JDP
CAPITAL MANAGEMENT
2024
ANNUAL
PARTNERSHIP
LETTER

JDP
CAPITAL MANAGEMENT

Survivor & Thriver Fund, LP
2024 Annual Partnership Letter

Dear Partner,

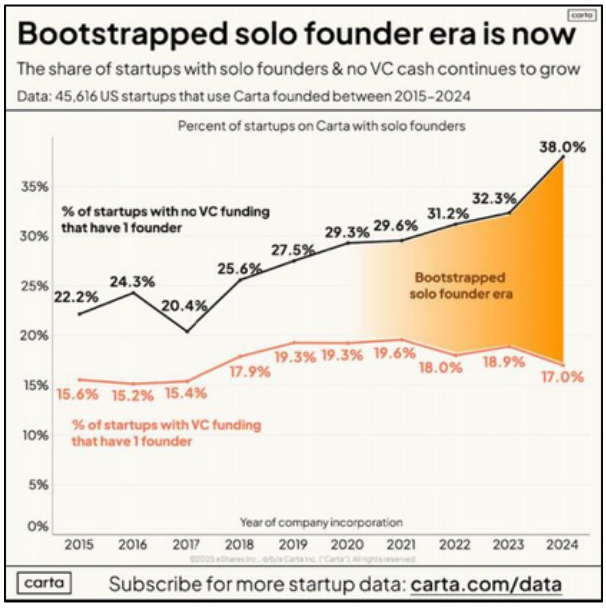
Two thousand and twenty-four was a great year for the market and an even better year for our fund. In 4Q we were up 10.4% bringing the full year return to 47.9% net to investors. This compares to the S&P 500 which gained 2.4% in 4Q and 25% for the full year assuming dividends had been immediately reinvested back into the index.

Given our Fund's strategy of investing where the puck is going, outperformance comes in irregular bursts because the progress we are betting on is not linear. In exchange for this, we are built to capture much more upside of our winners over the fund's lifetime.

What makes fundamental investing hard is that getting it "right" does not necessarily translate to performance in an ideal timeframe. The market can be painfully slow to change its mind about a hated stock or an out-of-favor sector, especially after a bearish narrative has become entrenched. Sometimes it takes a bull market to loosen the grip of outdated sentiment based on updated facts.

I was not surprised that our best performing positions in 2024 not only achieved unexpected growth or technological progress, but also overcame a bearish narrative that had previously been a headwind (Spotify, Endi Corp, Amazon, Tesla, China basket). The opposite was true for our worst performers —growth was within or below expectations while negative sentiment held tight (Caesars Entertainment, Roku).

"You are far better off pursuing a high-value opportunity with bad competition *than a low-value opportunity with no* competition*."* –Reid Hoffman



What has changed since Benjamin Graham published ~~Security Analysis~~ in 1934 is the monumentally faster speed that technological progress is eating away at the terminal value of the average mature public company.

Compared to the good ol' days, it has never been cheaper, easier, or more lucrative to compete with the titans of yesterday.

The result is a slow, widening dispersion of valuations between declining companies trying to hold on to past achievements versus those disrupting them.

All things being equal, valuation will always be the king of margin of safety for any investment. But looking back at public companies that have grown by 20x, 50x or 100x over time, capturing that return is rare for most investors because it requires developing insight beyond simply observing a P/E ratio or book value.

If Ben Graham were starting out today he might incorporate the concept of what author Adrian Slywotzky calls Value Migration into his process as a way to identify undervalued stocks. Value migration is the shift away from an outdated business model to a new competitor with a more compatible product.

Looking back at the most successful stocks in modern history, understanding the value migration tailwinds driving those businesses was the most important insight needed to hold on during long drawdowns.

The biggest beneficiaries of value migration can be hard to own because they tend to look optically *overvalued* on a rear-view looking basis yet be chronically *undervalued* on a forward-looking basis as they reinvest for growth.

Letting our winners do their job.

