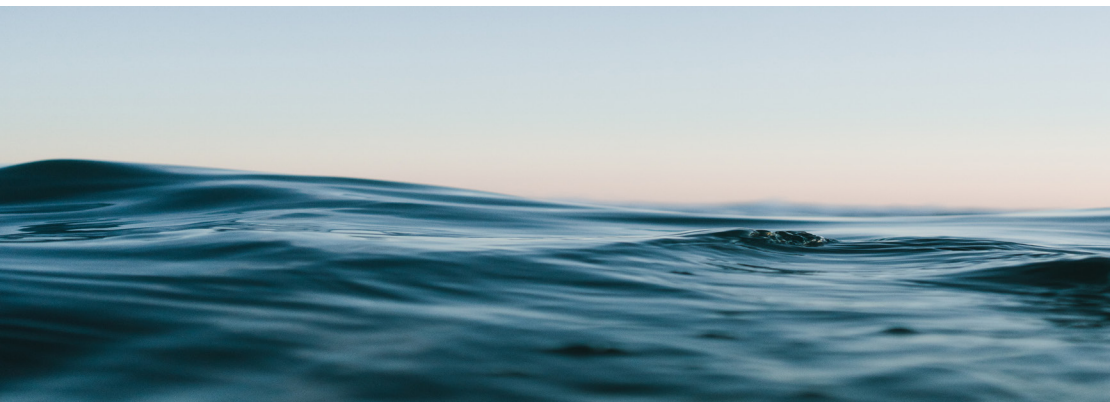


INVESTMENT COMMENTARY

Q2 2025 | AUGUST 7, 2025



Leaning Into Conviction

Quarter-end levels masked what was one of the most volatile three-month stretches in recent memory beginning with a steep selloff and ending with clarity around global trade that reset the landscape for evaluating businesses. Navigating the period demanded just as much interpretation of intentions and expectations as it did analysis of company fundamentals. Had President Trump followed through with the aggressive tariffs announced on “Liberation Day,” the U.S. economy would have faced unprecedented, self-inflicted headwinds. Either the market forced a reversal, or the tariffs were a calculated gambit to open trade negotiations. It remains unclear which answer is true, but what’s certain is that today there is more clarity on global trade such that conditions have become more manageable and quantifiable, creating firmer footing for valuing real businesses.

Through it all, our own mantra and theme has remained “leaning into conviction.” To that end, we had an active quarter, meaningfully increasing two long-held positions, exiting one, having one position bought out by a strategic acquirer, and entering three new investments. Given we spoke at length about the tariff and macro situation in our last letter, this quarter we will focus on the micro—our new investments, our recent exits and some lessons learned over the last few years. We noted that “Late March and

Commentary Highlights

NEW BUYS:

CRISPR THERAPEUTICS AG
PELOTON INTERACTIVE INC
WORKDAY INC

INCREASES:

ROKU INC
FEVER-TREE DRINKS PLC

EXITS:

PAYPAL HOLDINGS INC
ALPHAWAVE SEMI
VAIL RESORTS INC

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early April were among our most active periods...perhaps ever” and wanted to detail our moves and share some perspective as to why we made them.

NEW BUYS:

CRISPR THERAPEUTICS AG (NASDAQ: CRSP)

After commercial approval of Casgevy, CRSP shares traded over \$90. At their worst in the April crash, shares changed hands at \$30, a 2/3rd discount to their post-approval peak. The trade war would ultimately have a negligible impact on CRSP, but shares dropped nearly 30% in the Spring collapse. This made little sense to us, especially given the substantial cash balance the company has built with prudent financings along the way.

When we bought shares of CRSP, the company's Enterprise Value was below \$800m, boasting over \$1.8 billion in net cash. As the name would suggest, CRSP is a first-mover and leader in the Cell and Gene Therapy (CGT) space and the first to bring a life-changing gene editing therapy to FDA approval and commercial availability. For reference, CRISPR is a gene-editing technology that enables scientists to precisely alter DNA within living organisms by using a guide RNA and an enzyme (like Cas9) to cut and modify specific genetic sequences. We know the company well from following a basket of cell and gene therapy companies.

