HAYDEN CAPITAL

QUARTERLY LETTER

2024 | Vol.4

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HAYDEN CAPITAL

February 27, 2025

Dear Partners and Friends,

Last year was a notable year for us. Looking back, 2024 was a year of firsts – our first year in Hayden's new Los Angeles home, our first investments in Latin American and Japan, and most importantly, our first decade as an investment firm.

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%**
2021	**(15.8%)**	**28.7%**	**18.7%**
2022	**(69.2%)**	**(18.1%)**	**(18.4%)**
2023	**56.6%**	**26.3%**	**22.3%**
1st Quarter	12.9%	10.6%	8.2%
2nd Quarter	7.0%	4.3%	2.9%
3rd Quarter	13.9%	5.9%	6.4%
4th Quarter	19.4%	2.4%	(0.8%)
2024	**64.3%**	**25.0%**	**17.5%**
Annualized Return	**14.1%**	**13.0%**	**9.2%**
Total Return			
1 Year	**64.3%**	**25.0%**	**17.5%**
5 Years	**115.4%**	**97.1%**	**61.9%**
10 Years	**301.2%**	**242.6%**	**145.4%**
Since Inception	**281.5%**	**246.8%**	**143.1%**

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.

It was also a good year for the portfolio, with our core positions powering the bulk of our returns[3]. The market began recognizing what we've been calling for a while – that Sea Ltd will be able to out-compete its rivals and capture the majority of ecommerce spend in Southeast Asia. And that Applovin's true value lies in its advertising network (i.e. the algorithm), which is competitively advantaged by its breadth of data.

Importantly, these returns are simply the output of "buy" decisions made many years ago. And subsequently, our judgement to hold and even "double-down" during the depths of market pessimism in 2022 and 2023. These turbulent times laid the foundation for not just last year's returns, but I suspect also many more going forward.

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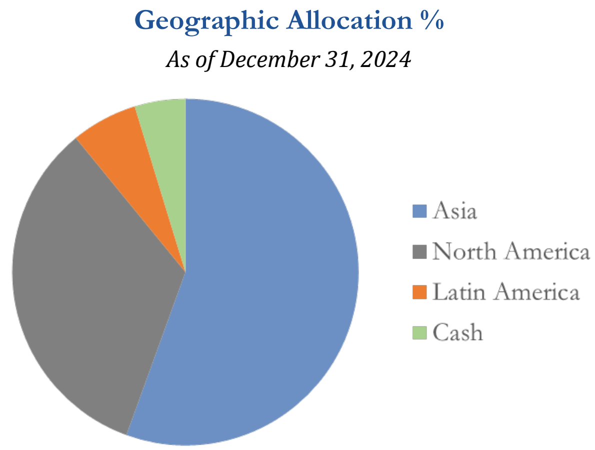

During the fourth quarter, the portfolio rose +19.4% compared to +2.4% for the S&P 500 and -0.8% for the MSCI World indices. This brings our long-term returns to +14.1% annualized after fees, versus +13.0% and +9.2% for the S&P 500 and MSCI World, respectively. Our partners have made 3.8x on their capital, since inception.

We're proud to achieve this long-term outperformance, while looking very different than our benchmarks[4]. US equities have strongly outperformed over the last 10 years, and yet we've historically found some of our best investments abroad. In fact, ~56% of our assets are now invested in Asia, ~34% in North America, and ~6% in Latin America. The remainder is in cash.

[3] Applovin was up ~+720%, and Sea Ltd up ~+160%.

[4] With the caveat, that we think of benchmarks only as opportunity costs for our partners' capital.

When we first incorporated the MSCI World as a benchmark eight years ago, I wrote "Keep in mind, these indexes are merely meant to be indicators and a representation of the opportunity cost for our investors. Our portfolio construction significantly differs from these indexes, and thus these are not true "benchmarks" (at least in the way traditional asset managers use it). Rather, we believe these are alternative, low-fee opportunities our clients may invest their capital in instead of Hayden." (LINK)

10 Years In, and Many More to Go…

It's incredible that we've been on this journey together for 10 years already. It feels like just recently, I was skipping out at lunch to look at WeWork spaces (a hot-desk, no-less, because private offices were too expensive), and putting together our first investor deck, to explain to the world our vision & what we stand for.

A lot has changed since then. We've grown up, moved to a proper office space (we finally have windows!), moved across the country, brought on world-class service providers, hired teammates, published >500 pages of investor letters and 8 investment memos, and mentored dozens of interns. And importantly, I've been lucky to build Hayden alongside a hundred-plus supportive partners, who've joined us on this journey.

I've talked a lot about Hayden's investment process and our vision for the firm, over the years. But a decade worth of writing is a lot, and these segments are now scattered over dozens of letters. In addition, many of our partners joined us in the last few years, and may not have had a chance to read (or have forgotten) the principles we described in our earliest writings.

So as we cross our first decade, perhaps this is a good opportunity to coalesce Hayden's roadmap & vision in one place, for our current and future partners.