Buffett taught us that "price is what you pay, value is what you get". With the passing of time, the "what you get" part carries much more weight in determining returns. Amazon is a well-known example of the point I believe he was trying to make.

Whether you bought Amazon for the equivalate of 35 cents per share at the bottom of the tech bust in 2001 (excellent timing), or $3.50 per share at the cycle peak just before the Great Financial Crisis (horrible timing), or $15 per share after AWS's results began appearing in the financials in 2015 (meh timing), not selling would have produced lifechanging results.

This also speaks to the importance of staying invested in companies that you understand well enough to differentiate between boom-bust price action and fundamental change.

Because it is impossible to predict the next Amazon, our goal is to own a well-researched portfolio of stocks purchased at a time when the market seems to be underestimating step changes in earnings power. We will make many mistakes as we go along, some worse than others. But what matters most is recognizing our winners and letting them let them do their job.

In Berkshire's 2022 annual letter Buffett pointed out that over 58 years, 12 investment decisions mattered: "Our satisfactory results have been the product of about a dozen truly good decisions – that would be about one every five years – and a sometimes-forgotten advantage that favors long-term investors such as Berkshire." Buffett's decision to hold on to the handful of winners and let them ride, was far more impactful than the total number of times he swung the bat.

Overview and Outlook

After two 20%+ back-to-back years for the S&P 500 and a 102% net return for our fund over the same period, it is important to remain humble and remember that the good years, like bad years, are part of the journey.

I began 2024 bullish on the market despite what looked like a wobbly US consumer struggling with the cost of living. But stocks still seemed undervalued after two years of efficiency gains and a return to growth. Despite an estimated 9.5% earnings growth in 2024, **73%** of the S&P 500 still underperformed the index.1

[1] Slickcharts, Bloomberg, JDP estimates

The bar is always higher for stocks where "the cat is out of the bag" and the price has run up based on a strong, newly discovered market outlook.

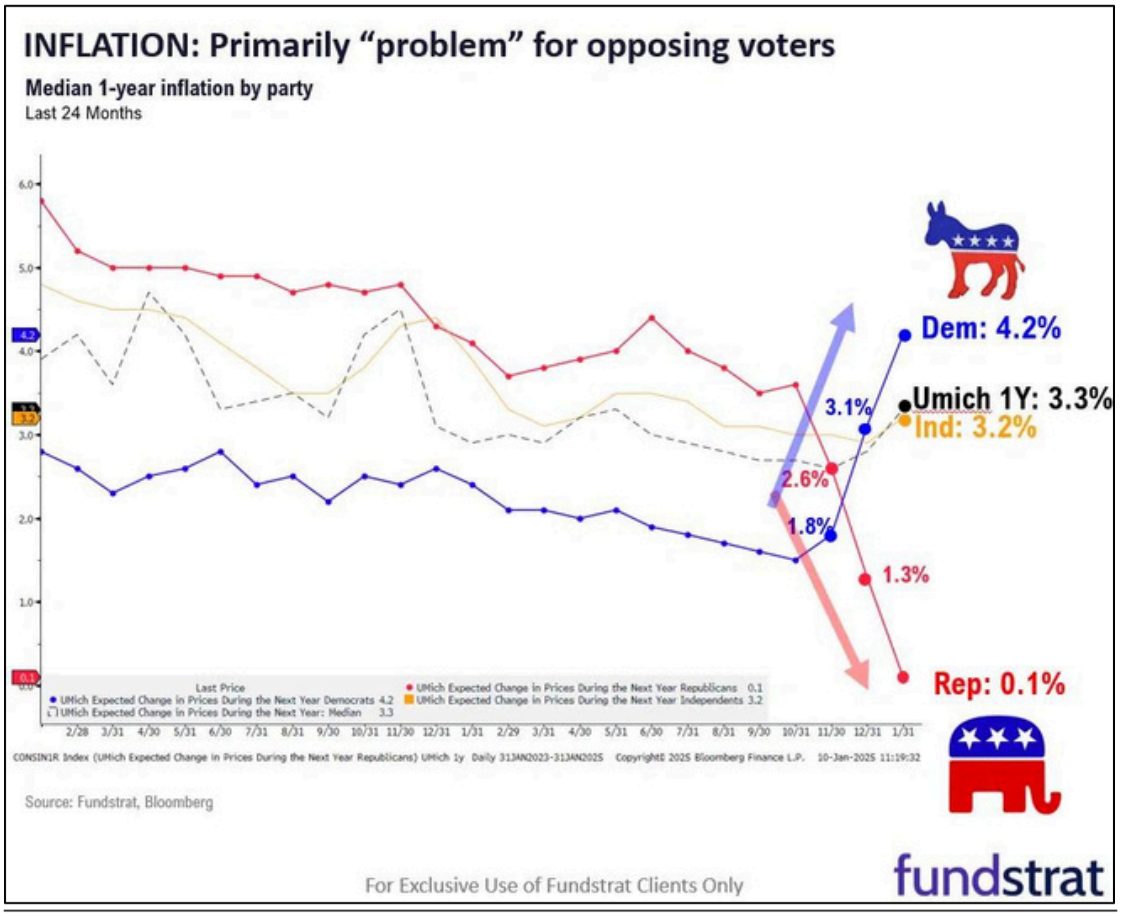
Conversely, stocks that have only gotten cheaper because valuation has not fully kept up with the pace of growth, have a lower bar to beat the market. Turning the page to 2025 does not change this.

