HAYDEN CAPITAL

QUARTERLY LETTER

2021 | Vol.3

HAYDEN CAPITAL

1345 AVENUE OF THE AMERICAS
33RD FLOOR
NEW YORK, NY 10105
HAYDENCAPITAL.COM

November 14, 2021

Dear Partners and Friends,

I absolutely love this business. As investors, we're getting paid to understand how this world is changing. And with the world / technology evolving at an ever rapid pace, it's a great field for those who get bored of being siloed into just one role day-to-day, and would rather use their insatiable intellectual curiosity / drive to keep diving into new areas that fascinate them. Among these individuals, there are a very lucky few who are able to cultivate partners who trust them, and launch investment vehicles to allow these partners to come alongside on this journey.

Time Period	Hayden (Net)[1]	S&P 500 (SPXTR)	MSCI World (ACWI)
2014[2]	**(4.9%)**	**1.3%**	**(0.9%)**
2015	**17.2%**	**1.4%**	**(2.2%)**
2016	**3.9%**	**12.0%**	**8.4%**
2017	**28.2%**	**21.8%**	**24.4%**
2018	**(15.4%)**	**(4.4%)**	**(9.2%)**
2019	**41.0%**	**31.5%**	**26.6%**
2020	**222.4%**	**18.4%**	**16.3%**
1st Quarter	1.3%	6.2%	4.9%
2nd Quarter	17.9%	8.6%	7.1%
3rd Quarter	(2.8%)	0.6%	(1.3%)
2021	**16.1%**	**15.9%**	**10.9%**
Annualized	**31.6%**	**13.7%**	**10.1%**
Total Return			
1 Year	**41.7%**	**30.0%**	**26.9%**
5 Years	**460.7%**	**118.3%**	**86.5%**
Since Inception	**562.9%**	**141.6%**	**93.8%**

1 Hayden Capital returns are calculated net of actual fees directly deducted from client accounts, for the period from inception (November 13, 2014) to December 31, 2020. Starting on January 1, 2021, reported performance is reflective of a representative account, managed in accordance with Hayden's strategy with no client specific investment guidelines or limitations, made no subsequent investments or redemptions, and remains invested. The representative account paid a management fee of 1.5% and incentive fees of 0%. Clients who elect the performance fee option for their accounts may pay higher fees and therefore realize lower net returns, during years of strong investment performance. Individual returns may vary based on timing of investment and your specific fee schedule. Performance results are net of expenses, management fee and incentive fees. Past performance is not indicative of future results.

2 Hayden Capital launched on November 13, 2014. Performance for both Hayden Capital and the indexes reflects performance beginning on this date.

I sometimes tell others that running an investment firm like Hayden, is like going on an expedition… you may have a vague goal of what you hope to find, and it may take years before discovering anything new (if at all). The exact journey, timeline, tools and skillset you'll need, the unexpected discoveries you find along the way – you just don't know, until you embark[3].

Similarly, to finance the expedition, you'll likely need to find aligned backers, who chosen correctly, will also make the journey is much more fun. These partners first must share the foundational vision for how and why we're all doing this in the first place (i.e. they can't create friction to the process), and it requires a certain adventurous type[4]. But if that's in place, then they tend to be emotionally invested in the outcome themselves, and thus want to provide the resources for the vehicles, teammates, recommendations to resources, and even act as "tour guides" at certain points along our journey[5]. By cultivating such partners, our odds of succeeding are increased due to the quality of resources and manpower, which benefits everyone involved.

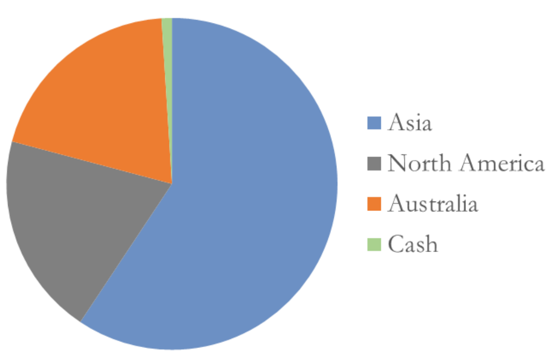
We never know where our own journey's going to take us – which is why despite our specialization in consumer internet in US & Asia, our official mandate remains wide-open. We don't know where the greatest opportunities will lie in 10 – 20 years. We can only prepare ourselves with the skillsets to be ready for wherever the road may take us.

For example, our newest investment in Coinbase (discussed below), was in-line with this mentality. We were open-minded enough to recognize a unique business model that fit squarely among our existing skillsets (a marketplace / exchange business model, that's also at the forefront of cultural change), despite operating in a land foreign to us (the crypto landscape required new learnings on our end, aided by some help from some expert "tour guides" in our network).

As we cross $100 million in AUM, I'm very proud of both our internal and external partners, who have helped us on this expedition over the years with their open-mindedness and desire to succeed together. Hopefully we're just starting, and will have many more journeys (i.e. new investments) to make together over the years.