Our Strategy

Our strategy has evolved over the first decade. When Hayden first launched, many of our investments were in (what I'd call) "grown-up" businesses that already had several decades of operating history.

These "compounder" companies were still growing, already proved the viability of their business models, and had long track records of profitability. But many were still reinvesting into their businesses, and thus we believed their reported earnings misrepresented their true underlying earnings power.

The market had a hard time valuing these situations, questioning 1) how long these re-investments would go on for (are they structural, or temporary?), and 2) the ultimate pay-off, if these projects worked. The end result, was often a stock price meaningfully below what we thought the business would be worth, if these investments paid off and the underlying earnings power shone through. We aimed to handicap these odds better than the market, and capitalize on this spread.

Our edge came from understanding the incremental ROIC of their underlying projects, to obtain a more accurate estimate of their earnings power. We even published a presentation outlining our process, called "Calculating Incremental ROIC's" in 2017 (LINK).

By doing so, we could also ascertain a longer *duration* of above-average growth for the company, before ROICs eventually fell to the company's cost of capital. In essence, we were betting that their high ROICs would last for longer than the market thought.

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But in 2019, I wrote a piece called "Finding Value in The Enchanted Forest". I argued at the time:

"We've been wading into investments in earlier-stage businesses and relatively recent IPOs… Some may be wondering, have we completely lost our minds?...

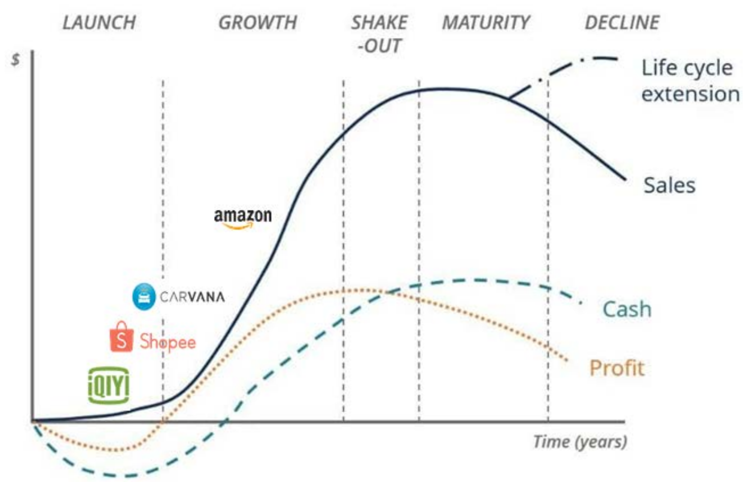
Obviously, the answer is no… instead, this segment of the market attracts us precisely because other investors have this fear, resulting in it becoming one of the most inefficient spots within our investment universe today. Simply, so long as we pick our spots carefully, it's where we can find the most opportunities for us to add value as active investors.

Much of this dynamic, is due to the way investors in the US are trained. Under the teachings of "traditional" value investing, many of these currently loss-making companies would fall into the "too hard" pile. Yes – it's very tough to predict the future, and as such the range of potential outcomes is wide. As such, often many of these companies are completely written-off by the most sophisticated investors – especially by those who don't specialize in technology-related investments or who feel most comfortable in the far-right of the S-Curve (the mature segment of the curve), where "value" is obvious in the financial statements.

But just because the range of outcomes is wide, doesn't always mean the outcomes will be negative. It's possible to have a wide-range, of predominately positive outcomes" (LINK).

The Business Lifecycle (S-Curve) – From Q1 2019 Letter

Some of Hayden's earlier-stage investments; LINK



We've followed this blueprint over the last six years, investing in many "emerging growth" companies since[5]. However, the opportunity for these companies differ somewhat from "compounders" – in the risk we're taking, our edge needed to assess that risk, and the payoff / return profile if we're correct.

First off, emerging growth companies in general are riskier. Not from a "we lost money, because we paid too high a price" perspective, but from a fundamental "business model risk" standpoint. By definition, these are young companies, that are just starting to figure out how to make money.

[5] The term "emerging growth company" originated with the JOBS Act of 2012. But it's become generalized since then, to mean any young, growth company (LINK).

For some, it might be the first time they've been sustainably profitable / self-reliant (not needing external capital to keep the lights on) since their founding.

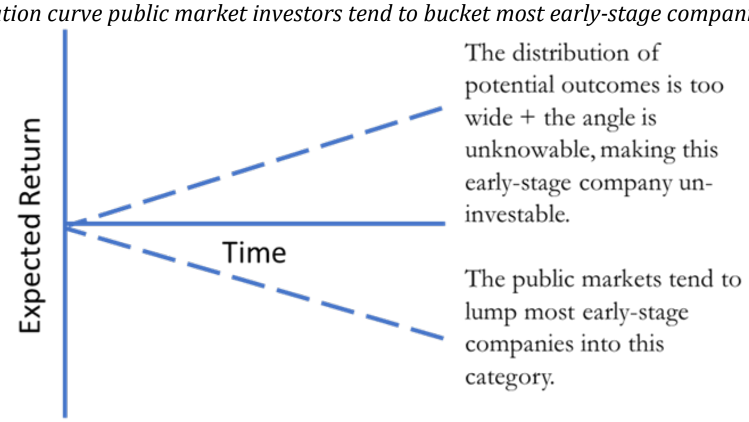
The competitive environment is often still in flux – leading the market to question "how can we be sure they'll be the ultimate winners?" And even if they are, "how do we know what terminal margins will be, when they don't need to aggressively defend against competition?"

