

Market Outlook

Despair to euphoria. Although Liberation Day was a mere three months ago, it already feels like an eternity. Artificial intelligence continues to command our attention, and at O'Keefe Stevens, we uncover fresh applications every day. If you have yet to integrate AI into your workflow, you may be surprised by its transformative potential. Anecdotes of AI errors overlook the broader paradigm shift. Yes, programs such as ChatGPT can make mistakes, so can humans. These programs are not intended to operate on autopilot (yet). Instead, adopt a "trust, but verify" mindset. The capacity to pose incisive questions about prospective investments accelerates our time to market dramatically. Discerning genuine insights from AI "hallucinations" is an essential skill for any investment analyst.

When Google first emerged, everyone believed they possessed the answers at their fingertips; today, we no longer scour articles in search of facts; we ask ChatGPT. For the past decade and a half, iPhone users have relied on the same four icons at the bottom of their screens: Messages, Phone, Chrome, and Music, though Spotify has largely supplanted Apple Music. Now, ChatGPT has assumed the role once held by Google. The strides made over the past year are extraordinary, yet we have only just begun to scratch the surface.

The first half of 2025 has witnessed a notable resurgence in two corners of the market: a sharp rebound in SPAC IPOs and the emergence of publicly traded vehicles devoted to cryptocurrency holdings. These developments underscore a renewed appetite for risk and innovation among investors. Speculators are always chasing that "high," and their preferred instruments evolve constantly.

After a significant surge in 2020–2021 and a sharp decline in 2022–2023, special-purpose acquisition companies (SPACs) are back in 2025. The recovery is clear in the numbers. In Q2 2025 alone, 44 SPACs went public, more than four times the ten SPAC IPOs in Q2 of the previous year. Year-to-date activity has already surpassed last year's pace: by mid-2025, 53 SPACs raised over \$9.5 B, compared to just nine SPACs raising \$1.2 B in the same period of 2024. Notably, in May 2025, there were 49 new SPACs, nearly matching the 57 SPACs for all of 2024, highlighting how dramatically the market has bounced back. Based on current trends, 2025's totals are on track to eclipse 2022, when 86 SPACs launched (the count reached 74 by mid-year, raising about \$14.7 B). Equally important is who is driving this comeback: around 80 % of 2025 sponsors have prior SPAC experience and successful post-deal track records, up from 56 % at the 2021 peak.

Big-name serial sponsors such as fintech pioneer Betsy Cohen and major financial institutions like Cantor Fitzgerald are fueling these blank-check vehicles, lending credibility to the revival. Deal sizes have also grown: most SPAC IPOs now price in a relatively narrow, higher range, often around \$200–\$250m, indicating that institution-backed vehicles dominate the market. It is no surprise that Chamath, the leading SPAC figure, has hinted at returning despite a social-media poll advising against it; he has signaled plans to launch another regardless. Intriguingly, two of his best-performing SPACs were those in which deals fell through and cash was returned to shareholders, raising questions about sourcing "dumb money." This contrasts with the smaller,

speculative SPACs of the previous cycle and underscores that deep-pocketed investors are once again willing to commit substantial capital.

The resurgence in SPAC issuance reflects shifting market sentiment and a willingness to embrace risk. Investors are eager for new listings despite SPACs' tarnished reputation in recent years. SPACs now account for nearly 38 % of all U.S. IPOs year-to-date, a remarkable comeback, even if still short of the 64 % share at their 2021 peak.

Bitcoin Holding Companies Go Mainstream

A parallel trend unfolding in 2025 is the ascent of publicly traded "crypto holding companies", entities whose principal business is to retain Bitcoin on their balance sheets. The poster child of this strategy, MicroStrategy (now "Strategy"), began accumulating BTC in 2020, and its bold wager has paid dividends. As of mid-2025, it holds over 214,000 BTC (\approx \$22 B at current prices) and has continued issuing equity to fund further purchases. Its share price has quintupled since embracing a Bitcoin-centric treasury and earning inclusion in the Nasdaq-100. This success has spawned imitators worldwide: what began as an idiosyncratic treasury experiment by a software firm has matured into a bona fide corporate playbook. Today, at least 126 publicly traded companies hold Bitcoin on their balance sheets, with a combined hoard of roughly 819,000 BTC, nearly 4 % of the cryptocurrency's fixed 21m supply.