CRSP's management has excelled at balancing capital discipline with R&D ambition. Now, with a commercial product and arguably the strongest balance sheet in its space, CRSP is in an enviable position, affording the opportunity to lean into its pipeline, while competitors retrench to conserve cash. We believe the company will retain over \$900 million in cash by the time it turns cash flow positive. In essence, we're buying Casgevy at a steep discount and getting the pipeline and cash for free. This is one of the more asymmetric setups we've encountered.

PELOTON INTERACTIVE INC (NASDAQ: PTON)

Everyone thinks of Peloton as the pandemic darling stock whose fancy bikes turned into expensive clothing racks once the world went back to the office. Although there is some truth to this, at its core, PTON has become a cash-generative, \$1.6 billion recurring revenue business. Churn is higher today than it was during the pandemic, though it is at levels that most consumer companies would envy. Most importantly, the balance sheet is finally cleaned up thanks to the hard work of former CEO Barry McCarthy. This allows new CEO Peter Stern (from Apple via a brief stop at Ford), to focus the company on re-igniting growth rather than putting out fires.

There is an incredibly resilient, unique, and lucrative core brand and offering at the heart of the business. Peloton has earned both the right and the opportunity to win in the drive towards digital ubiquity within the fitness arena. In fact, many of the factors that made Peloton a pandemic darling remain intact today, centered around an extremely high satisfaction score (NPS), devoted customers with a cult-like following, and instructors who become role models (and in some cases celebrities) to their everyday users and fans.

The bike was uniquely well-suited for this style of digital content, given how closely the classes mimic the real-life experience of a Soul Cycle or new-age spin class. This success has not immediately translated to the treadmill or rowing verticals, but there are emerging signs that strength could be a massive opportunity for the company. This point cannot be understated given the clear trend, independent of age, towards hybrid style training (cardio & strength) over the last five years. The company boasts over two million unique members participating in the strength vertical. Both Lululemon (with their Mirror) and Google/Fitbit have abandoned their efforts to develop strength content and handed that responsibility to Peloton. Recently, Peloton started offering personalized training plans powered by AI that takes your fitness goals and preferred activities across cardio and strength to build users a customized training plan. Others have tried to create this as a standalone product - but none have the right to win like Peloton does given the seamless ubiquity they have created across their platform of products and offerings.

More than a fitness platform, Peloton instructors have earned users' trust as a go-to resource for both exercise and nutritional advice. This has been evidenced by the independent success prominent Peloton instructors have had in offering recipes, cookbooks, meal plans and general life coaching on their personal social media platforms. This position of trust and leadership is undoubtedly one Peloton itself can leverage in order to expand their offering beyond the core fitness class offering.

More tangible and relevant today, many companies cannot cut their way to success, while Peloton can. Riding high on the wave of COVID-era demand, management significantly increased the fixed cost base (a decision that has taken years to unwind). This not only created structural overhangs but also introduced perverse incentives. With the balance sheet under pressure, the company was driven to spend aggressively on marketing its equipment to move inventory and generate much-needed cash. With inventory right-sized, the company chopped marketing spend by nearly half with little negative effect on its ability to acquire customers. This has returned the company to a 2:1 LTV:CAC ratio, meaning Peloton is acquiring customers at better returns on investment than before. From this stronger base, the company can rationally and prudently rebuild this budget with disciplined investment. Over the coming years, this should translate directly to better ROICs and lower churn.

By highlighting strength and nutrition, we're contemplating a broader opportunity for Peloton: growth need not rely solely on adding new members. There is a chance to deepen the relationship with existing members by expanding the core value proposition. In that same vein, Peloton hasn't taken price since 2022, though there is room to do so as there is a widening gap between the value of Peloton for passionate users and the price they pay today. Management feared price hikes might inspire churn, but since 2022 considerable value has been added to the membership, by the aforementioned broadening of the strength vertical, adding yoga, barre and pilates classes, mindfulness and more. Management has been clear any membership price action would come alongside further advances in the value proposition and we respect this mindset of earning the right to raise price by enhancing the offering. A modest pricing action alone would be pure gravy to the bottom line and return the company to growth. We estimate a \$5 monthly price increase on the all-access membership would translate

to an additional \$130M+ in EBITDA. This takes into consideration an increase in marketing spend to offset some of the anticipated churn, which results in a historically low valuation on a proforma EBITDA number (sub 6x).