Like teenagers, these companies will have plenty of growing pains, strategic mis-steps and course-corrections. Earnings won't go up in a nice, straight line. There will be shuttered projects, and over-hiring during good times and cut-backs during bad times. They're still finding their way. In "compounders" we were taking duration risk, while in "emerging growth" companies we're taking business risk[6].

This business volatility naturally leads to a volatile stock price. And Wall Street has a hard time valuing anything not moving in a linear fashion. So how can you pinpoint an exact valuation, when the fundamental trajectory of the business itself is in question? (Hint: the answer is, you don't.)

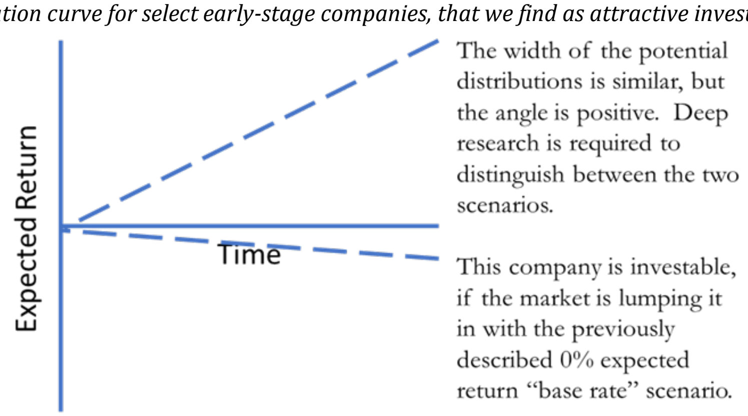
Public Market's Assumed Return Distribution for Early-Stage Companies – From Q1 2019 Letter

The distribution curve public market investors tend to bucket most early-stage companies into; [LINK]



Expected Returns for Hayden's Early-Stage Companies – From Q1 2019 Letter

The distribution curve for select early-stage companies, that we find as attractive investments; [LINK]



[6] In compounders, we're betting that the company's existing business model will produce excess returns for longer than the market estimates. In emerging growth companies, we're betting on the trajectory and evolution of the business model itself.

So given these issues, why do we bother investing at this stage? Because rather than seeing this uncertainly as a risk, we see it as an opportunity. And instead of trying to identify an exact price target, we thought it's more rational to see these companies as a range of outcomes.

Often, the market *over*-prices these risks into their stocks (the first chart shown above). But with enough work, occasionally we find emerging growth companies that exhibit high, *positive* expected outcomes, with lower chance of loss (second chart).

We can't predict with certainty how the future unfolds either – but I believe through our research, we can identify and handicap these risks better than others. Not because we're smarter, but largely because most investors aren't trying in the first place. They've mentally bucketed the entire market segment in the "too hard" pile[7].

And yet, the tools we used to analyze "compounders" are the exact same as "emerging growth" companies. Before, we used primary research (offline conversations, traveling to visit local operations, channel checks, etc.) to quantify the variables, that allow us to determine a company's incremental unit economics[8].

But instead of determining whether earnings will grow from $10 to $20, we're using the same process to assess whether an emerging growth company can go from losing -$10 to making +$10.

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The biggest misperception with emerging growth companies, is that these are speculative stocks. But as mentioned before, just because a company's range of potential outcomes might be wide and *uncertain*, it doesn't mean they'll be *negative*.

Even though we can't predict the exact path a company will follow, with enough effort, we can determine the boundaries of this range (the *worst* and *best* case scenarios) – with the likely future lying somewhere in between. And after doing this analysis, we often find the worst case scenario has much lower downside risk than in fully-valued, "mature" companies.

In fact, some of our best emerging growth investments have also been the lowest-risk ones. Commonly, these businesses have a "mature", profitable, existing business line, where all the profits are being reinvested into a "start-up" division or geography – thus depressing overall profitability or even pushing it into company-wide losses.

The market tends to price these situations at the lower "overall" level of profitability, and even further punishing the valuation multiple given what's viewed as risky capital allocation.

But the market fails to appreciate that these are also distinct business lines. Assuming management is rational, the startup division (and its associated losses) can be easily shut down.

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[7] It reminds me of Howard Mark's description when he first started Oaktree. At the time, he believed the risk in distressed debt was over-priced. While there was certainly a higher chance of default for individual distressed bonds, a portfolio of them actually yielded a highly positive return. This is because the market priced these issues too low, versus the actual odds of default. And this partly stemmed from institutional investors' lack of willingness to own any distressed debt at all, regardless of price.

