 months by fighting like hell to become leaner, more focused, and positioned to be more relevant in the future than the past, gives us confidence that our best days are ahead.

Our portfolio has started to recover from a difficult 2022 that I have also become stronger from. Improvements to our process and sector diversification should produce less correlated returns without giving up upside.

Instead of trying to time markets, we hold a handful of stocks that jump off the page in terms of total-return potential looking out several years. In practice this means making an evolving bet on the present value of a business's future.

One of the upside-surprises this year has been the market's discovery of the value proposition for AI to improve complex processes and decisions, especially for companies like Spotify and Amazon with services built on top of ginormous proprietary data sets.

There is no question that the productivity gains and cost efficiencies that AI is bringing to capitalism will reshuffle the investment landscape and rewire the way we live over time.

Looking at the positive impact that LLMs will have across our existing portfolio is exciting, even if the benefit is simply cost savings and the ability to achieve more with less.

Thank you for your trust and support.

Sincerely,

Jeremy Deal