Peloton expects to do \$330-350 million of EBITDA and \$250 million of free cash flow this year. This year's free cash flow includes benefits from the final stages of inventory burn down and stock-based comp, so some might quibble about the quality; however, that translates to a 7%+ free cash flow yield, an 11x EV/EBITDA multiple and a 2.25x EV/Sales multiple. Next year, we expect the quality of cash flow to improve materially with a full year of savings on cost (showroom closings that continue to happen as leases expire and a lower headcount) and paring down expensive debt as cash flow rolls in. Over the next three years, the company can harvest 9 figures of annualized interest saving, that would see free cash flow rise to nearly \$500m, even absent any growth in the business. If either strength or nutrition manifest as true business opportunities, Peloton can muscle its way back to a more favorable valuation, well above what we have baked into our current model.

WORKDAY INC (NASDAQ: WDAY)

Workday is a company we followed closely for some time. The company offers mission critical software for human capital management—in essence, Workday powers the HR department of the majority of Fortune 500 companies and a growing cadre of small business. The company has been broadening its offering from the HR department to finance functions and is slowly but surely gaining traction. Although growth has slowed in recent years, revenues continue to compound in the double digits, powered by a combination of new logo wins and land-and-expand successes with existing customers.

Our foremost points of hesitation on Workday in the past had been a combination of valuation and questions about the company's willingness to drive margin. In early 2024, the company named Carl Eschenbach full CEO after having shared the job with one of the co-founders. Eschenbach seems far more keen on streamlining operations and driving margin progress, as evidenced by the early 2025 restructuring and continued progress on the margin front. This should allow double digit revenue growth to translate into considerably more earnings growth.

SaaS companies have fallen out of favor since the emergence of AI and this has led to continual multiple compression across the board. Workday is no exception. At the time of our purchase, shares were changing hands at 25x this year's expected EPS and 18x EBITDA and 17x free cash flow, with all slated to grow in the vicinity of 20%. At these valuations, our base case is that returns should follow the growth in free cash flow (i.e. a 20% CAGR), with the potential for the multiple to rerate more favorably as Workday proves its resilience to AI. Even more upside is possible if Workday reaccelerates growth, something we believe is more likely than not, though it need not happen in our base case for strong returns.

INCREASES:

ROKU INC (NASDAQ: ROKU)

Roku has been a wild ride for us. We first bought shares in late 2018, sold a few times along the way, but held onto a sizable position throughout the rollercoaster. We certainly learned some lessons about ourselves and our willingness to hold high valuations in order to spread a sizable tax hit over years (note: we will never tax derange ourselves into holdings through a valuation grind down again, as the market has a wicked way of reducing tax obligations as you wait). During the tariff crash, we meaningfully increased our position yet again.

Throughout the stock's ascent, bears argued that Roku would rapidly lose market share to competition from Amazon and Google—well capitalized, formidable competitors. These bears were right, but for the wrong reasons. Roku has actually increased its device and household share now covering over half of all households in the US; however, the company stalled in pushing ARPU due to a confluence of forces, many of which stemmed from a strategic, but reversible decision. Roku was trying to build a walled garden, leveraging their unique and proprietary customer data to pull advertisers into their own Demand-Side Platform (or DSP). Unfortunately for Roku, advertisers had paths to reach Roku's audience while working around the walled garden. For example, an advertiser could buy ads on Hulu, through a DSP like The Trade Desk and in doing so, avoid sharing a dime with Roku. This happened alongside a pullback in content companies chasing new audiences. During the pandemic, Roku's largest advertising pool—Media and Entertainment (M&E). These were dollars streaming companies spent to acquire customers and drive engagement. As content companies rationalized their own costs, this pool of ad dollars collapsed. Although Roku's overall ad revenue kept growing, it was far slower than before and came against a growing cost base.