In our case, instead of looking at bonds others won't touch, we're looking for mis-priced range of outcomes in equities that others don't have the skills or stomach to look at.

[8] See our Calculating Incremental ROIC's presentation (LINK)

And when that happens, the company's "mature" business alone is probably worth equal or more than the existing stock price. This is the "worst case" / "lower boundary" scenario shown in the second chart above, and provides our partners with downside protection.

Sea Ltd in 2018 is a good example, when they were investing all their gaming profits (and additional external capital) into their fledgling ecommerce division. But at a $4BN valuation and making ~$400M in annualized EBITDA from gaming, our "lower bound" downside was amply protected by the gaming division alone.

Or Afterpay in 2019, which had already established itself as the predominant buy-now-pay-later service in Australia, being used in ~18% of all ecommerce transactions (LINK). The Australian business alone was making ~$140M AUD, with ~40% EBITDA margins and growing ~52% y/y.

Yet the company was investing all of these profits into the US – a market 10x the size. And early data showed US merchants and consumers adopting the product even faster than Australians. Even if the US division failed though, we still had an Australian business worth ~$4BN AUD, significantly covering the ~$6.5BN AUD valuation we first bought it at.

In both these cases, the market mis-categorized these companies as "risky" businesses – despite the downside being substantially protected (Ben Graham would be proud). Wall Street can't accurately predict how the earnings trajectory will unfold, and this *uncertainty* led to the stock price being punished.

But at Hayden, we're okay with not being able to pinpoint where earnings will land in five years – as long as we know the trajectory is higher and pay little-to-nothing for that possibility. We like buying the entire upside "range of outcomes" for free.

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As these young companies succeed, their earnings streams naturally become more predictable. They find recurring customers, dial-in their marketing strategies, stabilize LTV-CAC payoffs, and jettison projects that aren't working. Competitive intensity also subsides, as weaker players run out of funding or are out-competed, emerging as oligopoly or winner-take-most industry structures.

Increasingly, these emerging growth companies are able to determine their own destinies and the market's confidence in their prospects grows. Money is made in change, and the market finally realizes their businesses have changed for the better.

This leads to organic valuation multiple expansion. Companies formerly valued at 10x earnings, might now be valued at 25x, given the consistency and visibility of their earnings. The market is now confident to extrapolate these growing earning streams, for more years into the future.

If we're right, earnings go up multiple-fold too. While profit variability and risk go down. This provides us with the "twin engines" of 1) Higher Multiples on a 2) Higher Earnings Base – the recipe for some of our biggest winners.

Our Return Profile

And so far, our results show that it's working. For example, our 2019 – 2024 annualized returns are ~+15% higher than our 2014 – 2018 returns[9]. Obviously six years is too short a time frame to make definitive conclusions. And it was a unique period, with markets rewarding fast-growing companies during these years of low interest rates.

Nevertheless, there's a significant difference in returns, and signals to me that we're probably onto something here. We may have found a niche of the market, where inefficiencies still run wild.

Now, I don't think we're the only ones who recognize this. But I do suspect we're one of the few that are uniquely positioned to exploit it.

Investing with these types of companies is hard. It requires dedicated effort to find the information, that would give investors confidence behind these young businesses. You won't find these unit economics variables in a SEC filing – it requires real-world networking, travel, and in-person conversations. It's a significant time & resource commitment, especially if you're finding these companies in international markets, like we are.

And even if you're successful, the returns are naturally more volatile. Partners can see this both in our pre-2019 and post-2019 performance figures. It's typical for emerging growth stock prices to swing 30% or more in a month. But I see this as a signal of opportunities / inefficiencies here. If the market were confident in knowing how to value these companies, it wouldn't be so erratic when pricing them.

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But not only are individual stock returns "lumpy", but so are portfolio-level returns. This style of investing is a prime example of "power law" dynamics at play.

For example, I presented the first version of the following chart, in our Q4 2019 letter (LINK). This was just about a year after we began investing in emerging growth companies. But since we have another 5 years of data now, I was curious how the analysis has changed.

And the results match with what we'd expect, after implementing this strategy for a longer period. Our "hit rate" has *decreased* slightly to 50%, but our slugging ratio also *rose* to 5.7x.

Additionally, our major "winners" – the top 20% of our investments, *increased* as a percentage of our cumulative gains (115% versus 108% in 2019)[10]. In effect, our returns have become "lumpier", but with bigger returns from the investments we get right.

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[9] Our 2014 – 18 annualized return is +5.7% (starting on Nov 13, 2014). Our 2019 – 24 annualized return is +20.4%.

[10] Over 100% means that our top 20% of investments (8 out of 42 total) accounted for all of our portfolio-level returns and more. These handful of "winners" more than made up for cumulative losses from the other 34 investments.