When it comes to macro predictions, Howard Marks 2022 memo The Illusion of Knowledge is an excellent summary as to why trying to forecast the macro is so unhelpful to future performance. Marks says: "The problem in short, is that I don't think there can be a process capable of consistently turning the large number of variables associated with economies and financial markets (the inputs) into a useful macro forecast (the output)." The only thing we know for sure is that the macro is unknowable and unpredictable.

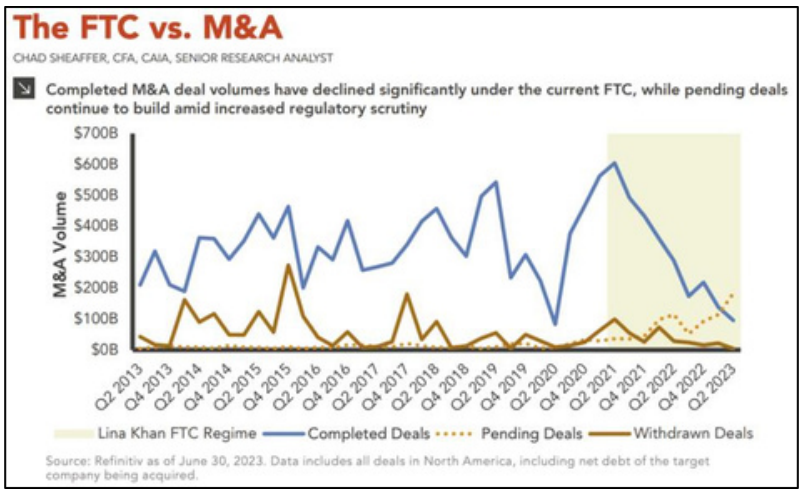
However, being aware of the bigger picture (vs predicting) is an important part of investing.

Some thoughts about 2025 (as of January): Markets have started the year on a bearish foot, pricing in future White House policy that triggers a surge in inflation, interest rate hikes, and high US Treasury yields that will crush stocks (2022 PTSD perhaps?). Markets are underestimating other scenarios where decelerating growth keeps a lid on inflation and interest rates decline. This, along with a new FTC and a lighter regulatory regime could trigger a rebound in M&A activity and a thawing of the recession in the number of homes sold. Splitting the difference with the bear case for stocks would be net bullish for 2025.