Today, all these problems are largely gone and the company is once again on an accelerating growth trajectory. M&E revenue is a much smaller piece of the overall pie at Roku and has stabilized at lower levels. Management has been determined to monetize the platform in better ways, pulling more content into the highly valuable Roku Channel and building out more robust content recommendation engines. Meanwhile, the company abandoned its walled garden aspirations and opened up to programmatic advertising from the Trade Desk, FreeWheel and then Amazon (collectively, the vast majority of ex-Google advertising on TV). Moreover, Roku started sharing data in these relationships, which is a way to capture more of the economics from each ad sold through a DSP in exchange for offering far better returns to advertisers. Ultimately, this is a win/win. We remain convinced that US-based ARPUs upwards of \$100 will happen over time, as Roku improves their fill rates and viewing time continues to move from linear to CTV.

This was evidenced in a strong Q4 report in mid-February; however, the stock sold off daily as people feared what an escalating trade war could do to the stock. While markets viewed Roku as particularly vulnerable due to its reliance on China for TV manufacturing, we found reassurance in the strength of its installed base. A price shock that curtails new TV purchases also raises the barrier for competitors

seeking entry into Roku households, an overlooked silver lining. This dynamic, while a double-edged sword, tilted more positively than markets appreciated. At the time we added to our position, nearly 25% of Roku's market cap was held in net cash, and the stock was trading at a high-teens multiple of 2026 EBITDA, with platform revenue growth poised to accelerate into the high teens. Importantly, the company has made a commitment to generating GAAP operating profit in 2026, which both shows an appreciation for the need to generate value for shareholders, as well as a pronounced acceleration in incremental profit margins from here.

FEVER-TREE DRINKS PLC (AIM: FEVR)

Fever-Tree is the world's leader in premium mixers. Early this year, Fever-Tree announced a deal with Molson Coors that established a 50/50 partnership for Fever-Tree's US business. In striking this deal, Molson has provided profit guarantees from 2026-2030 based on the companies' mutual expectations for the business plan (which calls for a growth CAGR around 20% for 2025-2030). Alongside the partnership, Molson took an 8.5% stake in the company at an 835m GBP valuation and \$23.9m in cash for assets held in the US by Fever-Tree. With the proceeds, Fever-Tree commenced a share repurchase that will run through the end of the year. This support underpinning shares is invaluable for shareholders, knowing every day a portion of the shares that change hands will be swallowed by the company itself.

More importantly, Molson Coors is a phenomenal partner for Fever-Tree and will put to rest the greatest problems the company has faced over the recent past. Fever-Tree has built a sizable mixers business in the US, but the bigger potential has been held back by supply chain and logistical challenges. We had long mused that Fever-Tree would be better off in the hands of a global beverage company and this partnership is the best of both worlds. Molson will take over all supply chain, logistics and distribution in the US and the two companies will share all profits. Fever-Tree grew its US business by about 2.7x since before the pandemic; however, we believe the company made little to no profit in this key geography despite group-wide operating margins slightly north of 10%. Prior to the pandemic, group-wide operating margins were slightly north of 30%. With the Molson deal, synergies are obvious and a sharp inflection point in margins is near. The company has conservatively guided to a year of turbulence in onboarding their product to Molson's distribution and it will take a year to redomicile manufacturing to Molson's properties in the US, but eventually, when both key steps are complete, despite sharing profits with Molson, Fever-Tree should be able to get group-wise operating margins back up into the 20%, perhaps all the way back to 30%.

When we increased our position, Fever-Tree was trading at mid-teens multiple on this year's EBIT. If we assume margins can double simply by virtue of the Molson partnership, that reduces the implied multiple to the high single digits. This is astoundingly cheap for an industry-defining and industry-leading brand in a product with fairly recurrent consumption habits. Better yet, we think there is a very real opportunity for Molson to dramatically accelerate US sales growth. We went through a history of large beverage company partnerships with small ones (including other efforts in the Molson Beyond Beer division) and in many of the cases, sales double fairly quickly. The companies are jointly underwriting

to a 20% CAGR following a slow start in 2025, but the real-world is rarely linear and we think there is a decent probability of step-function change in sales from which the US business can continue to grow. In sum, we are buying a highly unique asset, at a very cheap valuation with the potential for something special.

EXITS:

PAYPAL HOLDINGS INC (NASDAQ: PYPL)

Looking purely at the fundamentals of PayPal between the reported financials and context on earnings calls, we would be buyers rather than sellers here. Unfortunately, someone in our orbit was the victim of a cutting edge financial hack that used AI voice mimicry in order to compromise several personal accounts, despite two-factor authentication enabled on each.