I also described this phenomenon in our Q4 2019 letter, saying: "Years ago, while I was still finding my personal investment philosophy prior to starting Hayden, I studied the portfolio composition of the investors I admired – those who follow this concentrated, low-turnover style of investing. Studying investors such as Charlie Munger, Hillhouse, Himalaya, Nomad Investment Partnership, Prescott General, among others sparked the realization that it's a handful of investments that really drive the long-term outperformance of these funds.

Logically, it makes sense. Younger businesses have more business uncertainty, and thus it's more likely we will get the thesis wrong. But they also have higher potential, and the market more than compensates us for taking this risk.

Importantly, it's key to recognize that a lot of what we buy doesn't work – and that's okay. The nature of our strategy relies on a handful of "winners" to more than offset our "losers"[11].

Hayden Capital's Attribution Per Investment

Since Inception; As of February 25, 2025

This "lumpiness" and inherent volatility is a drawback of the strategy, that many investment firms aren't willing to accept. It's simply harder to build a large investment *business*, since there are few clients willing or structurally set up to tolerate that type of volatility. Especially for large institutions, that count on consistent returns to fund an annual budget.

By specializing in this "fishing pool", we're consciously choosing a lumpy, but (hopefully) higher return stream – at the expense of serving fewer potential clients. But in the *business* of investing, many managers would choose the opposite.

Our Foundation

This is why our foundation is so important, and why I spend so much time getting to know our partners.

In this industry, if you have a volatile portfolio, you need an unwavering capital base. And if you treat your capital partners as a commodity, you need steady portfolio returns. Anything different, and you'll be quickly taken out of the game.

Because we've chosen the former, I know that our strategy isn't a fit for most potential partners – and that's okay. There are thousands of different ways to make money, and not all are suitable for everyone.

But there are immeasurable synergies to successfully curating an aligned partner base. It allows us to pursue our strategy without pulling any punches (i.e. forgoing attractive investments, because we're worried about short-term volatility, about losing our partners' confidence during

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For example, strip out Tencent and JD from Hillhouse, Moutai and Ping An from Himalaya, Amazon and Costco from Nomad, and the track records of each would be greatly diminished. The commonality was that these notable investors had the conviction to allow their best ideas to become a large enough portion of their portfolio, to capitalize fully on the rarity of such situations. When the ideas worked, a single investment would often comprise 40%+ of the portfolio, due to large unrealized gains . They simply resisted selling their best ideas."

[11] As mentioned originally in our Q4 2019 letter, there's a similarity to the venture capital model. Where given the low hit rate, new investments need to have the potential to return the entire fund. Venture funds have a lower hit rate, but a much wider range of potential returns / a higher slugging rate. Our businesses are more mature than typical venture investments, so the range of outcomes (and return potential) is lower. But the basic characteristics are the same.

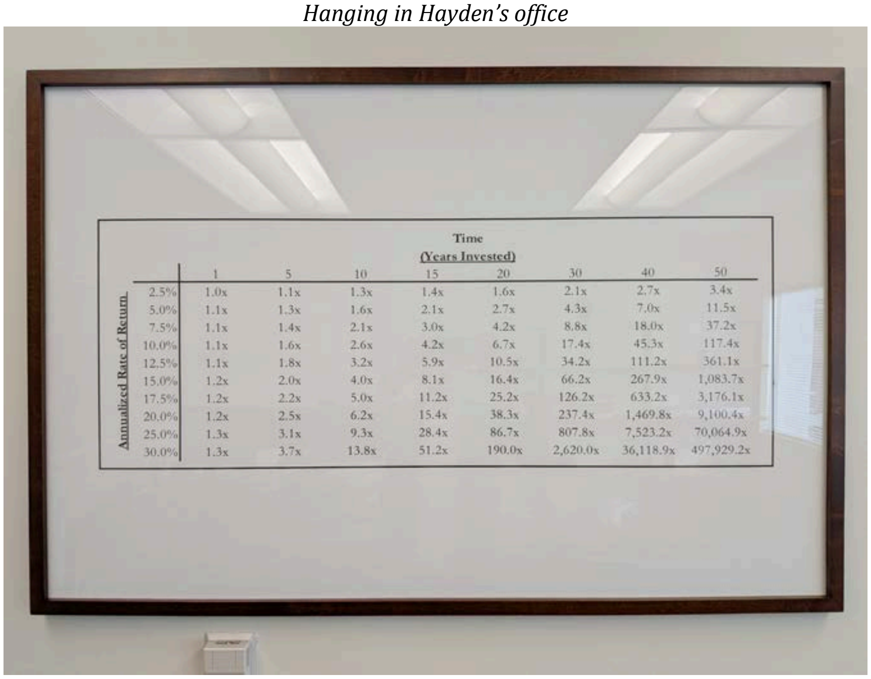
drawdowns, etc.). We need to have the ability to stay on our journey, even when times look the bleakest – because giving up (either voluntarily, or at the behest of mis-aligned partners) is the surest way to poor outcomes for all.

This is why I spend so much time on these letters, and publicly share our research. I hope that by reading these materials, our partners will have greater appreciation and understanding for our process – in turn giving them the determination to stay invested through the good times and bad. At the end of the day, the strength of our partners' trust is the only thing that keeps us on this journey.

