Minot Light
Capital Partners

January 2025

	Q4 2024
Minot Light Capital Appreciation Fund (Gross)	**6.9%**
Minot Light Capital Appreciation Fund (Net)	**5.2%**
Russell 2000	0.3%
S&P 500	2.4%

Dear Partners,

This represents Minot Light Capital's first partner update since the fund launched on Oct 1, 2024. We were generally pleased with the results of our first quarter as a partnership. Though it is a small sample size, this quarter has reinforced our belief that we have the opportunity to meaningfully grow partner capital and outperform other equity alternatives. For the quarter, the partnership gained 6.9% gross/5.2% net versus 2.4% for the S&P 500 total return index and 0.3% for the Russell 2000. It was a volatile quarter for the markets and we were pleased to see the partnership demonstrate positive relative performance in both up and down markets. Please note that individual LP returns may differ from the aforementioned returns due to different fee structures and timing of subscriptions. Please check your statement to find your individual return.

The partnership ended 4Q 2024 with slightly over 100 holdings and was about 110% net long with no shorts. We ended the quarter with modest leverage as we believe the portfolio has substantial upside potential over the next three years with modest long-term downside risk. I have been using the same model to track projected 3-year upside/downside potential for portfolios throughout the course of my career and our current portfolio screens attractively relative to my historical observations with approximately 115-120% upside and around 30% downside. This upside/downside framework is built bottoms-up from our upside and downside estimates of each individual name in the portfolio. Of course, these estimates will turn out to be inexact and wrong. Furthermore, these estimates are no guarantee of future returns. However, it is a consistent framework that has served to provide me with a directional estimate of relative portfolio attractiveness at any given point in time. I have rarely had a portfolio with more than 125% projected upside on a 3-year basis, which is why we are carrying a small amount of leverage.

While the upside potential of the portfolio is clear to us, long-term downside protection remains of paramount importance. We have been careful to structure the partnership with multiple layers of redundancies to mitigate long-term risk of permanent capital loss. As a reminder, these include:

- Effective diversification
- Proper position sizing
- Liquidity in each individual position and the portfolio as a whole
- Modest to no leverage at the holding and portfolio level
- Portfolio composition of relatively durable business models and sound management teams
- Constant focus on valuation
- Ability to hold cash and/or hedge when dictated by market conditions

Though some might be surprised at the portfolio's current level of diversification for what is currently a small asset base, we will not compromise on diversification as a key component of risk management. In addition, our goal is to generate strong absolute and relative performance in a sustainable, scalable, and consistent portfolio structure. This is designed to prevent any performance degradation or forced strategy shifts as assets under management grow towards our stated limit of $150mm of outside capital.

Before reviewing key drivers of quarterly performance and a few individual names, I will highlight some observations from our first quarter of trading:

First, the liquidity inherent in our small asset base remains a key competitive advantage in the small/microcap space. We have encountered absolutely no limitation on the market cap size of a name we want to own and can easily go down to names below $100mm, $50mm and even $25mm of market capitalization. Furthermore, we have been able to build positions in names of any size with virtually no impact cost. This is a luxury that no scaled competitors in the small-cap space enjoy and will likely be a key driver of performance for us throughout the life of this partnership.

Second, though the portfolio is quite diversified, we have no concerns about generating tracking error or relative alpha for those who wish to measure us against an index. We pay no attention to index composition and have seen substantial deviation from index performance on a daily, monthly and quarterly basis.

Third, I have been pleasantly surprised at how our micro and nano-cap stocks in the portfolio have actually muted near-term downside volatility in the portfolio, though I still expect them to have the widest range of long-term outcomes. This is simply because many of these stocks are not in a major index. Hence, they do not move as much on index-driven sell-offs. As the market becomes increasingly passive, correlated and index-driven, those micro-cap stocks that are not in a major index have beneficial diversifying effects on our portfolio.

The three biggest contributors to the partnership's performance this quarter were The RealReal (REAL), ThredUp (TDUP), and MyTheresa (MYTE). All of these stocks are online marketplaces, with the RealReal focused on second-hand luxury, ThredUp focused on second-hand apparel, and MyTheresa focused on brand-name luxury. Though these stocks have some correlation due to sentiment around online retail and the consumer, they have very different long-term drivers of performance. In this letter, I will highlight our thesis on MyTheresa. If any Limited Partner wants to review our thesis on RealReal or ThredUp in more depth, or any stock for that matter, I am happy to speak with him or her at anytime. The three biggest detractors to the partnership's performance this quarter were Journey Medical (DERM), Beyond (BYON), and TransMedics (TMDX).

In each shareholder letter, we intend to highlight one or two names in the portfolio. These are not buy or sell recommendations and we reserve the right to change our minds on these names if a thesis deteriorates or breaks. However, we believe a brief investment synopsis should provide Limited Partners with insight into how we think about investing in individual stocks. The goal is to help our LP's more deeply understand our process versus focusing on the eventual outcome of these names.

MyTheresa (MYTE)

MyTheresa (MYTE) is currently our partnership's largest holding and is poised to become a leading curated digital platform for high-end luxury fashion. The company has executed in a consistent and thoughtful manner throughout a meaningful consumer and luxury downturn over the past few years, which has led to a more rational competitive environment. However, the stock has become our largest position due to a game-changing acquisition of YOOX NET-A-PORTER (YNAP) from Richemont (SWX: CFR). For a variety of reasons, Richemont was highly motivated to divest YNAP, and MyTheresa was the only logical and willing acquirer due to the substantial synergies it could bring to the transaction. When the deal was announced, we had a small position in MYTE and it's market cap was about $340mm (85mm S/O at $4.00/share) with about $15mm of net debt on it's balance sheet. In exchange for taking on YNAP, Richemont put a cash position of 550mm Euros and no debt on YNAP's balance sheet, provided a 100mm Euro revolving credit facility to YNAP/MyTheresa, and took a 33% equity stake in the pro-forma combined company.