At the core of our thesis on PayPal was the notion that security is a moat. The systems Max Levchin first built at PayPal and invested in mightily over the years made PayPal one of the safest, most secure ways to shop online. We had believed in the single point of failure thesis and trusted that even if bad things happened, PayPal will use those lessons to learn and evolve.

Unfortunately, what we learned about PayPal security was concerning and left us wavering in the ability of the company to adapt and grow as the safest place to transact online. Given the centrality of security to our qualitative thesis, we could no longer stay convicted in the name.

ALPHAWAVE SEMI (LSE: AWE)

On the morning of “Liberation Day,” we thought it would be an outstanding start to the quarter for our portfolios as word spread that Arm approached Alphawave about a takeover and shortly thereafter Qualcomm formalized their interest with UK regulators in their own takeover attempt. The path to the deal was topsy-turvy at points, with numerous deadline extensions (per UK takeover law), but ultimately, on June 9th, Qualcomm agreed to acquire Alphawave for \$2.4 billion, or roughly 183 Pence/share at the time of the deal.¹

While the outcome was favorable, the journey was stressful. During our holding period, Alphawave had several days where the stock was down over 20%, including one where it was down nearly 50% for part of the day. Worse yet, there was a nearly three week stretch in 2023 where shares were suspended from trading entirely as the company was unable to complete its audit in time. This was a volatile holding with poor returns per unit of stress and there was a much better way to capture the bigger trend we wanted exposure to than by investing in Alphawave—we could have simply bought Broadcom (NASDAQ: AVGO). Stated simply, don’t buy something that COULD be great when you can own something that already IS, with similar macro exposure and a fair valuation.

¹ <https://investor.qualcomm.com/news-events/press-releases/news-details/2025/Qualcomm-to-Acquire-Alphawave-Semi/default.aspx>

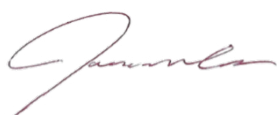
VAIL RESORTS INC (NYSE: MTN)

Had we known Rob Katz would return to Vail, we likely would not have sold our shares when we did. That said, we do not wholly regret this move and still do believe we will one day be shareholders of Vail again. This ski season ultimately did not go smoothly for Vail, with a self-inflicted, horribly managed PR crisis circus around the Park City Ski Patrol strike.² We didn't buy Vail expecting a turnaround but that's what it became. Our exit reflected opportunity cost and a desire to step back while the company sort-ed through reputational and operational issues. With Katz, the architect of the multi-mountain pass, back at the helm, we're watching closely and remain open to re-entering in the future.

CONCLUDING THOUGHTS:

As we pass the halfway point of 2025, we feel energized by the positioning of the portfolio. Life sciences, a challenged segment, is beginning to show early signs of momentum. Our large-cap tech holdings remain steady, and we've uncovered new opportunities with asymmetric return profiles. The balance between value and growth feels right, and we're leaning into conviction where the risk/reward skews in our favor. We remain disciplined in our underwriting, focused on businesses with durable advantages and strong balance sheets. The backdrop continues to shift, and while volatility persists, it also creates opportunity for active managers willing to dig deeper and act decisively when the odds are favorable.

As always, we're grateful for your trust. If any of the themes or ideas we've discussed raise questions or spark thoughts about your own portfolio, we'd welcome the conversation. You can reach either of us directly at 516-665-1945 or through our individual contact lines below. These are the kinds of environments where active management can truly add value, and we're excited about the road ahead.



Jason Gilbert, CPA/PFS, CFF, CGMA
Managing Partner, President

O: (516) 665-1945

D: (516) 665-1940

M: (917) 536-3066

jason@rgaia.com

✕ [@jasonmgilbert](https://twitter.com/jasonmgilbert)



Elliot Turner, CFA
Managing Partner, CIO

O: (516) 665-1945

D: (516) 665-1942

M: (516) 729-5174

elliott@rgaia.com

✕ [@elliottturn](https://twitter.com/elliottturn)

² <https://snowbrains.com/why-ski-patrollers-at-park-city-initiated-the-biggest-ski-patrol-strike-in-history/>