The beauty of our industry is that as long as we have a solid foundation, we can still become a big business too. Simply with organic returns, enough time, and uninterrupted compounding[12]. If we find like-minded partners along the way, that's just a welcome bonus. Our firm is young, and we have at least several decades ahead of this. That's a lot of time to compound our partners' capital.

My Favorite Office Artwork – A Compound Table[13]

Hanging in Hayden's office



Time (Years Invested)

Annualized Rate of Return	1	5	10	15	20	30	40	50
2.5%	1.0x	1.1x	1.3x	1.4x	1.6x	2.1x	2.7x	3.4x
5.0%	1.1x	1.3x	1.6x	2.1x	2.7x	4.3x	7.0x	11.5x
7.5%	1.1x	1.4x	2.1x	3.0x	4.2x	8.8x	18.0x	37.2x
10.0%	1.1x	1.6x	2.6x	4.2x	6.7x	17.4x	45.3x	117.4x
12.5%	1.1x	1.8x	3.2x	5.9x	10.5x	34.2x	111.2x	361.1x
15.0%	1.2x	2.0x	4.0x	8.1x	16.4x	66.2x	267.9x	1,083.7x
17.5%	1.2x	2.2x	5.0x	11.2x	25.2x	126.2x	633.2x	3,176.1x
20.0%	1.2x	2.5x	6.2x	15.4x	38.3x	237.4x	1,469.8x	9,100.4x
25.0%	1.3x	3.1x	9.3x	28.4x	86.7x	807.8x	7,523.2x	70,064.9x
30.0%	1.3x	3.7x	13.8x	51.2x	190.0x	2,620.0x	36,118.9x	497,929.2x

[12] I often think of Hayden as a software business. We should keep our customer churn low (or 0%), maintain positive "net dollar retention" (i.e. additional contributions from existing partners), and gain a handful of like-minded partners each year organically.

The additional benefit of the investment industry is that we naturally increase revenue per customer, as the customer's portfolio grows (i.e. performance returns). No hard sells, pricing escalators, or renegotiating contracts necessary. In this way, we can "stack" compounding return streams, which creates long-lasting business growth.

[13] This compound table hangs directly in front of my office desk, forcing me to look at it dozens of times a day. It's a constant reminder of the power of compounding naturally – both for our portfolio, and also for Hayden's business.

We only need loyal partners, good returns, and ample time to grow our firm to where we hope to be. The most valuable business asset we have, is the decades ahead of us.

Sea Ltd (SE): J&T Express, is one of the largest logistics companies in China and SE Asia. It recently published the below table in its financial report, which subsequently has been making the rounds among Asian tech investors.

What stands out isn't J&T's figures, but actually that of "Company A". Anyone who follows this space closely will immediately recognize it as Shopee's in-house logistics arm - Shopee Express.

According to J&T, Shopee Express was already ~89% their size by the first half of 2024 (larger than many investors thought). This was surprising, considering Shopee only started investing heavily in its in-house logistics arm a few years ago. And if Shopee continues on its current growth trajectory, it's likely that it will soon take the top spot, in a year or two.

SE Asia's Largest Shippers by Volume

J&T 1H 2024 financial report (LINK)

Rank	Express Delivery Operators	Business Model	Introduction	Country Coverage	Parcel Volume (In billion)	Market Share
1	J&T	Regional Sponsor Model	An express delivery service provider, established in 2015	Indonesia, Thailand, Malaysia, Singapore, Vietnam, Cambodia and the Philippines	2.04	27.4%
2	Company A	Direct Operation Model	A self-built logistics company for an e-commerce platform, which was established in 2015	Indonesia, Thailand, Malaysia, Singapore, Vietnam and the Philippines	1.81	24.3%
3	Company B	Direct Operation Model	A self-built logistics for an e-commerce platform, which was established in 2012	Indonesia, Thailand, Malaysia, Singapore, Vietnam and the Philippines	0.53	7.2%
4	Company C	Direct Operation Model	An e-commerce express delivery service provider, established in Thailand in 2017	Thailand, Malaysia and the Philippines	0.50	6.7%
5	Company D	Direct Operation Model	A Thai state-owned enterprise providing postal services, established in 1883	Mainly Thailand	0.40	5.3%

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So how did Shopee Express rise so quickly? Well, while the local competitors were "asleep at the wheel", Shopee Express embarked on a deliberate strategy to reinvest profits and structurally lower its unit shipping costs.

Chris Feng, the head of the Shopee and Sea Money divisions, mentioned this two years ago on Sea's earnings calls. At the time, he stated:

> *"The key question presented to us at this stage is how much of these underserved needs for online consumption we can sustainably address. This determines the size of the* ***profitable TAM*** *[total addressable market] we will be able to capture. We believe a large part of the answer lies in our ability to continue to improve the cost structure of our ecosystem…*

We are very focused on ***cost structure, in particular logistics****, because we are trying to* ***expand the profitable TAM for the market as a whole, by addressing sellers and buyers who are underserved or unaddressed by existing players and having a better structure****. Having a more targeted focus on the* ***mass market*** *allows us to be a differentiated player in the market, capturing a significant share of the pie in our view."*

– Sea Ltd, Q4 2022 Earnings Call (LINK)

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"But long-term focus of investment, as I shared, it's going to be in all the infrastructure, as I mentioned. When people think about investments, sometimes people overemphasized shipping subsidies.