Geographic Allocation %

As of September 30, 2021



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[3] Especially as we're investing on the frontiers of change and evolving consumer behavior.

[4] Unfortunately, there are still some investors out there who think that by writing a large check, they can dictate the destination of the expedition, how we get there, or the teammates we should bring onboard. This never works – it's always better to never let these potential partners onboard in the first place – countless expeditions have ended in disaster because of mutiny and conflicts of opinions. It never works out for either side.

[5] We're lucky, as we often have partners that happen to be entrepreneurs or investors in areas that we're interested in, and thus have an existing knowledge base, data and network of contacts for us to tap into – in a way, acting as a guide for us to ramp up quicker in a new field.

During the third quarter, our portfolio declined by -2.8%. This brought our year-to-date return to +16.1%, versus the S&P 500's +15.9% and the MSCI World's +10.9% return. Our annualized return is now +31.6% since inception.

Much of our portfolio is invested in Asia, at ~59% of the total. Australia makes up ~20%, North America at another ~20%, and the remainder is in cash.

Internet Culture

Seemingly like everyone else on Earth, I watched Squid Game this quarter. In fact, over 111 million households joined me in watching the show within a few weeks of its release, making it Netflix's biggest series of all time (LINK). But what's even more surprising, is its global appeal – it was the top Netflix show across 90 different countries, despite being entirely in *Korean* (a country of just ~52 million people).

So how the heck did this happen? And would this have been imaginable even 20 years ago, in an American-centric pop culture world?

It used to be that US content was the only game in town. With one of the largest, most affluent populations, and also the birthplace of the film & tv industry, most content was (justifiably so) produced for US consumers in previous decades – and citizens of other countries didn't have many other options if they wanted entertainment. This (along with other forms of US Pop culture, like music), led to the idolization of American culture, and helped promote America's "soft power" worldwide.

However, that's changing with the internet and technology. Nowadays, anyone can produce content with a decent smartphone and some free editing software. It used to be that getting your content in front of an audience required a studio's backing, getting scarce airtime on TV or in cinemas, and marketing dollars to advertise. However, Netflix, Youtube, and TikTok have made this previous "scarce resource" of distribution a meritocracy via algorithmic discovery.

Nowadays, the scarce resource is on the *quality of content* itself (with discovery algorithms, collective views, and audience ratings helping to filter through this flood of content).

On top of this, viewers are increasingly open to content from outside the US. For example, Netflix stated that even 97% of American subscribers have now watched a non-English title in the last year, and non-English total viewership has increased +71% since 2019 (LINK).

All these ingredients coming together, means we're going to see the barriers to cultural distribution are broken down, and we'll see more voices and diverse viewpoints coming from other non-US cultures. The inevitable side-effect is that individuals who view this content, may discover that they have more in common with someone from the other side of the world, than even their physical next-door neighbors.

We're already starting to see it in other forms of culture – whether it's music (K-Pop), gaming (Free Fire, Genshin Impact, etc), or even luxury high-fashion (a traditionally European-centric, dogmatic group):

"A lot of people now call Louis Vuitton a Franco-Chinois brand, the influence of Asia has been so huge… Take small charms that you now see all over the world on handbags — those didn't exist in the West. They were a purely Asian phenomenon. Louis Vuitton has probably now made a profit of $500 million just on those charms, and generates 70 percent of growth from Asia… And be it from West or East, the best is what will sell."
- *Ravi Thakran, Group Chairman at LVMH Asia ([LINK])*

