



Dear Friends and Partners,

During the fourth quarter of 2024, Crossroads Capital Investment Partners, LP (the “Fund”) depreciated by 3.5% net of all fees and expenses, bringing YTD net returns to 5.7%. Since inception, and over the last five years, the partnership has compounded at 14.8% and 14.7% net, respectively, substantially outperforming its most suitable benchmarks, as well as the S&P 500.

As of December 31st, 2024, the Fund’s total gross exposure stood at 106.1% and its net exposure was 75.7%.<sup>1</sup> Exposure metrics are non-delta adjusted. Additional information on both the current portfolio, as well as our historical gross and net returns, is available at [www.crossroadscap.io](http://www.crossroadscap.io).

## Returns vs. Relevant Indices<sup>2</sup>

|                                 | FY24 | 5 Year<br>(Annualized) | Since Inception<br>(Annualized) | Since<br>Inception<br>(Cumulative) | Gross Relative<br>Outperformance<br>(Annualized) |
|---------------------------------|------|------------------------|---------------------------------|------------------------------------|--------------------------------------------------|
| Crossroads (Gross)              | 6.1  | 17.7                   | 18.3                            | 324.1                              | –                                                |
| Crossroads (Net)                | 5.7  | 14.7                   | 14.8                            | 227.0                              | –                                                |
| Russell 2000 Value (IWN)        | 7.3  | 7.0                    | 8.3                             | 98.8                               | 10.0                                             |
| MSCI All Countries World (ACWI) | 17.5 | 10.1                   | 11.0                            | 144.2                              | 7.4                                              |
| S&P 500 Total Return (^SP500TR) | 25.0 | 14.5                   | 14.8                            | 225.8                              | 3.6                                              |

To be sure, our results in calendar year 2024 were underwhelming. While our returns for the full year fell meaningfully short of the S&P 500's FY24 performance, they closely tracked our more relevant benchmark, the Russell 2000 Value. Yet even here we slightly underperformed, with the Russell's financial sector exposure leading to a brief period of outperformance through year-end on the back of reduced regulatory expectations following Donald Trump's reelection in November.

While last year's relative result of 5.7% net to partners looks considerably better against the broad indices if we exclude the Magnificent 7, with the S&P 493 returning 6.3% in 2024 against the Russell 2000 Value's 7.3% gain, rest assured we won't be slapping our back for holding our own based on metrics that exclude the market's biggest leaders; our record is our record, but it is something to note given the themes and the late-cycle structural trends we've discussed in prior letters.

To wit, if you've been wondering whether the long-heralded return of dispersion across equity markets will ever materialize, you're not alone. Broader market returns would, of course, aid Crossroads small value niche with the warmth of long-awaited tailwinds—or rather, all high active share investors not heavily long a narrow band of mag cap tech darlings. But until that day comes, it continues to feel as if we're all doomed to relive the same frigid ex-Magnificent 7 environment over and over, never quite reaching tomorrow, ad nauseum.

After all, at this point we suspect most thoughtful value investors should have asked themselves whether, like TV weatherman Phil Connors (played by the inimitable Bill Murray in the 1993 comedy classic, *Groundhog Day*), they'll eventually find a happy ending in the capital market equivalent of an everlasting winter. Or alternatively, if their fate will inevitably devolve into a small-cap value tragicomedy worthy of a scene from Beckett's *Waiting for Godot*. Imagining a backdrop where intelligent investors are left bereft, forever trapped in a never-ending market reminiscent of the ice planet Hoth,<sup>3</sup> where all equities, save the tech giants and meme stonks, perpetually underperform, may be a tad dramatic, yet here we are.

<sup>1</sup> In a previous version of this letter, these exposure figures were misstated. This version of the letter contains the correct figures.

<sup>2</sup> Past performance is no guarantee of future results. Unless stated otherwise, returns shown are calculated net of management and/or performance fund fees and net of all years mandate fund expenses. All returns reflect the reinvestment of dividends. Present year returns are unaudited and subject to change. Please see important disclosures at the end of this letter.

<sup>3</sup> For those of you that aren't fans of *Star Wars*, or more specifically, its legendary sequel *The Empire Strikes Back*, Hoth was a remote ice planet devoid of intelligent life that the Rebel Alliance viewed as an ideal location for a home base in the hopes it would help them avoid detection by the Empire.



On the other hand, after 8 years and counting in our collective quest for the evergreen merits of finding idiosyncratic, catalyst-driven investments at deep discounts to their fundamental worth, as opposed to speculating on a dozen or so technology stocks, is it really?

Well yes, as ultimately what can't go on forever must stop. But the fact that such existential doubts are being universally asked today amongst professional and retail investors alike is telling on several levels. While the winds of change are yet to blow, our approach remains steadfast. Our conviction is unwavering in that the portfolio possess not only a spring-loaded portfolio of we believe are highly asymmetric investments that should do well regardless of what the future holds, but also the demonstrated capacity to adapt and evolve when markets inevitably throw a few curveballs, as they have more recently. That's not to say that our crystal ball is any less cloudy than anyone else's, but it is to state we are due for a return to form after the last few years of middling performance.