I don't think that's a fair characterization of our focus of investment. Rather, ***our focus will be on investing in the long-term infrastructure that will provide better services to our customers and the lower the cost of the ecosystem that will significantly expand the profitable TAM*** *of e-commerce in our region. And also build much stronger competitive moat in the long run for us."*

– Sea Ltd, Q1 2023 Earnings Call (LINK)

Over 75% of Indonesia's population lives outside of its major cities (i.e. the "mass market")[14]. Customers in non-major cities have lower incomes, and so logically have smaller order values.

For example, while a typical Jakarta customer might spend USD $10 each time they place an order, customers outside the major cities might only spend $5. But shipping costs could be *higher* for rural customers, due to longer distances, no local warehouses, lack of transport infrastructure, etc.

In a simplistic example, Shopee might make a 10% incremental margin ($1, excluding shipping) on Jakarta customers, but spends $0.50 all-in on fulfillment. This results in an overall profit of $0.50. But a rural customer might only spend $5, but shipping costs are $0.80. At a similar margin, that'd mean a -$0.30 loss on the order[15].

**

Logistics is an economies of scale business. There are substantial fixed costs – you need to invest billions in distribution and sorting centers, last mile drop-off / pick-up points, armies of couriers, etc. But once you have the infrastructure built, shipping one more parcel doesn't cost all that much.

So if Shopee wanted to *profitably* address the rest of Indonesia's ~220 million consumers, they needed to structurally lower their shipping costs via capacity investments. By investing in more logistics infrastructure, they could have the capacity to handle more volumes internally. And by shipping more volume, they could amortize these capex investments across more orders, and lower their per order shipping costs.

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[14] Major cities such as Jakarta, Surabaya, Bekasi, Bandung, Medan, etc.

[15] Numbers are not accurate. It's just to keep the math simple.

Thereby expanding the territories where they could serve customers profitably, in turn encouraging more orders and justifying even more logistics investments. This is what Chris Feng meant by "expanding the profitable TAM".

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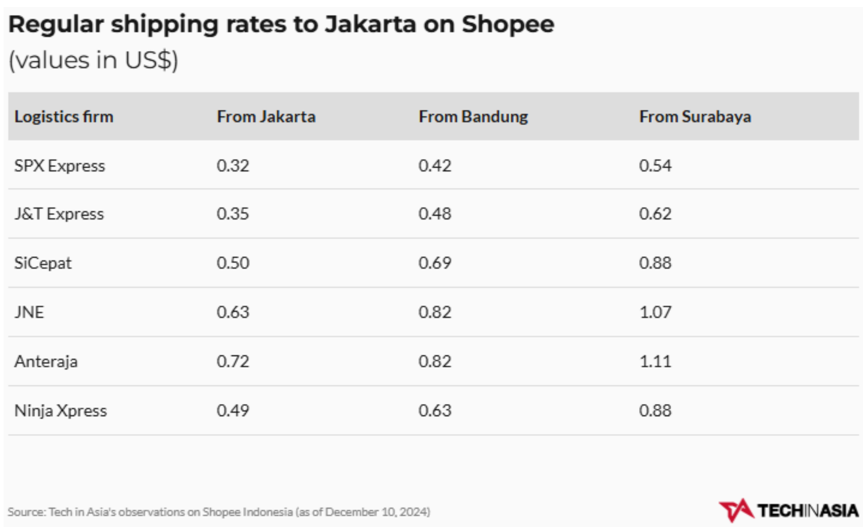
We estimate Shopee has spent ~$2.1BN over the years to build Shopee Express[16]. Of this, we attribute ~25% to the Brazil business (where ~70% of Shopee orders are now shipped internally). This leaves ~$1.6BN allocated to building Shopee Express in SE Asia.

It's estimated that Shopee shipped ~9BN orders in the region in 2024, and has publicly disclosed that ~50% of these orders were fulfilled internally. In addition, Tech in Asia's analysis indicates that Shopee's shipping costs are at least ~$0.05 cheaper than if they used external shipping companies.

Shipping Costs per Parcel

Source: Tech in Asia (LINK)



Regular shipping rates to Jakarta on Shopee

(values in US$)

Logistics firm	From Jakarta	From Bandung	From Surabaya
SPX Express	0.32	0.42	0.54
J&T Express	0.35	0.48	0.62
SiCepat	0.50	0.69	0.88
JNE	0.63	0.82	1.07
Anteraja	0.72	0.82	1.11
Ninja Xpress	0.49	0.63	0.88

Source: Tech in Asia's observations on Shopee Indonesia (as of December 10, 2024)

TECHINASIA

Running the math, we can see that Shopee is earning at least a ~14% return-on-investment from its logistics investment decision[17].

