

Atai Capital Management

Q3-2025 Letter

Atai Capital experienced a gain of 10.7% in the third quarter net of all fees. This compares to a 8.1% gain for the S&P 500, a 12.4% gain for the Russell 2000, and a 17.0% gain for the Russell Microcap for the third quarter of 2025.

	Atai Capital	Russell Micro	Russell 2000	S&P 500
Q3-2025	10.7%	17.0%	12.4%	8.1%
YTD	43.3%	15.7%	10.4%	14.8%
Since Inception	84.0%	43.9%	44.0%	81.3%
Annualized	24.9%	14.2%	14.2%	24.2%

While I am pleased that we have continued to deliver returns significantly ahead of our benchmarks year-to-date, it is essential to apply the same long-term perspective over all short-term periods, both good and bad. As you know, our concentrated Micro and Small-Cap strategy will naturally diverge from market indexes at times. We should therefore anticipate periods of both outperformance and underperformance, sometimes significantly in either direction.

Portfolio Commentary:

The portfolio's top contributor for the quarter was BK Technologies Corp ("BKTI"), which is a position I have not mentioned previously, and we'll cover in more detail shortly. Other notable contributors included Bel Fuse and an undisclosed position. Detractors for the quarter consisted of a large undisclosed position and AstroNova. As mentioned in prior letters, partners who want to learn more about our large undisclosed positions are encouraged to reach out to us.

During the quarter, we trimmed our largest position (undisclosed) as it approached our sizing constraints. Additionally, we added to BKTI and the undisclosed large detractor mentioned above, and started a new mid-size position.

Our cash position has continued to increase since I last wrote to you all, and we continue to actively seek new ideas, with several promising prospects in the pipeline. However, we would not describe the U.S. markets as fertile hunting grounds today, and our hurdle rate remains higher for overseas investments. As of writing, ~58% of our portfolio consists of businesses with market caps below \$500M, and our top five positions make up ~58% of the portfolio.

BK Technologies Corp. ("BKTI"):

Despite BK Technologies' share price appreciating significantly over the last eighteen months, we believe it still offers investors the opportunity to own a good business led by an exceptional operator at a more-than-reasonable price. We have been shareholders of BK for over a year and see striking similarities between this investment and one of our most successful holdings, Bel Fuse. Much like Bel Fuse's transformation under Farouq Tuweiq, BK Technologies has undergone a significant step-change under the leadership of CEO John Suzuki.

BK manufacturers Land Mobile Radios (LMRs), and their customers are primarily Fire and Police Departments. The industry itself is essentially an oligopoly dominated mainly by Motorola, with high barriers to entry driven by "mission-critical" stickiness and a "If it isn't broke, don't fix it" mentality. These radios are frequently used in first-responder, harsh, and dangerous environments, so they can't afford to fail or stop working under those conditions. This dynamic helps create immense brand loyalty, and customers are generally price-insensitive since they are very reluctant to change what already works. For example, BK took a 5-10% price increase this year and saw no decline in demand; likewise, Motorola takes prices nearly every year, and as newer models roll out, they typically come in at higher price points. Additionally, there is an almost cult-like following for LMRs, with several reviews of BK's products readily available online. Turns out it is not easy to make a well-tolerated and liked LMR, who would have thought? Luckily, we haven't heard any thesis-breaking critiques of BK's products, and they usually hold up very well compared to Motorola's. Furthermore, their performance over the past two years alone supports the idea that BK makes a more than solid product capable of taking market share from incumbents despite stringent brand loyalty and the potential switching costs/risk.

John Suzuki joined BK in 2021 after leading EF Johnson Technologies (a competitor of BK's) for 4 years, during which he more than doubled their revenue while reducing overhead. John possesses many of the characteristics we look for in a CEO: he is honest, long-term oriented, and has a history of under-promising and over-delivering. A prime example of his long-term orientation occurred shortly after he joined the company when he was assured that BK's flagship multi-band radio, the BKR 9000, would be ready for launch by year-end. However, upon realizing the product was not up to his standards and thus not ready for market, he decided to delay the rollout until 2023 rather than release a mediocre product. Then, in early 2023, he suspended the company's dividend to reinvest excess capital into the business. These sorts of decisions are usually difficult for public company management teams to make. Still, they were the right decisions, and they are now bearing significant fruit for the company and its shareholders. Gross margins have expanded from the low twenties in 2022 to over 50% today, and revenues have essentially doubled from pre-COVID levels and are accelerating. However, despite these staggering improvements, we believe BK & John still have a significant opportunity ahead of them and are likely just getting started.

The thesis here is relatively simple: BK has historically held around 90% market share in the wildland fire market, but they've always struggled to grow beyond that niche. However, with the launch of their BKR-9000 multiband radios, they have been successfully branching out into new verticals. This does take some time, though, and BK is currently in its "land-and-expand" phase – there is a lot of word-of-mouth marketing in this industry, so getting the product into as many hands as possible is essential. So, how has BK been taking share? Well, despite BK's 9000 series radios boasting 60%+ gross margins, they are priced at just half of Motorola's products for the same core capabilities, which makes BK's products an attractive alternative to Motorola for smaller tier 2 and tier 3 counties with less substantial funding than larger tier 1 counties.