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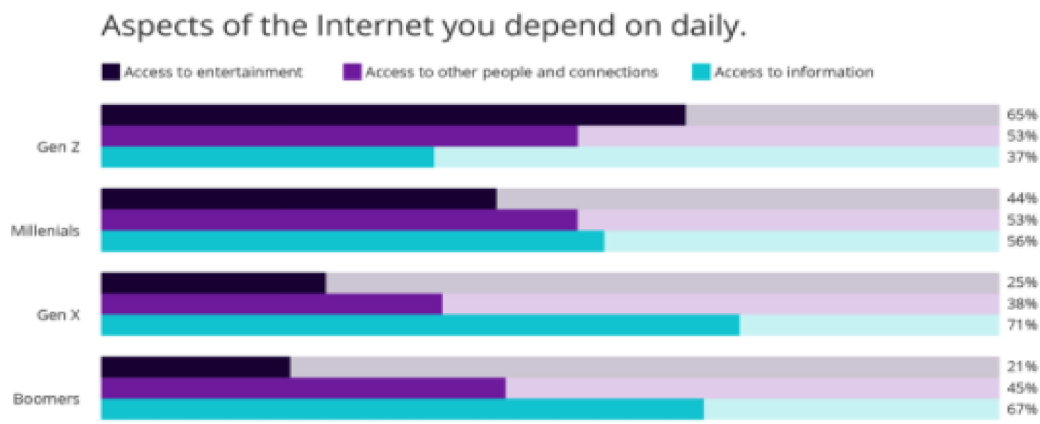
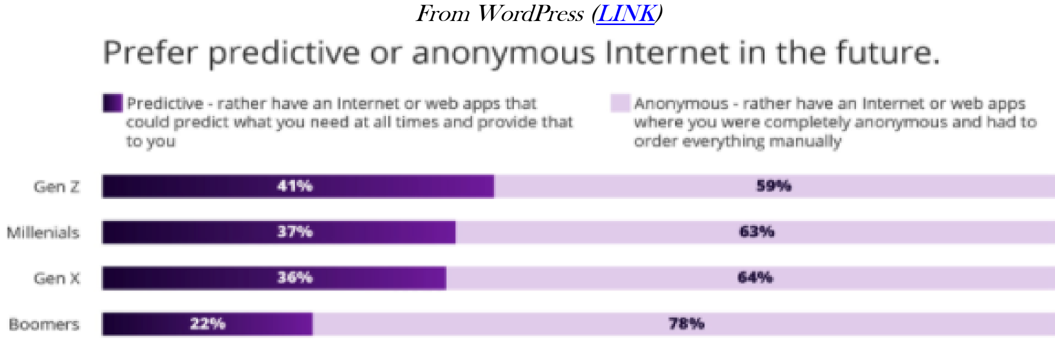
The reason this is important, is that our cultural consumption (and even way of thinking) is increasingly influenced by what we see online. And as the US loses its strangle-hold on pop culture, this "internet culture" will be evermore global. Physical geographic boundaries no longer define a culture – what Discord groups you're in and what brands you (or your digital avatar) rep do.

Among Gen-Z (6 - 24 year olds), 65% of respondents in a recent survey said they rely upon the internet for daily "access to entertainment" (i.e. pop culture). This compares with just 25% among Gen-X (41 – 56 year olds) and 21% among baby boomers (57 - 75 years old).

Internet Consumption, by Generation
From WordPress ([LINK])



Predictive > Anonymous Increases with Youth
From WordPress ([LINK])



Additionally, these younger consumers have a stronger willingness vs. previous generations[6], to trade their personal information (search / viewing / shopping behavior, demographic data, etc.) in exchange for better recommendation algorithms that make their lives easier via filtering the vast amount of content online, and accurately predicting what they might like.

Importantly, these algorithms don't care about geographic boundaries – only that you'll resonate with the content and thus keep coming back to the platform (for example, see how Tik Tok's algorithm works: LINK). This is the basis for "internet culture" (or more specifically, multiple "cultures") – where communities are based on common values, more so than birthplace.

It's why when I speak to younger generations in Thailand, Korea, China, the US, they all seem to follow the same pop icons, influencers, brands, etc. – despite these cultural icons themselves coming from many different countries.

At the same time, younger generations who grew up with the internet, are unsurprisingly lacking (perhaps uninterested?) in real-life connections. Whatever the reason, surveys indicate that Gen-Z is the loneliest yet:

"A 2018 Cigna Health study found Gen Z reports the highest levels of loneliness than any other age group, and mental health among young people today is reaching a crisis point.

It's largely this sense of loneliness and a deep craving for meaning and connection that are behind growing trends around self-care, astrology, music festivals and which musicians top the charts." (LINK)

With this sense of loneliness, they're turning to the one place they feel most comfortable and know for certain they can find communities like themselves – the internet:

"About 60% of Gen Z said online community support is very important to them, compared to only 48% of all other generations. Compared to Baby Boomers, Gen Z is 22% more likely to feel their online community better understands their passions than their family or friends and 20% more likely to enjoy the company of an online community more than those around them in real life." (LINK)

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This social trend is going to have big implications for how companies operate and organize themselves.

First off, companies who can "speak the same language" as these communities, will find it easier to expand into new countries, compared to brands from previous generations. Since these internet cultures transcend borders, there will always be citizens of these "online countries" wherever they launch.

For example, one company that's doing a phenomenal job of this is Shein, the ultra-fast fashion retailer from China.

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[6] Admittedly it's still just 41%, which is less than majority.