This chart shows how inflation expectations have become very political based on regional surveys:



Is a rebirth in M&A activity on the horizon? For the last four years, FTC Chair Lina Kahan pursued a very high profile, unfriendly and restrictive M&A policy based on her interpretation of anti-competitive behavior.

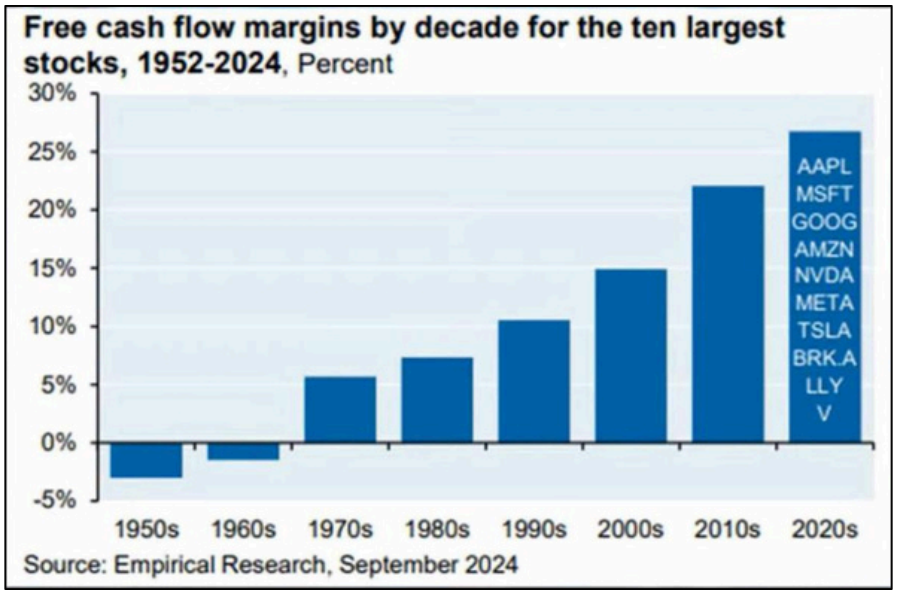


Although this chart is outdated, it gives you an idea of Lina Kahan's effect on US M&A activity since being appointed in early 2021. The incoming FTC chair Andrew Ferguson is expected to be a tailwind for M&A. This would also help unlock billions of dollars for venture capital and private equity funds that has been stuck with portfolio companies that cannot be easily sold to large strategic buyers.

A rebound in M&A activity would also help unlock billions of dollars in cash sitting on large corporate balance sheets that could now be used for acquisitions. I thought this ~~Reuters article quote~~ from the Co-head of M&A for North America at JPMorgan Jay Hofmann said it best: "Setting aside 2021, next year could be one of the best of the last 10 years because there wasn't a lot of volatility in volume over the last decade. If global M&A volumes are up 15% or 20% next year, it wouldn't be a surprise to us at all."

S&P 500 earnings are expected to grow by 13% in 2025.[2] While this number surely will change and should be taken with a grain of salt, it is hard to ignore the weight of Big Tech in earnings projects and the role that these companies are playing in our economy.

Value vs Growth: Free cash flow growth of the largest US stocks by decade



[2] https://www.businesstimes.com.sg/companies-markets/us-stock-market-faces-reality-check-high-bar-earnings-season

Big Tech fundamentals should continue to thrive in 2025 with growth that should exceed GDP while earning 30%+ returns on capital with fortress-like balance sheets.3

Instead of ignoring the obvious, I think of Big Tech fundamentals like growth, returns on capital, future relevance, compounder potential, etc. as a hurdle rate for a lower quality idea. It is *always* a stock pickers market.

Selected Portfolio Review

No new purchases were made in 4Q.

Spotify

Spotify (SPOT) was up 148% in 2024 and was our largest contributor to full year performance for a second year in a row. After bottoming in 2022, SPOT has risen almost 500%.4 Although we trimmed the position in June 2024 to help fund a full position in Tesla, Spotify remains our largest holding.