In a roundabout way it also highlights the beauty of setting objective yardsticks from the get-go, as there is simply no moving the goalposts to justify poor performance after the fact at Crossroads. Ergo, should this recent streak of relative underperformance continue for another 3 years, rest assured I'll hang up my hat. My rationale is simple: six years is long-term by any measure—and mind you, that rationale is the same as it was over eight years ago when we first opened our doors. In other words, if I can't compound our precious capital net of fees and taxes at a rate sufficient to provide meaningful outperformance relative to our benchmarks over the long term, Crossroads *raison d'être* is quite literally no more. It's a puke-inducing scenario to contemplate, but as the great Flannery O'Connor once said, the truth doesn't change according to our ability to stomach it. Likewise, should that day come down the road, I can guarantee I'll be the first to say that we would all be better off redeeming our interests in Crossroads.

In any case, all of us at Crossroads remain more confident than ever that the fund's best days lie ahead. What's more, there is a silver lining to our mediocre 2024. Indeed, through the first month and a half of the new year, our core "coiled spring" positions, a few of which we highlighted in our previous update, have finally begun to realize their latent potential. It's still early innings, mind you, but several core holdings are in the beginning stages of experiencing material revaluations as their earnings growth and increasingly bright prospects become more readily apparent.

Which brings us back to our regularly scheduled programming that we never tire of repeating: short-term results are really of little significance to long-term investors like Crossroads, except to the extent that they are part of a much longer track record. Furthermore, we know better than anyone just how uniquely blessed we are to have investors that understand and appreciate this long-term perspective, recognizing that true wealth creation often requires patience and a willingness to look beyond short-term market noise.

All said, our portfolio looks absolutely nothing like any broad market or size-based "style box" derived benchmark, as ours is an approach that carefully constructs a portfolio of individual investments one idea at a time by design; think setups where we believe the probability-weighted risk/reward is heavily in our favor and where the unlocking of value isn't correlated to the market, but ideally to company-level actions and outcomes. Paradoxically then, allocating capital indiscriminately to index funds being propelled by pretty much the same, increasingly narrow group of mega-cap tech stocks for ~15 years running more closely resembles gambling than our approach of thoughtful, research-driven value investing.

So at the risk of playing a broken record, our investment approach centers on identifying truly great companies with growing moats and idiosyncratic return drivers, often tied to value-unlocking corporate events that catalyze significant earnings growth. These liquidity-driven catalysts operate on their own timelines, independent of calendar years or quarterly performance requirements, a fact that illustrates and reinforces the reality that Crossroads' performance will be driven by the collective outcomes of our carefully selected investments across the fullness of time, rather than by broad market movements or macroeconomic concerns over the short run. For those reasons and more, maintaining this long-duration perspective is essential to both properly interpreting our recent results and understanding our optimism for the future.

All of which is to say that despite the underwhelming performance in 2024, we maintain a positive (and highly constructive) outlook and believe our portfolio is positioned to benefit substantially from company-specific catalysts that should drive substantial value creation in the coming year(s)—and regardless of broader market trends. Indeed, our long-running strategy of buying deeply undervalued, high-quality businesses whose virtues others have yet to discover should remain far and away the



primary determinant of our results. That's not to discount the role of luck in investing, but it is to say that figuring out what something is worth and buying it for less just *works*, even more so if we've identified a catalyst-rich event path that can force the unlocking of value and drive a market agnostic outcome.

Below, we dive into the quarterly investment activity update, where we examine two longstanding positions that we believe highlight concretely what it means to invest in value unlocking change while exploiting the volatility of stock prices compared to the relative stability of intrinsic business values. Both instances illustrate the power of business model transformations, i.e., scenarios where each business model is changing for the better—and therefore the business's underlying economics are permanently improving in a manner not visible through the rearview. Both examples are also inherently opportunistic “special situations,” so investments where a structural, observable catalyst is in place to unlock value irrespective of market or economy-related factors. Finally, both scenarios provide insight into why ignorance and myopia amongst consensus investment opinion—and the wild volatility that follows—is ultimately a beautiful thing, despite occasional bouts of heartburn.

### Quarterly Investment Activity Update

As usual, our portfolio experienced a mixed performance in the fourth quarter, with some notable successes and challenges. A few of our special situations achieved some big wins, most notably Calumet Inc., which received conditional approval on their long-awaited DOE loan, but one long-running core holding, Vistry Group (“VTY.L”), was hit with a string of bad news.