Some adopters are Bitcoin miners (e.g., Marathon Digital, Riot Platforms) that naturally accumulate BTC and now elect to retain more of their production. Others are traditional operators, from Block (Square) and Coinbase to unexpected names like Semler Scientific, which in May 2024 redirected excess cash into Bitcoin and by 2025 had amassed thousands of coins, signaling conviction in crypto as a treasury hedge. Moreover, 2025 has introduced bespoke holding companies whose sole mandate is Bitcoin stewardship and yield generation. ProCap Financial, for instance, emerged via a SPAC-lender merger to hold Bitcoin in treasury and deploy it in lending and derivatives rather than traditional banking. Nakamoto Holdings similarly merged with an operating company, raising over \$50 m in PIPE financing to pursue an aggressive Bitcoin-only strategy.

These developments underscore that "Bitcoin on the balance sheet" has gone mainstream: enterprises can now raise hundreds of millions, indeed, billions, primarily to acquire crypto, and investors are all too willing to back them. Shareholders have rewarded pioneers like Strategy with outsized returns, demonstrating a collective preference for gaining Bitcoin exposure through public equities. What was once dismissed as speculative theater is now acknowledged by institutions and policymakers as a legitimate asset class for long-term corporate reserves. This normalization creates a virtuous cycle: as more companies allocate to Bitcoin, the practice gains further legitimacy, enticing a broader swath of retail and institutional investors to view crypto as an essential portfolio constituent.

Yet, a note of caution is warranted when novel financial terms proliferate. Consider metrics like "Bitcoin Yield", the year-over-year change in BTC per share outstanding, or anecdotes such as, "We sold \$1.5 B of equity backed by \$500 m of Bitcoin, repurchased \$1.5 B of BTC, and captured a \$1 B arbitrage." Many of these strategies employ zero debt: brilliant if Bitcoin appreciates indefinitely, but perilous if prices reverse. Eventually, Strategy may trade at or below NAV, and when market participants sense forced sellers, mercy is scarce, recall Soros's pound short. When the music stops, the outcome is anyone's guess.

New Positions

We added one new position during the quarter, Compass Minerals (Ticker: CMP). Never dismiss where an idea might come from. Waiting in line to get a smoothie and chatting with the guy behind you might be the most unconventional inspiration I've heard in a while. Right place, right time.

Compass Minerals

Compass Minerals is a leading producer of salt, plant nutrition, and specialty minerals. The company operates the Goderich mine, the largest salt mine in the world. Goderich's geographic advantage on the Great Lakes gives it a virtual monopoly in certain Midwestern municipalities, since salt's low unit value and high shipping costs make long-distance supply uneconomical. After several poor capital allocation decisions, including developing a lithium mine that was ultimately canceled due to increased regulatory risks, and acquiring a fire-retardant business that was recently shut down in Q1 because of poor testing results and the loss of a government contract, their historic dividend-focused policy shifted to a growth capex approach. In November 2021, the dividend was cut by 79% to fund these growth opportunities, but it was fully eliminated in May 2024 due to rising debt costs and weak performance in their salt business. Finally, on 9/6/24, S&P announced that Compass Minerals would be removed from the S&P 600 small-cap index. Finding situations where buyers and sellers are indifferent to price and forced to act regardless of fundamentals is a good strategy. We started purchasing Compass at the end of Q1 and throughout Q2.

In January 2024, Compass Minerals embarked on a clear strategic reset when Edward Dowling replaced Kevin Crutchfield as CEO. Under Crutchfield's leadership, the company's shares lost about 57% of their value (excluding dividends), as capital was invested in non-core ventures, from the ambitious but ultimately halted lithium-extraction project at the Great Salt Lake to the \$100 million acquisition of Fortress North America's fire-retardant business. Recognizing the need to regain shareholder confidence, Dowling has since eliminated these distractions, shutting down the unprofitable chemicals unit and refocusing the company on its two core businesses: highway-deicing salt and specialty sulfate-of-potash (SOP) fertilizers, adopting a "back to basics" strategy.