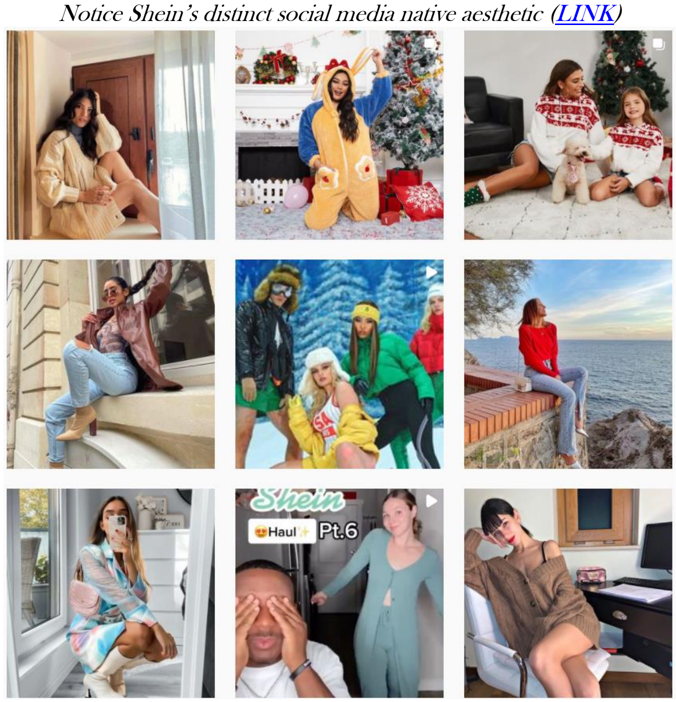
Shein for example, rose the ranks by tapping into the community of social media conscious, young female buyers, who desired a way to affordably rotate their wardrobe into the hottest fashion at a cheap price (often at 50% cheaper than Zara). Since this community lives primarily on Instagram and TikTok, that's precisely where Shein focused its efforts.

If you look at Shein's Instagram page for example (LINK), the aesthetic is distinctly social media native. The models come across as authentic, relaxed, sexy, and could easily pass for an influencer taking selfies while going about their day-to-day. In fact, many of these models are in-fact real-life influencers. Compare this to Zara's Instagram page, which looks more like it's out of an early 2000's magazine spread, utilizing professional models.

The internet allowed a group of millions of young, female, social-media and fashion conscious consumers to come together and form a community online – unbounded by physical country borders. By simply speaking the same language, Shein was able to tap into this community and expand their business on a global scale quickly.

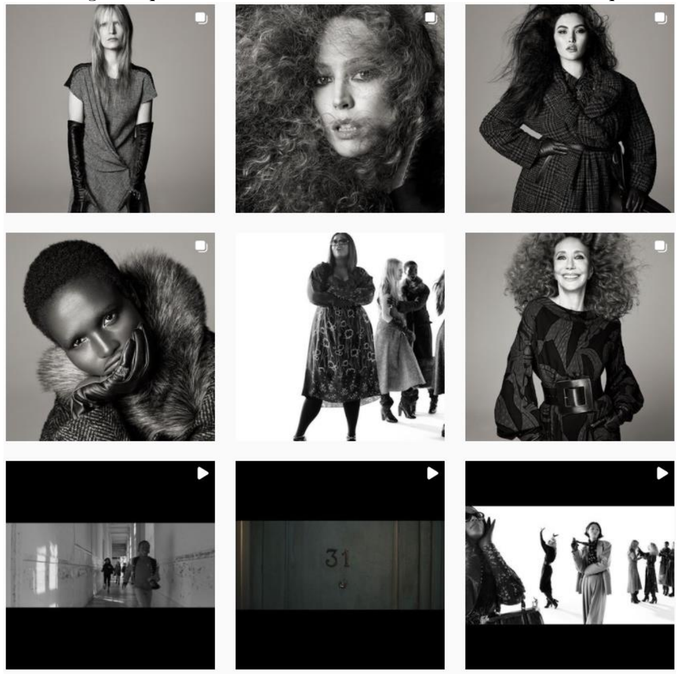
Instagram Aesthetic – Shein

Notice Shein's distinct social media native aesthetic (LINK)



Instagram Aesthetic – Zara

Zara's marketing uses professional models, in a more fashion-forward, polished look



Today, Shein is one of the top 5 shopping apps in 100+ countries, and ships to 220 countries in total. It's already one of the most talked-about brands on TikTok, Youtube and Instagram. By tapping into social media, a Chinese headquartered company (that has zero sales in China), has managed to conquer the world, grown at triple-digit annual growth rates for much of the last decade, and as of 2020 did ~$10 billion in sales (LINK).

By tapping into this online community and understanding its culture, Shein is on track to surpass the king of fast-fashion, Zara, within just a couple of years.

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Another prime example of this, is the streetwear brand Supreme. The brand is an OG in this space - first launched in New York almost three decades ago, way before the days of Instagram or Youtube. But similar to Shein, they understood the language of their target community, and was already collaborating with relevant cultural icons like musicians and actors early on. In addition, they collaborated with luxury fashion houses, to boost their own brand image.

As opposed to trying get someone to *buy* Supreme, they instead focused on getting the right, influential communities to *want* Supreme. They integrated with art and culture to a degree that no other brand had before them, and cultivated this "wanting" by popularizing drop-culture – limited releases of products – which frequently resulted in lines of people waiting overnight, for the latest drop, in front of Supreme stores worldwide.