But again, this is an economies of scale business. And Shopee is still growing its orders >20% y/y. In just the near-term, they could easily surpass 13BN annual orders (and growing), with the bulk of it shipped internally. In this scenario, the ROI would rise even further to ~24%, given the low incremental costs of shipping this higher volume[18].

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[16] Shopee has disclosed a cumulative $2.8BN investment on "property & equipment" since 2018. Some of this is for non-SPX expenses (like data centers).

[17] This is ROI would be higher, if we assume that without Shopee Express, the company would need to use multiple 3PLs rather than solely relying on J&T. Thus making the blended shipping cost more expensive.

[18] The bulk of Shopee Express capex was in 2021 and 2022. They publicly disclosed $772M and $924 spent on Property and Equipment in these years. This has fallen to ~$200-250M annually in recent years. We assume ~$200M incremental annual capex for the SE Asia business (which might even be too high).

Shopee Express – Return on Investment

Source: Hayden estimates; Company disclosure

SPX Asean	Current	Future	
Savings per Order (vs. J&T)	$ 0.05	$ 0.05	
x % of Orders Shipped Internally	50.0%	70.0%	
x # Orders per Year	9,000	13,500	*Asean only*
=Total Savings	225	473	
/ Total Capex	1,600	2,000	
= Shopee Express ROI	**14.1%**	**23.6%**	

And if you compare Shopee Express and J&T versus everyone else, the pricing is not even close. It seems that these top two players have so much scale, and thus significantly lower costs (which leads to even more volumes), that the other players have little hope of catching up.

In fact, the other competitors know this. Whenever inferior firms anywhere in the world can no longer compete, they almost always resort to a last ditch effort – complaining about "antitrust" and unfair competition. And that's exactly what's happened the last few months (LINK).

Instead of admitting they've simply fallen behind due to years of under-investment, they're complaining to local regulators. I see this as a positive sign – as another piece of evidence, that Shopee Express and J&T have already won the logistics war.

Years ago, it was common to hear investors say "Shopee has no moat"[19]. But that's changed quickly in the last few years. Shopee's moat is tangible and widening – transforming from a "customer habits" moat to a logistics-based, "low-cost" moat.

CONCLUSION

After 10 years, our website has finally received a much needed face-lift (LINK). Hopefully the new site is more intuitive, and makes it easier to access / filter through our historical letters and research.

Sharing our materials publicly and obtaining feedback from other investors to hone our own research, has always been a core part of Hayden's DNA. Alongside the new site, I'm happy to say that all of our prior materials are back online, and easily accessible. I'm sorry it took a bit longer than expected to ensure they were compliant with the new regulations[20]. But dealing with compliance and regulators is no fun…

I'm glad that it gave us an excuse to refresh the site though. And now that everything's back online – happy reading!

[19] The argument was that Shopee only had a customer habit "moat". And that these customers are promiscuous and would likely leave to a competing platform if given enough promos. Thus, arguing that the moat is ephemeral.

[20] See our original announcement for more details (LINK). The most notable change is the addition of 1, 5 and 10 year trailing performance figures, to our older letters.

**

I'd also like to thank Rob Vinall, of RV Capital for inviting me to his annual meeting in Switzerland last month. I've been promising to go for years, and finally had the schedules line up this year. Rob put on a phenomenal event – it honestly feels like the annual Berkshire event, but in Europe and with skiing.

He was also kind enough to invite me to a panel on "Is China Investable" (I mean, obviously I'm biased). Somehow it already has over 5,000 views (which is probably more a testament to Rob's influence, than the quality of the panelists!).

You can watch it here, if you haven't already (LINK). The entire weekend was live-streamed, so I'd encourage checking out some of the other discussions too.

**

As we cross our ten-year mark, I also wanted to thank all of our partners who have supported us along this journey. The road hasn't always been smooth. But the longer I'm in this industry and the more funds I come across, the more confident I am that we have created something truly special and differentiated.

Over the years, we've found an edge in discovering and under-writing emerging growth businesses all around the world – often seeing their potential before than the rest of the market.

Fishing in such a pool isn't easy though – these businesses are rapidly evolving, and thus with dynamically changing intrinsic values as well. It requires research dedication and an iron-stomach – factors that make it hard for many other investment firms. The only way we're able to capitalize upon such a dynamic niche, is due to the stability of Hayden's foundation – our partners.

Thank you for choosing to come along this journey, and hopefully for many years more. I strive to continue earning this trust every day, and know that such partnerships are rare. It's my goal to make sure such commitments are well-rewarded, over the long-term.

Note: One the travel-front, I'll be in NYC from March 4 – 7, and in Omaha for Berkshire Hathaway's annual meeting from May 1 – 4. Please let me know if you will be in town, and would like to meet during this time.

Sincerely,

Fred Liu, CFA
Managing Partner
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