Like YouTube and Meta, Spotify benefits from ever-lower barriers to produce consumer content, the rapid shift away from all forms of linear media consumption, and the behavioral data generated by hundreds of billions of consumption hours on its platform.

Spotify Hours Consumed by Year	
2015	17,400,000,000
2016	26,700,000,000
2017	40,300,000,000
2018	54,000,000,000
2019	73,000,000,000
2020	92,000,000,000
2021	110,000,000,000
2022	132,000,000,000
2023	165,000,000,000
2024	210,000,000,000*
2025	260,000,000,000*

*JDP estimates

We initiated our position in Spotify in late 2018 after the price plummeted shortly after the company went public in a direct listing.

Six years later, the number of users has grown from 240 million (4Q 2018) to over 700 million (3Q 2024) with nearly 600 million hours streamed *per day* on the platform.*5* Since we invested, gross profit is up by nearly 10x and free cash flow per share is up about 8x6.

What keeps us bullish after the stock's recent run is that the business should be able to achieve its much-discussed goal of €20 billion in operating earnings without needing to raise equity or debt. The existing capital base is only €10.5 billion, of which €4 billion is cash (3Q 2024) making incremental growth highly profitable.

Spotify's earnings power was blaring in 2024 with 3Q gross profit up 62% YoY and operating income surging from just over breakeven, to about US$2 billion annualized7. This pop was unexpected by Wall Street and caused the bears to take a fresh look at the company's asset-light business model that does not require large investments in content.

Spotify is often compared to Netflix because it has a large paid subscriber base. But from a financial perspective Spotify has more in common YouTube and Meta than Netflix. Spotify is not a content company required to stay on a massive content capex hamster wheel in order to grow.

[3] JDP estimates
[4] share price calculated from December 31, 2022, to January 14, 2025
[5] JDP estimate for FY 2024
[6] Company filings, JDP estimates
[7] Company filings, JDP approximations

Yes, Spotify made some content investments in order to kickstart podcasting, but those early projects have largely been wound down or converted to non-exclusive advertising deals.

Back in 2019 when Netflix was earning similar operating income that Spotify is today, Netflix required $34 billion of invested capital, of which $20 billion was debt.[8] Today with a valuation of $360 billion, Netflix earns about $11 billion requiring $52 billion of capital.[9]

Spotify should be able to earn the same operating earnings as Netflix does today but with a fraction of the capital. Achieving high returns on capital could also lead to a re-initiation of the stock buyback program which would further drive value per share.

Tesla

Tesla (TSLA) is new core position that I wrote about in 2024 Half Year Letter. The stock was up 115% in 2024. We benefited from the June 2024 timing of our purchase, buying after the stock had declined about 30% in the first part of the year.

We repurchased TSLA at a time when the market had [again] become overly bearish based on slowing vehicle orders despite the company having just achieved a breakthrough in Full Self Driving (FSD v12). If you haven't had a chance to experience the most recent Full Self Driving software (FSD 13.3) I suggest you try it for yourself. If you've had a Tesla for a while, you know that the trajectory of FSD improvement has been nothing less than astounding.

It has become clearer to me that Tesla's leadership position in the infrastructure layer underpinning mega-trends in robotics, smart vehicles and battery storage will unlock earnings growth that we can ride for years. Similar to AWS or the iPhone, Full-Self-Driving and Optimus will enable new business models to be built across a wide range of industries over time.

After the presidential election, TSLA valuation re-rated up on the likely probability that the regulation of full self-driving will consolidate to a single federal agency under the influence of Elon.

While this is clearly a big win for Tesla, it is less clear how long it will take before the experience of FSD becomes the primary value proposition for buying a Tesla over a "dumb" EV that is not connected or FSD capable.

Similar to the early days of the lightbulb being made available in homes, we are still early in the adoption curve of self-driving and even earlier for humanoids.

Despite the average American having never experienced the convenience of self-driving, there have been over 2 billion miles driven on Tesla FSD.[10] As this number grows exponentially it feeds the improvements of the next FSD update. Therefore, Tesla's competitive advantage over would-be competitors grows with every FSD mile driven.