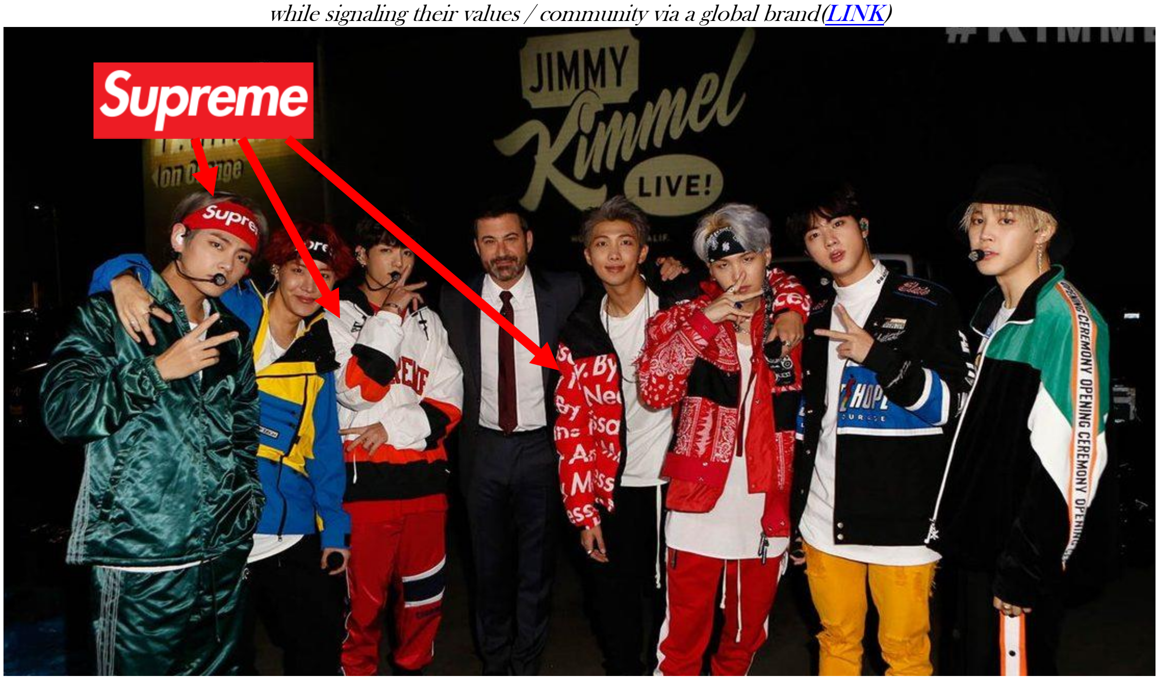
This combined with the brand's fun and free-spirited nature, which differed from the "conservative / up-tight" image of traditional fashion houses of the time, resonated with these young consumers. Supreme built cultural "street-cred", something intangible that's hard to replicate.

But after two decades of perfecting this strategy, it was really the internet & social media that made Supreme break-out. This FOMO strategy went gangbusters in the age of social media, where images of these long lines, and celebrity pictures of them toting Supreme created intense mimetic desire for the brand. For a brand that built its DNA on scarcity, and authentic messaging to a community (which in turn, signaled status / values by wearing the logo), the virality of the internet spread desire for the brand worldwide.

With social media, internet users were already familiar with the Supreme brand and what it stood for, even if the closest store was thousands of miles away (which ironically drives even more demand, because it likely meant no-one else in their real-life friend groups had them).

BTS Wearing Supreme On Jimmy Kimmel

Perfect example today's world: Korean musicians, who are popular on US media (Jimmy Kimmel), while signaling their values / community via a global brand(LINK)



Today, Supreme is one of the most coveted brands in every single country. With only 12 stores globally, the brand is already valued at $2.1BN (LINK). I have no doubt that as they open stores around the world, they'll see similar demand wherever they go.

On a personal level, I've seen younger consumers wearing Supreme in essentially every single city I've traveled to. Whether it's Jakarta, Shenzhen, London, or New York, I can instantly recognize the brand and have an idea of the values the wearer represents. This is a not just a brand, it's a "tribe".

Note: the recent phenomenon of "NFTs" in the crypto space is another great example of this, but in a purely digital format.

As people move to living their lives more online than offline, the brands you wear will be in the form of a profile picture or digital avatar (luxury fashion houses are all planning / already have launched NFT's for that reason; LINK).

The value of these brands lie in the values / social signaling, not in the raw fabric itself. By owning a Cryptopunk or Bored Ape (both going for $150K – millions of dollars, and have scarcity value), you're making a statement about who you are and what values you represent. In fact, arguably, access to the exclusive community / private events / Discords of these groups is more valuable than the JPEG itself. By owning one, you're now part of the same "tribe", regardless of where you are physically in the world.

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Lastly, this generational mindset shift may also has implications for how companies are organized.