Hence, in exchange for the issuance of about 42mm shares to Richemont ($172mm of value at the time of deal announcement), MYTE was able to acquire the highly synergistic Net-a-Porter and Mr. Porter luxury marketplaces that had a combined 1.2bln Euros of GMV (vs MYTE's GMV of about 900mm Euros), the 900mm Euro GMV Yoox and Outnet discount marketplaces, and 550mm Euros of cash. The Net-a-Porter and Mr. Porter brands are currently profitable and should become even more so post-synergies when combined with MyTheresa. The outlet brands (Yoox & Outnet) are currently burning cash, which is the main reason Richemont provided MYTE with 550mm Euros on the transaction. We believe management will determine relatively quickly whether it can turn around the outlet business. If not, we think MyTheresa will shut down that entire business and can likely do so well before burning the 550mm Euro cash position.

We believe this transaction will create substantial shareholder value for MYTE going forward and firmly establish it as a leading online luxury marketplace. We estimate the combined legacy MYTE and Mr. Porter brands should be able to do around $2.2bln in revenues in 2025. If we assign a legacy MYTE trough multiple of roughly 0.3x EV/Sales multiple to that business (MYTE had an average EBITDA margin of 7% from FY19-FY24), assume $165mm of net cash on the balance sheet at the end of 2025 and assign no value to the outlet businesses (the company shuts them down due to cash burn), we believe shares of MYTE have a trough valuation of around $6.50/share. On the upside, we believe the combined MYTE/Mr. Porter brands could do around $3.1bln of revenues and north of $200mm of EBITDA in 2028 and could have around $250mm of net cash at that time. A 12x EV/EBITDA multiple on $200mm EBITDA at the time would imply a price target of around $20.00/share. Again, this assigns no value to outlet brands. In our opinion, there is substantial upside above $20.00/share if the outlet business becomes a success and/or the market assigns a higher free cash multiple to the minimally capital intensive core luxury business. Either way, with the stock now trading at about $7.50/share, we think the risk/reward on MYTE is attractive. MYTE's current market cap, before the transaction closes, is around $640mm.

Journey Medical (DERM)

Journey Medical (DERM) is the partnership's third largest position and was also our largest performance detractor in 4Q24. Similar to MYTE, we believe DERM offers a very attractive risk/reward opportunity to our investors. Journey Medical is a specialty pharmaceutical company focused on the dermatology space. The company's CEO along with many members of management and its salesforce came from Medicis, which was a pioneer in the specialty pharmaceutical industry and was also focused on the dermatology space. Journey currently has a relatively small portfolio of drugs that generate about $55mm-$60mm in sales. It also has a fully built-out salesforce that covers the vast majority of relevant dermatology call points. It has achieved cashflow breakeven at the current revenue level with this sales and marketing infrastructure.

What makes DERM an exciting stock, in our opinion, is the approval it received from FDA on Nov 1, 2024 for a product called *Emrosi* for the treatment of Rosacea. In its pivotal clinical trial, *Emrosi* demonstrated head-to-head superiority over *Oracea*, which the current oral standard of care in the United States for Rosacea. *Oracea* is currently doing about $300mm of sales in the US. We believe that with superior data and a strong commercial organization, Journey should be able to take at least half of this market over time, leading to sales of $150-$200mm. Importantly, this product should carry a gross margin of at least 70% and Journey does not have to add a single salesperson to begin marketing the product in mid-2025, as it already covers over 90% of the potential prescribers. Hence, it is our opinion that the launch of *Emrosi* should drive a massive increase in earnings and free cash flow for Journey Medical beginning in the second half of 2025.

From a risk/reward perspective, we believe a trough 1.5x EV/Sales multiple on $60mm of revenues in 2025 from the current product portfolio (no contribution from *Emrosi*) is about $90mm or $4.00/share. We believe conservative upside would be around $20.00/share based on 3x $150mm in revs by 2027 or around 15x implied eps of $1.25 at that time. Those numbers would obviously be much higher if *Emrosi* generated the $200mm in sales that management is targeting. We believe cash on the company's balance sheet, along with proceeds from potentially outlicensing *Emrosi's* international commercial rights will be sufficient to successfully launch this product in the US. Journey's current stock price is about $4.30/share and its market cap is about $91mm.

Hopefully, these brief discussions on MyTheresa and Journey Medical provide our Limited Partners with a better understanding of the kind of stocks we are seeking to own for our partnership. The key characteristics are substantial upside potential, with what we deem to be limited downside risk in stocks that are often too small or off-the-radar for most institutional investors. However, they have a growth trajectory in place that could lead to much greater market recognition, institutional ownership, and stock price appreciation. Our belief is that if we fill a portfolio with stocks having these characteristics, they will not all work, but if we get our fair share correct, the portfolio should perform quite well and not expose our investors to the risk of substantial permanent capital loss.

We want to thank all of our initial Limited Partners for their support. It truly means a great deal to Eddie and myself. We will continue working hard to grow your capital over the life of this partnership.

Our full holdings list is available to Limited Partners upon request.

Sincerely,
Tom Wetherald & Eddie Reilly

Minot Light
Capital Partners

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