07/10/2021: June 2021 Portfolio Review

> *"The most important thing is that we are on the right path, and we will not deviate from it, even in the face of strong temptation to choose temporary gains over long-term benefits."* - Yemi Osinbajo

Operators,

Brandon here.

The MO port dipped roughly 5% during the month of June while the S&P 500 returned +2.27%. Since the start of 2021 we've returned +31% compared to the S&P 500's +16.13%, nearly double the broader index.

We made a few changes during the month and added new companies to create a portfolio of durable businesses that should compound capital at attractive rates of return for *at least* 3-5 years.

This weekend we'll review a few of our significant sales, two of our biggest buys, and other portfolio news/updates.

Grab some coffee and let's get after it!

Trimming The Portfolio: What Left The Book?

There were a few major sales we made in the portfolio during June. For example, we took full profits on the following names:

- Kura Sushi (KRUS)
- Qualitas Controladora (Q.BMV)
- Grayscale Ethereum (ETHE)
- Hecla Mining (HL)

We also took losses by exiting the following:

- S&W Seed Co (SANW)
- Manolete Partners (MANO.LSE)

Dissecting our sell decisions is a great way to understand *how* we think about portfolio construction, valuation, and trade management. Let's dive in.

Why We Sold

Kura Sushi (KRUS) is a company we love, but not at the current price. We sold our last chunk of stock around $37/share, booking a ~95% gain in less than a year. The stock currently trades for ~5x NTM sales while we bought in the low 2s.

KRUS is an excellent example of a situation where we would've sold calls and held our equity or trimmed half and sold puts at significantly lower prices (like we did with POWW). But unfortunately, there are no options on the stock.

Qualitas Controladora (Q.BMV) is Mexico's leading auto insurance company with one of the most extensive moats we've ever seen. That said, there were two reasons we sold our position. First, we have *a lot* of Mexican exposure in our book between BMWX, HCITY, and FRAGUA.

So why sell Q? The short answer is technicals. Q had the most bearish chart out of our Mexican quartet. It recently broke long-term price support on heavy selling volume. Q's weekly chart follows a repeatable path along a *major* long-term trend support line.

As you can see above, Q moves in fits and starts. It goes on 6 to 10-month runs, cools off, and resumes higher. Also, notice how it's tested that major support level *four* prior times. Moreover, the price has respected its 100 EMA each of the past two times.

We hope price consolidates around the 100 EMA, allowing us to take another shot long.

We sold **S&W Seed Co. (SANW)** and **Manolete Partners (MANO.LSE)** for two reasons. First, we already had exposure to agritech with BIOX. Second, insiders kept selling even as stock prices declined, which is never a good sign. We took our losses and shifted capital into better names.

Now let's move on to what we bought during the month.

Strengthening Our Book: Redfin (RDFN) and eDreams ODIGEO (EDR)

Our most notable buy this month was a residential real estate brokerage company, Redfin (RDFN). You can read our write-up on the company here.

Most investors see RDFN as just another real estate brokerage business clawing for more of the $93B addressable market. But RDFN isn't just another brokerage. Instead, **it's fundamentally changing how consumers buy and sell homes.**

The RDFN bull thesis hangs on two hypotheses:

1. Real estate commissions will go to zero.
2. The way consumers buy/sell homes in ten years will look vastly different than today.

Simply put, RDFN is playing the more complex game. They're paying agents a full-time salary and slashing commissions, all in the hopes of capturing a massive shift in how consumers buy and sell homes.

We outline our variant perception below (emphasis mine):

> *If real estate commissions go to zero, agents will join a brokerage that offers security, inbound deal flow, and transaction bonuses tied to deal closures (not home prices).* ***RDFN is the only company that built a business model around a salaried agent.***
>
> *More agents on the RDFN payroll means more homes viewed, sold, and bought through the RDFN platform. In addition, more homes on its platform allow RDFN to cross-sell other services like mortgages, title insurance, and iBuying. In turn, RDFN takes the entire home buying/selling process and creates a seamless, online-first experience for its customers at the lowest cost possible.*

Here's the good news. RDFN's addressable market is *so large* that even if we're *directionally* correct on our assumptions, we'll make a ton of money. Finally, Glenn Kelman, CEO of RDFN, is one of the game's sharpest and most humble operators.

All these factors translate into an 8% position at cost.

Starter Position in eDreams ODIGEO (EDR.BME)

We also took a starter long position in Europe's leading OTA, eDreams ODIGEO (EDR). You can read our full write-up on the company here.

Like RDFN, the EDR thesis is simple and requires two main questions:

1. Will the industry (OTA) become larger or smaller post-COVID 19?
2. Will eDreams (EDR) become a larger or smaller player in the industry?

Here is what we know. First, there is tremendous pent-up demand for leisurely travel in Europe, which EDR's data verifies. Second, EDR gained 6% in market share during the COVID pandemic and is now a much larger player in the European OTA space.

EDR's golden egg is its Prime Membership subscription business. For EUR 60/yr, members gain access to discounts on 100% of EDR's flights, up to 50% discounts on lodging (hotels, etc.), an exclusive 24/7 customer service hotline, and the ability to book an entire family/group for the member-specific discount rate.

The beauty of EDR's membership revenue is that it creates a virtuous cycle of lower customer costs. For example, higher membership revenue allows EDR to charge lower flights (passing cost savings onto its customers). These lower rates lead to more Prime members, which leads to higher membership revenue and lower rates. Etcetera.

With the company gaining market share and increasing Prime Members to >1M, we decided to enter a ~3.5% notional position risking 100bps.

EDR broke out of a lengthy base on the monthly charts, and we got long around EUR 7/share. We're hoping to add shares if the stock trades into the EUR 5-6/share range.

Other Portfolio News & Notes

- **NTDOY:** Michael Fritz published a great, balanced, well-researched piece on Nintendo (NTDOY), one of our largest positions. You can read his report here.
- **POWW:** Raised its fiscal Q1 revenue outlook to $44 million from $41 million. If they hit this figure, it would represent a 350% YoY revenue increase.

- **Watchlist Company -- Makuake (4479.JP):** Makuake's CEO released an *English language* 15-minute investor presentation. You can listen to it here. We have alerts set to trigger if Makuake trades below JPY 4,900, a price that would get us interested in adding it to our book.