It's well-publicized by now that younger workers care about the social values of the companies they work for, as much as their financial compensation. Because of the aforementioned desire for community, they're seeking a place to work where they feel that their values are represented, and a community that is similarly minded. No longer are work and personal values separate.

And in a world where the valuable aspects of companies are human capital based, rather than financial or equipment / asset based (see our Q3 2017 investor letter; LINK), keeping these employees happy is more important than ever.

At the end of the day, knowledge / human capital-based businesses are just groups of people, who come together under a formal structure (a corporation), to work towards solving a common problem in the world. This is essentially every internet company in the world.

As employees increasing blur the lines between work & personal lives (i.e., remote work), want to work for companies & on problems that represent their personal values, and seek a common community, I think we're going to see more innovative models of the corporate organizational structure itself, in an internet-native model.

For example, one possible iteration of this is DAOs (or Decentralized Autonomous Organizations; LINK). These DAOs are collections of people, who are loosely related and sometimes anonymous, but all sharing a common vision and choosing to work on a certain problem because of its importance to them.

Instead of employment contracts, these "freelancers" work on the projects according to their own time and abilities. Instead of a salary, they may be rewarded instead by receiving crypto tokens from the organization (similar to stock, but may have different rights) or even just the appreciation of their already held tokens as the project they're working on becomes more valuable due to their efforts.

At the end of the day, when you invest in a human-capital business, you're investing the collective talent and time of a group of people – investing in a traditional corporation or DAO isn't very different at its core. DAOs are just a purer form of a "company", in a world where all of a company's value lies in the collective intangible knowledge of the workers.

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For all the headlines in the media about trade wars and increased polarization around the world, I actually think that the values we share as a human race may be becoming more similar than we realize. Understanding each other's perspectives and daily lives, is the best way to create mutual understanding among people.

As we live more and more of our lives online, that's exactly what the internet and social media are doing.

From an investment perspective, those companies that recognize these trends, and are able to inject themselves into these online communities in an authentic way, will find themselves able to expand globally and cross borders, at a pace never seen before. TAMs are truly global nowadays. Done correctly, each new country that they enter into will have an already waiting community of fans, greeting them with open arms (and sales).

The geographic boundaries that separate us are getting blurred day-by-day. Instead, "our people", who share a worldview and cultural values similar to ourselves, may actually live thousands of miles away.

"CULTURE: (NOUN) A PARTICULAR SOCIETY THAT HAS ITS OWN BELIEFS, WAYS OF LIFE, ART, ETC."

- MERRIAM WEBSTER DICTIONARY (LINK)

PORTFOLIO REVIEW

Tracking Position (Undisclosed): We sold our SPAC tracking position this quarter, which was originally purchased in Q4 2020. Since the beginning, I described this position similar to a "pre-flop" bet in poker. We knew the size, target mandate, and sponsors of the SPAC, which narrowed down the list of options for its potential merger target in its focus area of Southeast Asia tech. In fact, I was quite confident that they already had a particular company in mind, and subsequent media reports confirmed that the two companies were in final negotiations.

By taking this small position, it gave us the option value / incentive to track this potentially, rapidly evolving situation closely, and allowed us to commit capital more aggressively as the "flop" came out and confirmed our thesis.

However, while I think we played our hand correctly given the known information at the time, the "flop" was ultimately never dealt.

Earlier this year, the SPAC market was hot and companies had high confidence that they would be able to go public via this method much quicker, and with more assurance than with a traditional IPO. However, this dynamic changed within the last 6 months – especially with the smaller Southeast Asian companies waiting to see how the landmark Grab SPAC deal would be received by the market, before following in its footsteps with their own SPAC debuts.

Well, ultimately Grab announced over the summer that they are delaying the IPO, from the original July 2021 target to now end of 2021 / early 2022 (LINK). In the meantime, SPAC trust redemptions have hit record highs, and PIPE funding has slowed – so the advantage of semi-guaranteed capital via merging with a SPAC versus going public in a traditional IPO, is no longer true.

As such, the company we were hoping to merge with our SPAC, has called off the transaction. Instead, they are pursuing a traditional IPO, and hoping to go public in the US markets next year.

When your thesis is broken, it's best to sell immediately. That's exactly what I did in this situation, and chose to re-deploy our capital into our newest investment (see below).

I'm still very optimistic on the Southeast Asia tech ecosystem and its "Gen-2" companies (LINK). However, the roadmap for these companies going public has just been delayed by 6 – 12 months. On the positive side, this will give us a chance to research / even meet some of these companies & their stakeholders as I travel again over the next few months.

We sold the position for just a small loss (-1.5%, or a few basis points of P&L), since we were able to purchase the original stake at close to par value.

Coinbase (COIN): We established a new position in Coinbase, the dominant US crypto exchange and brokerage, this quarter.

Given the misperceptions and early-stage nature of the industry, I thought it would be helpful for our partners' understanding to share a report outlining our thesis, which we published on October 31st.

