

## Far View Capital Management

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Dear Partner,

Welcome to the performance update for Far View Partners L.P. ("Far View") for the half-year ended June 30, 2024.

### **Portfolio Performance**

During H1 2024, Far View generated a return of -1.70% net of all fees and expenses. This result comprised a gain of +7.20% in Q1 2024 followed by a decline of -8.30% in Q2 2024. Since inception on July 1, 2011, Far View Partners has generated a cumulative net return of +109.53%, a +5.86% CAGR.

During H1 2024, Far View saw positive returns from Trustpilot Group PLC as continued profitability improvements and aggressive share repurchases drove strong performance. The Partnership also enjoyed gains in FD Technologies PLC as the company committed to selling its legacy First Derivatives consulting division to focus on its KX software business. Finally, Far View enjoyed gains in Canadian software company Optiva as the company emerged from a multi-year turnaround with the expectation to grow revenue greater than 10% in 2024.

Offsetting these gains, Far View suffered losses in Swedish e-commerce marketplace CDON after disappointing results hurt the company's momentum from late 2023 and early 2024. Far View also suffered losses in UK data migration specialist Cirata PLC where significant progress under the surface has yet to become readily apparent in reported results. Finally, Far View also suffered losses in German home furnishing retailer Westwing SE.

On June 30, 2024, Far View's portfolio consisted of long equity investments in the United States, Canada, United Kingdom, Sweden, Germany, and Spain. Far View was fully invested at the end of the quarter and maintained short positions in various currency futures for hedging purposes.

### **Adding to a Loss-Making Position**

Consider a hypothetical company with the following attributes:

- 1) Emerged from a 6-quarter cyclical downturn with 4 quarters of consecutive gross profit growth
- 2) Gained market share in its core geography over each of the past 5 quarters and expanded into a new country
- 3) Beat consensus EBITDA expectations in 4 of the last 5 quarters (met in the 5<sup>th</sup>) and raised guidance two times in H2 2023
- 4) Grew trailing twelve-month EBITDA over 100% since June 30, 2023
- 5) Generated additional cash; net cash is ~50% of the current market capitalization

- 6) Repurchased shares in the market consistently over the last 1.5 years
- 7) Key management bought shares multiple times at prices as high as 20% above current levels
- 8) Started the year at an attractive valuation; ~0.2x EV/sales ~10% FY 2023 free cash flow yield

Under these circumstances, I would expect this company to generate strong share price performance. However, despite these positive attributes, Westwing Group SE declined in H1 2024 and was Far View's largest loser in the half-year.

I am always willing to admit when I am wrong on a thesis. In fact, I find selling a security where I have made a mistake to be quite cathartic because it frees me from constantly thinking about a frustrating investment. I'm also accepting of weak performance from a company like CDON where the recent results were disappointing or Cirata where the significant underlying progress that I see has not become apparent in the reported numbers.

What I find frustrating is positions like Westwing where the datapoints have been positive and confirm the investment thesis, but the share price performance has been persistently negative and significantly damaging to fund returns.

While feeling frustrated is natural, merely complaining about the performance of a security is not useful. Instead, I must decide on the proper action when a stock is not acting how I expect it to.

When faced with this scenario, I thoroughly reassess the investment thesis. If any flaws are identified, then I look to sell the position. For example, during H1 2024, I exited a different investment at a loss upon realizing that management was not as aligned with shareholders as I had previously assumed.

Conversely, if I affirm the soundness of the thesis, I evaluate whether to increase the position. As a broad structure, I agree with the principles well-articulated by John Hempton of Bronte Capital in his blog post about adding to losing positions.<sup>1</sup>

In short, an investor shouldn't significantly increase a losing position in companies where the stock has a significant possibility of going to 0. These situations include bad balance sheets, business models with high operational leverage, or companies that face a risk of obsolescence.

Considering this framework, I evaluated whether it was appropriate to add more to our Westwing investment in H1 2024. With its robust balance sheet, flexible cost structure and alignment with secular tailwinds, Westwing qualified as a potential candidate for increased investment.

However, because Far View is constrained by limited capital compared to our potential investment opportunities, I still had to decide whether an additional investment in Westwing was our best available option.

I recently met with the Westwing CEO and CFO in Munich and continue to hold them in high regard. Unlike many peers in e-commerce, Westwing swiftly responded to industry challenges post-COVID, rapidly cutting costs and inventory orders. This prompt response streamlined the business and protected the balance sheet. While competitors have liquidated (Made.com), been forced into a rescue acquisition (Home24), or had to significantly cut their European investments (Wayfair), Westwing has been able to

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<sup>1</sup> <https://brontecapital.blogspot.com/2017/01/when-do-you-average-down.html>

invest in a new technology platform, expand into new geographies, and repurchase undervalued shares of the company's stock.

Looking ahead, Westwing has an attractive growing business supported by secular tailwinds as European home furnishing shopping continues to shift online. Because of this secular growth trend, weakened competitors, and a cyclical recovery in home furnishings demand, I expect strong mid-term revenue growth from Westwing.

Furthermore, Westwing's unique, content-led marketing strategy and emerging, high quality consumer brand allows the company to generate over 50% gross margins, driving previously demonstrated 10-15% EBITDA margins as the business regains scale.

I believe this combination of revenue growth and expanding margins will generate significant free cash flow (FCF). Based on my estimates, I expect WEW to generate ~€2 per share of FCF in FY 2027. At 15x FCF, that would suggest WEW is worth ~€30 per share, ~4x the current share price of ~€7.50 and a ~60% annual growth rate over the next 3 years.

While the recent performance of Westwing has been frustrating, I believe this decline is winding the spring of future returns tighter and tighter. I don't know when this potential energy will release, but I believe we will be strongly rewarded when it does. Accordingly, I increased Far View's investment in Westwing in H1 2024.

### **The Partnership**

In January, Far View transitioned our prime brokerage and custodian relationship to Velocity Clearing LLC and Goldman Sachs respectively. Despite some normal challenges during the transition, everything is now working smoothly, and we are enjoying our relationship with the Velocity/GS teams.

As a reminder, my interests are aligned with those of my limited partners because I am the largest investor in Far View and the fund represents the large majority of my net worth. Every decision I make is meant to maximize our likelihood of generating strong long-term returns.

Thank you very much for your trust and confidence and please don't hesitate to reach out if you would like to discuss Far View in greater detail.

Sincerely,



Brad Hathaway

Managing Partner

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