To put the opportunity into perspective, the company estimates it holds just ~3.5% market share today, a significant portion of which is still derived from their “legacy” wildfire business. Management has set a long-term goal of reaching 10% market share, and we believe BK has substantial runway to achieve this through a combination of continued share gains and price increases. Furthermore, the pricing lever here should not be overlooked. While we expect BK to take price alongside competitors in the near term as they execute their “land and expand” strategy, it is important to point out the long-term margin implications of price increases. Much like our investment in Turning Point Brands, whenever BK eventually raises prices, the incremental dollars from those increases will flow through to the bottom line at an incredibly high rate.

If BK were to achieve its long-term goal of 10% market share, the business would generate approximately \$230 million in revenue. Crucially, we believe the gross margins on this revenue profile would significantly exceed 50%, as the majority of that incremental growth would be driven by the high-margin BKR 9000 and the soon-to-be-released BKR 9500 (a partner radio to the BKR-9000 that already has willing buyers and will be sold to existing users of the BKR-9000). On a slightly lower revenue base of \$200 million, we believe BK could generate \$40M-\$50 million in UFCF as the incremental margins here are very significant. Furthermore, we do not view their 10% market share goal as moonshot optimism or unattainable. This is a management team with a proven track record of substantially under-promising and over-delivering; we don't believe they would set a target they viewed as unrealistic.

Applying a 15x-20x multiple on \$45M in UFCF gets us to a \$190-\$250 share price before any credit for incremental cash gen compared to a share price of just \$65 today and an enterprise value of \$220M. Ultimately, we don't need them to hit their market share target in a shorter timeframe, such as 3 to 5 years, for this to be a successful investment. Even if we were to assume a far more draconian scenario – where it takes them a decade to reach \$200 million in revenue, the IRRs from today's price remain attractive when factoring in the significant cash they would generate over that period. Whether it happens fast or slow, the potential destination here appears to be worth considerably more than the current price of admission, which we estimate at just ~15x their current run-rate UFCF of ~\$14M.

Our First “Pitch Deck,” If You Can Even Call It That:

I have never viewed Atai Capital as a product to be “sold.” To me, aggressively selling unguaranteed future returns creates a fundamental misalignment from the start and feels immoral. This is partially why I have committed to closing the firm to new outside capital once we reach \$50M in AUM, and also why I chose not to market myself until I had a track record that I could be proud of. While capping our AUM ensures we maintain our large investible universe and protects our partners growth runway, it also serves as tangible proof that Atai Capital is not designed to be an asset-gathering machine. Ultimately, my objective is not to appeal to the

masses, but rather to attract a select few like-minded investors who would like to compound their capital alongside us for the long haul.

For those interested, you can view our “pitch deck” [here](#). However, consistent with the firm’s ethos, please do not expect a flashy, overly professional, institutional-style deck. My goal with the deck is to provide a very high-level overview of the firm, our terms, and our track record, in the hope that it sparks a conversation with the right partners. In my view, the most effective due diligence a prospective partner can do is to read our past letters. Understanding how I think, and how our returns have been generated over the past three years, is far more important than looking at our overall returns, a single letter, or this boring pitch deck. The only thing that matters for existing and prospective partners is the go-forward and what decisions I will make in the future.

Conclusion:

As of writing, the market has remained relatively flat post-quarter, and while our cash position has grown significantly, I remain optimistic about the portfolio’s prospective returns here. However, as mentioned previously, we remain in no significant rush to deploy our remaining cash, and the bar for entry into the portfolio will remain higher than usual.

As a reminder, we are open to new clients, and if you know someone who might be a good fit, please feel free to pass along my contact information.

As always, I am humbled by and grateful for the opportunity to invest your capital alongside my own, and I will continue to make every effort to compound that capital at attractive rates.

Cordially,

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“People will hear a tip on the bus on some stock, and they’ll put half their life savings in it before sunset, and they wonder why they lose money in the stock market.”

– Peter Lynch

Disclaimer:

This letter expresses the views of the author as of the date cited, and such views are subject to change at any time without notice. The information contained in this letter should not be construed as investment advice, and Atai Capital Management, LLC ("Atai Capital") has no duty or obligation to update the information contained herein. This letter may also contain information derived from independent third-party sources. Atai Capital believes that the sources from which such information is derived are reliable; however, Atai Capital does not and cannot guarantee the accuracy of such information. References to stocks, securities, or investments in this letter should not be considered investment recommendations or financial advice of any sort.

Any return amounts that are reported within this letter are estimated by Atai Capital on an unaudited basis and are subject to revision. Atai Capital's returns are calculated net of a 2.00% annual management fee and reflect a client's performance who would have joined the firm on its inception date (01/03/2023). Actual Individual investor returns will vary based on the timing of their initial investment, the impacts of additions and withdrawals from their account, and their individually negotiated fee structure. Atai Capital believes showing returns net of a 2.00% management fee better reflects actual performance as of 12/02/2025 since no account that Atai Capital currently manages is charged a fee more than the stated 2.00% management fee. Past performance is no guarantee of future results.

All statements, opinions, and analyses expressed in this letter regarding AstroNova are solely the author's own and are based exclusively on independent research of publicly available information.

Index returns referenced in this letter include the S&P500, Russell Microcap, and Russell 2000. Atai Capital's returns are likely to differ from those of any referenced index. These returns are calculated from the respective provider's websites, spglobal.com for the S&P500 and ftserussell.com for the Russell Microcap and Russell 2000, and include the reinvestment of all dividends in both cases.