Compass's salt operations, which make up 83% of 2024 revenue, focus on two top-tier assets: the Goderich mine in Ontario, the largest underground rock-salt mine in the world with a nine-million-ton capacity, and the Cote Blanche facility in Louisiana, capable of producing 3.4 million tons annually and supported by Mississippi River barge logistics. These are complemented by evaporated-salt plants in Kansas, Saskatchewan, and Nova Scotia that supply food-grade and industrial salts, along with a U.K. rock-salt facility. The company's extensive depot network across eleven key markets, from Buffalo and Chicago to Detroit and Toronto, ensures reliable distribution to government, industrial, and consumer channels. Meanwhile, the SOP segment, making up 17% of revenue, utilizes a solar-evaporation brine facility at Utah's Great Salt Lake to produce about 350,000 tons of fertilizer under the Potassium+ brand, with global reach covering Latin America, Asia, and Oceania.

The centerpiece of the investment case is the company's 'back-to-basics' approach, which has already produced \$11–13 million in annualized savings from the fire-retardant exit and promises further margin boosts through disciplined capex. For 2025, capital expenditure guidance of \$73–80 million is well below the \$100 million of annual depreciation, creating a strong foundation for significant improvement in free cash flow conversion. A notable but underrecognized revenue driver further strengthens this operational discipline: a one-year deicing salt contract in Buffalo, New York. Initially valued at about \$6 million upon signing in September 2024, the agreement

was increased in February 2025 to roughly \$56 million at \$82 per ton, compared to the consensus assumption of \$69.50 per ton, indicating a potential 10–15% upside to Q2 2025 revenues alone. While this contract ultimately contributed minimal additional revenue as milder weather followed, it highlighted a broader issue in the salt-deicing industry: during winters with average or above-average snowfall, local suppliers often lack the production capacity to meet demand, driving higher salt prices.

Equally compelling is the chance to unlock significant working capital cash flow. As of March 31, 2025, inventory on the balance sheet was \$367 million (2.9 million tons); management projects this will fall to about \$270 million before the 2026 winter replenishment, freeing up nearly \$97 million in cash. Excluding a \$35 million receivable related to a product recall, accounts receivable balances are expected to decrease by another \$80 million over the same period. Together, these changes could generate roughly \$180 million of additional free cash flow in 2025, which can be used to address \$500 million of debt maturing in December 2027 and another \$465 million due by May 2028. Rapid deleveraging not only reduces refinancing risk but also supports credit rating recovery, an important goal after S&P's recent downgrade to 'B.' During the quarter, Compass announced the refinancing and reduction of its outstanding debt. Although there is still work to do, this is a crucial step toward easing leverage concerns, which was our main worry when we invested.

Beyond leverage issues, the volatility of winter weather can greatly influence salt demand and prices. Mild winters tend to shrink volumes and margins, while harsh winters can overwhelm logistics and drive up costs. The entry of a low-cost competitor, notably the planned Atlas Salt mine with projected production costs of \$23 per ton, could pressure regional pricing, especially in the Northeast corridor (although this mine is still in the discovery and engineering stage, it warrants watching). Regulatory changes, such as "Buy American Salt" mandates or cross-border tariff shifts, also pose challenges, but Compass's domestic production provides a natural hedge. Ultimately, disciplined execution of working-capital targets and timely refinancing or prepayment of upcoming maturities are key to realizing the investment thesis.

It's not a stretch to say this was the most in-depth research we have ever conducted. Having a geographic advantage compared to other market participants helps. Conversations with local distributors, competitors, trips to competitor mines, and discussions with other investors gave us confidence in the purchase. Every idea we consider, and potentially acquire, represents another chance to improve our investment process. Raising the bar each time becomes more challenging, but it's a challenge we are ready to take on.

Research Ideas

During the quarter, we published an update on LUCK, BGC, and a Write-up on Compass minerals.

Personal Note

During the quarter, my father, Dominick D'Angelo, passed away at age 61. I wouldn't be where I am today without his unwavering love. I'm thankful I could see him one last time during our trip to Lincoln, NE, to attend my sister's graduation at the University of Nebraska-Lincoln (Go Big Red). His impact on this world will live on for decades. His humor, smile, and willingness to always say yes are qualities I hope to embody. I love you, Dad.

Regards,

Dominick D'Angelo

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