ENDI Corp

We have a basket of small positions in stocks with very asymmetric upside potential if they work out. The companies are small, often unknown, and purchased on a deep value basis because execution

[8] SEC filings, JDP estimates
[9] SEC filings, JDP estimates, Yahoo Finance
[10] Company filings, JDP estimates

risk is high. Our last big win from this group was Indivior PLC which was a multi-bagger we exited in 2022.

The idea in this basket that I am most excited about today is ENDI Corp. It has been a while since I wrote about ENDI, but the company's growth in 2024 is worth bringing up.

ENDI's core business is an asset management firm managing a family of fixed income funds with $3.3 billion of assets under management (AUM). After the 2022 merger with CrossingBridge, ENDI is managed by its 50% shareholder David Sherman. Prior to founding CrossingBridge, David played an important role in the early days of the famous Leucadia National Corp, now Jefferies Financial.

Endi Corp (ENDI) was up 184% in 2024 on 80%+ growth in AUM and run-rate EBITDA now over $8 million (as of 3Q 2024). Growth was driven by a tuck-in acquisition, the launching of new products, and organic growth across the family of funds. The company's excellent reputation for niche income products for US and European institutional allocators should continue being a tailwind for growth into 2025.

At only a $63 million market cap which includes ~$20 million in cash + investments, the stock is still very cheap.[11] We have not added to the position because the stock's limited liquidity limits how much we can own.

Caesars Entertainment

Caesars (CZR) was down 30% in 2024. The position has been a loser so far, dropped about 17% below cost, equivalent to the valuation just 3 months in to COVID when Vegas was all but shut down. I have spoken about CZR at length in past letters so I will spare you from re-reading the pitch.

In 2024 CZR's post-COVID growth rate started to slow and by 3Q 2024 revenue and EBITDA were essentially flat with YoY. Fears about a consumer spending hangover, combined with rising floating-rate interest rates, led to the stock being put the penalty box most of the year.

Looking ahead at 2025 Caesars expects to generate materially more free cash flow as massive multi-year capex projects wrapped up in 2024, and more states legalize online gaming. Caesars is also a beneficiary of the transition to online gaming which will drive higher returns on capital and free cash flow in industry with otherwise average returns.

Unless the US experiences a financial shock or painful recession, the market should start to give the Caesars credit for its improving financial profile and dominate market position.

CZR represents a compelling investment idea based on earnings power that is not priced in the stock today. The valuation has drifted very low after nearly two years of the brick-and-mortar gaming sector being out of favor.

Roku

Roku (ROKU) was down 15% in 2024 closing at $77.38 per share, about 20% above our cost basis. The company has an enterprise value of about $9 billion, no debt, and trades for a little over 2x estimated 2025 platform revenue (hardware revenue excluded).[12] Roku has been undervalued and

[11] SEC filings, JDP estimates
[12] Yahoo Finance, JDP estimates

under-owned for so long that a positive re-rating of the stock to an acquisition value would justify a multi-bagger return.13

Roku has not been able to shake its reputation as a posterchild for the COVID-era stock boom. What started as a slowdown in platform revenue in 2022 morphed into a bearish narrative that the company lacks a competitive advantage and pricing power in Connected TV advertising (a narrative that plagued Spotify's stock for years).

The way we consume TV has changed dramatically over the last few years. When I first started researching Roku in 2016, most TVs were not connected to the internet. The consensus view at the time was that streamed TV content could only be a niche at best compared to cable TV.

Today, all TVs sold are connected to the internet and the coveted 18 to 45-year-old advertising demographic has largely abandoned linear TV.14 In North America you can buy a top-of-the-line 65-inch Roku TV for a few hundred dollars, with smaller 50-inch versions selling as low as $250.15 Many millions of families can afford to hang a modern TV in their home, often in multiple rooms.