At a high level, we believe the crypto economy is in the middle of "crossing the chasm" into mainstream adoption & use cases, which will result in millions of mainstream users needing to transact in crypto in some form.

Coinbase is well positioned in the Western, regulated markets to capture this influx - considering their dominant market share / mindshare, their focus on the casual user and thus superior user-experience compared to alternatives, and their position as a "toll-booth" for this industry. Longer-term, we also believe Coinbase has "super-app" ambitions, and will be the primary gateway for both the general population and institutions to interact with the crypto economy.

In a sense, what we're betting on with Coinbase, is eventual mainstream adoption – a world where your uncle who knows nothing about technology, now needs to own application tokens, in order to complete a real-world transaction / use case.

History has shown that these mainstream users will care more about security and ease of use, more so than control (think about Linux vs. Apple; where the engineers love Linux for the customizability, and mainstream just wants something that works seamlessly and hides the complexity, i.e. Apple). And with major corporations, investment firms, etc. all custodying at Coinbase, this gives them a reputational advantage when courting retail.

What's special about Coinbase, is that it's both a vertically integrated brokerage & exchange - two business models that are attractive alone - but the combination of which results in a high-margin (~60% margins), superior business model that's unique to crypto.

Being an exchange, the factors that matter most: liquidity, depth of markets, wide selection of tokens, etc. – all crucial to the value of the exchange, and also creates scale advantages which accelerates over time. Will retail really go to a decentralized exchange, if they'll get 5% worse pricing, and also go through a cumbersome experience that requires multiple steps? While on the institutional side, it's true that it's a lower margin business. But their large trading volumes drive liquidity, which then benefits retail via tighter spreads (but they pay a higher commission rate). The institutional & retail sides of this business model are self-reinforcing.

In addition, we discuss why we think many of the Street's concerns regarding the stock around fee compression, competition from competing exchanges, unpredictable volumes, etc. are over-blown, and how the current valuations are more than compensating investors for this risk.

This summary from our memo sums up Coinbase's competitive advantage well:

"Since its founding, Coinbase has worked closely with regulators in the US and Europe and have the required licenses and trust of regulators to operate. This is a strong moat for Coinbase. New exchanges will have to overcome the same challenges – both working with the authorities, as well as on the engineering front to set up systems to meet equally high standards of security.

By being early and having the reputation for security, Coinbase has established a strong brand in consumers' minds in their markets. This reputation, especially for a nascent asset class with occasional negative headlines, is very important to retail customers.

When coupled with a product that is easy to use and a tech team that has integrated the greatest number of blockchains to offer the widest selection of tokens, we believe Coinbase will remain the app of choice for the retail user who wants an easy way to participate in the crypto economy, even if it's just to speculate on tokens.

We therefore think the reputation, selection, and availability of additional services (staking, lending, etc) will keep the customers on their platform. It's not worth typical retail customer's effort to shop for a marginally cheaper price, if you can offer all these advantages, especially where security is particularly important.

Currently, ~67% of Coinbase deposits are less than $100. Through their actions (and the objective data), retail-users are showing that they value the simplicity and streamlined user-interface of Coinbase vs. saving less than $1 (1% of $100 deposit) having to possibly navigate the complex web of using different providers for onboarding fiat, trading on an alternative exchange, or learning how to sign up and use MetaMask (for decentralized exchanges), etc.

It is for this reason that we think fee compression is less of an issue than people think (one of the primary controversies with the stock today).

Even with the boom in asset prices over the past year, which led to many new users into the crypto ecosystem, Coinbase has gained market share in the US. This shows that incremental new customers are increasingly choosing Coinbase (indicates top-of-mind branding and easy to use interface), when the "bear argument" would make you believe they would lose marginal customers to the cheaper platforms that have sprung up in the last two years.

Also, as discussed above, we believe the strength of the brand reputation for security, and by offering the widest selection would be enough reason to keep users on the platform, allowing Coinbase to maintain their fee structure over the medium term at the least. Pricing pressure is one key worry for other analysts but from our research we are quite comfortable.

We think Coinbase is able to capture the superior long-term economics of the crypto exchange business. This is especially so as they have the commanding lead in their current markets, namely in the US."

Those interested can find the full 73-page Coinbase memo on our website, or at the link below. We're excited by this investment, and will be closely following developments in this rapidly evolving space over time.

Link to Coinbase investment memo (October 2021)

We built our initial position during the third quarter of 2021, at an average price of ~$240 per share, and believe the company could grow its top-line at a ~24% - 54% CAGRs over the next few years.

If we are correct and the crypto economy (and thus Coinbase's earnings power) proves its staying power, we expect the market to place a higher multiple on this earnings stream as well. In such a scenario, we'd expect to generate at least a ~4x (and possibly ~11x in our optimistic scenario) return on our investment over the next few years.[7]

Zooplus (ZO1): Lastly, I just wanted to point out a development that happened with Zooplus this quarter, which was a former Hayden investment from 2016 – 2020. It was a unique investment, as it's one that we put a lot of effort and emotional energy into.

Over our 3.5 year holding period, I outlined the opportunities for the company, and how I thought with some improvements – such as exploring different marketing channels, launching a subscription product, embracing mobile purchasing (and tailoring the business model around the lower basket sizes /higher frequency purchases that come along with it), etc. - the company could have dramatically improved their business model / customer love for the brand, and created tremendous shareholder value in the process.

However, as I wrote in our post-mortem reflecting on the experience last year, I came to realize that many of these issues were deeply cultural, which seemed to emanate from the founder / CEO. Last year, I wrote:

[7] Using a $240 per share purchase price.

"A mouse-trap maker doesn't blame the mice for not falling into the trap. Instead, they reevaluate why the mouse-trap isn't working, look at other successful trap makers to see what they're doing wrong, hire outside experts to give advice and lend their experience, and then continue to improve it.

But that's exactly opposite of what the CEO did – he's blaming the mice attracted as the "wrong type of mice" and after a short period of time, abandoning the trap all together saying traps in general don't work (or at least doesn't in Europe). This doesn't pass my sniff test… after all, offline marketing seems to be working for plenty of other European companies…

In hindsight, I probably gave Zooplus management "too long of a leash", thinking that they would be open-minded enough to eventually find their way out of the strategy hiccup. I underestimated the dogmatism within the firm's culture – something that seems to originate specifically with the founder / CEO."

- *Hayden Capital's Q2 2020 Investor Letter (LINK)*

We sold our shares in Q2 2020, at a price of ~€126, which was break-even from our purchase price several years before (but was a large opportunity cost, in terms of tied up capital).

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Well this quarter, Zooplus customers and shareholder finally got some good news. On August 13, 2021, Zooplus announced that they had received a buyout offer by private equity firm Hellman & Friedman for €390 per share.

Over the next few weeks, a bidding war ensued, with other private equity firms (EQT, KKR) raising their offers. In the end, Hellman & Friedman ended up going in on the deal together with EQT, and raised their final bid to €480 per share.

Almost three months later on November 4, 2021, it was announced that the takeover had achieved the majority of shareholder support, and the deal would close.

With full control and new management, it seems that the private equity firms will be following a similar playbook in revamping the business, as what I had outlined in previous years. My guess (and it really is just a guess) is that these firms see the opportunity to follow Chewy's footsteps in the US, where Chewy's strategy of cultivating customer devotion has resulted in a valuation 17x greater than Zooplus' as of last year (despite the two companies being the same size in 2016, at our original purchase).

And considering the final offer price was 4x where shares were trading at just a year prior (and where we sold it), they'll likely seek to generate a 3 - 5x return on their investment (or a 12 - 20x appreciation from our sale price).

Some have asked me whether I regret selling our investment now, and the answer is honestly no. The lesson here, is that when the issues are deeply cultural / management based, Hayden just doesn't have the skillset to extract that value.

We don't have a large portfolio operations team, a team of external consultants, or the willingness to take a confrontational activist stance to enact our suggestions. I truly believe that our efforts and time (our most valuable resource) is best spent in other ways, by partnering with already aligned and similar minded founders and the companies they've built. Plus, it's just more fun that way.

Simply put, there are many, many ways to generate returns for our partners, and not all profits out there are earmarked for us. I'm happy that someone else with the correct skillset was able to see the opportunity here, and will likely create a great outcome for existing Zooplus shareholders and customers alike.

CONCLUSION

It's amazing how quickly the world changes and adapts, isn't it? Just a year ago, I was in an Airbnb in Los Angeles, while the entire city was shut down. We spent the next several months taking-out from some of LA's finest restaurants, using the trunk of our SUV as our make-shift dining room. It was fun, but certainly not what the chefs had intended…

And now as I look out in the streets of Manhattan – the traffic, the people, the 30 minute lunch lines at "midtown finance bro" hotspots (Patagonia vests and Vineyard Vines shirts included) – NYC is back in full force.

The world is starting up again after its Covid-induced coma, and so am I. We're global investors, and a large part of our process is building relationships with individuals close to the ideas / trends we're fascinated by, to understand the underlying thinking and drivers behind them.

As such, I'm happy to say that I'm picking up travel again. I anticipate being in Asia from January to June 2022 (need to make up for two years of lost time, after all…). Currently the plan is to be in Singapore, South Korea, Malaysia, and Thailand, with additional possibilities of Hong Kong, Vietnam, and Indonesia, if / when they allow travelers to visit without quarantine.

I'll be reaching out to partners and friends in the region, as my travel plans firm up closer to the dates. It'd be great to reconnect and see each other again!

Hope you have a great holiday season with your family & friends.

Sincerely,

Fred Liu, CFA
Managing Partner
fred.liu@haydencapital.com

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