Roku Hours Streamed by Year	
2012	900,000,000
2013	1,600,000,000
2014	3,200,000,000
2015	5,498,000,000
2016	9,351,000,000
2017	14,800,000,000
2018	24,000,000,000
2019	36,900,000,000
2020	58,700,000,000
2021	72,200,000,000
2022	87,400,000,000
2023	106,000,000,000
2024	121,900,000,000
2025	145,000,000,000*

*JDP estimate

Roku is the largest connected TV (CTV) operating system in North America with nearly 50% market share16. The number of hours streamed on the Roku Operating System has grown to over 10 billion per month (see chart, COVID years highlighted in yellow). This position has allowed Roku to build The Roku Channel which is now the second most streamed app on the Roku platform (possibly behind only Netflix).17

I have mentioned before that The Roku Channel (TRC) is likely worth the current market cap of all of Roku based on its rapid ascent into TV viewing and under-monetized advertising hours that it controls. TRC represents 4.6% of all streaming television watched in America, up from 0% just a few years ago. This is behind The Disney Channel at 4.8%. To put this into perspective, as of December 2024, Netflix accounted for 19.6% of total US TV streaming, down from 22.9% when Nielsen began tracking the data in May 2021.18 This is not saying that TRC is the "next Netflix" by any means, but at a $9 billion enterprise value for all of Roku, including TRC, the stock is mispriced.

Negative sentiment aside, it doesn't take much digging around Roku's business, its partners, or the broader CTV ecosystem to see how well the company is positioned to benefit from the Value Migration of digital advertising budgets converging with CTV. Ads on CTV are becoming more personalized and designed to drive an instant purchase—think Instagram, Amazon and Tiktok.

Part of Roku's platform revenue historically came from old media company marketing budgets paying to promote their streaming app on the platform. During COVID as old media raced to launch the new streaming apps, Roku's platform revenue skyrocketed and overshadowed traditional

[13] JDP opinion
[14] JDP research, estimates
[15] CNET, AmazonPrime, https://www.cnet.com/deals/mlk-weekend-sees-amazon-and-best-buy-reduce-roku-tvs-to-new-record-lows/
[16] Company reports, SEC filings, JDP estimates
[17] Company reports, JDP research
[18] Nielsen "The Gauge" monthly data

advertising revenue. By 2022 marketing budgets for old-time groups dried up as their linear TV parent companies started fighting for their survival.

This caused an air pocket in Roku's platform growth causing the company to be misunderstood as dependent on these old media marketing budgets for growth. Roku does not break out what percentage of revenue comes from this "media and entertainment" category, but we know the shift towards traditional advertising has been substantial. Roku's opportunity in digital consumer advertising is enormous.

Roku has been successful at building out a self-serve advertising platform that should start to show meaningful traction with marketers in 2025. The Roku operating system and The Roku Channel are valuable assets that are highly under-monetized today. My sense is that founder Anthony Wood would consider a sale to a competitor like Amazon if a deal had a good chance of being approved by the new Federal Trade Commission leadership.

China Basket

Our China basket did okay in 2024 with performance that kept up with the S&P 500. Each stock in the basket is growing faster than the Chinese economy, trades for a single-digit multiple of earnings, earns high returns on capital, and has excessive amounts of cash and investments being used for increased stock buybacks.

Looking forward

The anxiety created by the casino nature of markets has always been an advantage for investors willing to approach a stock as if their family was buying the entire business.

Although we cannot control markets, we can control our process and work to continuously improve. We own businesses that are beneficiaries of Value Migration within sectors undergoing a transformation that seems underestimated by the market.

However, our greatest advantage is having a group of partners willing to think longer-term about stock ownership than most people can.

Just like any year, 2025 will also have its moments of fear and euphoria. Looking at the trajectory of what our businesses are accomplishing, I cannot help but be excited about the year ahead.

The majority of my family's net worth is invested alongside yours. Thank you for your trust and support.

Sincerely,

Jeremy Deal