Vistry's setbacks are particularly notable, as they ultimately detracted ~6.9% from our partnership's net return in the last three months of 2024, turning an otherwise decent quarter into a disappointing one. In terms of new positions, we established a large new long in Company Z (briefly described later) and look forward to sharing a deep dive on the company in a longer-form letter next quarter. Overall, we'd describe the performance of our holdings during the quarter as broadly in line with expectations and largely a form of station-keeping, with a few catalysts we anticipated occurring late in the year getting pushed into 2025. But safe to say this is hardly a tragedy.<sup>4</sup>

#### *Vistry Group (“VTY.LN”)*

Despite a challenging quarter marked by largely self-inflicted issues related to the wind-down of the legacy housebuilding segment, Vistry's equity has stabilized down ~55% since its Q3 high, up from down 70% at the lows, and arguably remains the most fundamentally undervalued relative to any time since we've been involved. While uncertainties and challenges remain, the market's overreaction to a one-off incident involving a rogue manager and subsequent profit warnings has created an extremely compelling entry point for clear-headed investors who know what they own when Mr. Market throws his tantrums.

To be sure, the equity decline viewed strictly from a calendar year and reporting perspective was annoying, but we remain optimistic about Vistry's ability to not only successfully navigate recent challenges but also to emerge stronger as several factors clouding its near-term outlook dissipate in the year ahead. As you might expect, we were more than happy to add to our position at what amounts to a large discount to liquidation value, especially considering we benefited from some strategic tax-loss harvesting in early December that allowed us to offset realized gains elsewhere in the portfolio and subsequently re-establish our stake in mid-January at more favorable prices<sup>5</sup>.

With that out of the way, let's keep first things first by addressing the specific events that contributed to Vistry's rather extreme volatility during the quarter. Volatility that began in early October, when the company issued its first profit warning, stating 9 of its 46 developments in the South Region had understated costs by 10% and would require a £115 million write-down. Mind you, most of this write-down would be accounting-related to include previous build costs that weren't properly incurred, with cash

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<sup>4</sup> If anything, the opposite is true. In most cases, we just ended up buying more; a tactic that has already been well rewarded in Q1.

<sup>5</sup> Better lucky than good, amirite?



flow impacts of only £35 million in 2025 and £5 million in 2026. Most importantly, these charges were from cost overruns related to a handful of legacy housebuilding sites and thus were unrelated to Vistry's crown jewel partnership segment (more on this later).

High level, this was both unwelcome and unexpected, but given the facts laid out throughout this update, it's essential to keep it in perspective. Not only was the hit unrelated to Vistry's core business, but the market reaction should have been limited to the headline charge given the economic impact was ringfenced and would have reduced the amount of Vistry's planned capital return from the ongoing liquidation of its housebuilding land bank in the absolute worst case. Essentially, one bad manager had hidden the 10% cost overruns highlighted in the announcement in a bid to buy time to avoid disclosure. Presumably this manager hoped to sell these homes at a 10% higher price than budgeted to make the situation whole, but ultimately his rationale for his actions here are impossible to know. What is known is that, unfortunately for said manager's worst-laid plans, when preparing its annual budget for 2025, the company saw a few one-off costs in the South Division budget, and upon pulling on a string, found more. To make matters worse, with a mandatory 4-day disclosure threshold for material impacts, the company worked rapidly to wrap its hands around the extent of the damage it had just uncovered. As a result, alongside the announcement of £115 million in undisclosed costs, Vistry proceeded to not only fire the responsible South Division manager but also initiated a full third-party audit of their entire 300 development business in response. So that was the first profit warning.<sup>6</sup>

A month later, another shoe dropped, as Vistry announced another £50 million in overruns following the conclusion of the third-party independent review just noted, bringing the total charge up to £165 million, with the estimated impact to cash flow now amounting to £50 million in 2025 and £10 million in 2026. Critically, given that a full companywide review was conducted, the totals came out to £157 million in the South Division, with only £8 million in incremental charges discovered across Vistry's other 254 developments, ultimately validating management's claims that the issues originally identified were contained to the legacy housebuilding segment. The salient takeaway with respect to the second profit warning is that despite a thorough investigation from an independent third party, the auditor was only able to identify additional costs that are best described as minor budget differences. After all, the discovery of a grand total of ~£8 million in extra costs represented a negligible portion (less than 0.2%) of the approximately ~£4.5 billion of revenue generated by these developments in total.

Point being, while the market hated the second profit warning, we loved it as it highlighted a best-case scenario for the audit and by extension, Vistry's shareholders. Again, the independent review demonstrated definitively that the problems related to the first profit warning were isolated to the South Division and therefore did not extend to the core partnerships business. Of course, the stock proceeded to tank regardless, with the market's overreaction this time around likely reflecting concerns about management's integrity following the COO's departure and the CEO's decision to reorganize the company's reporting structure. However, unlike in the US, the COO role is often unnecessary in UK housebuilding; indeed, most UK housebuilders don't even have a COO, which is why our reaction to the CEO's actions was less concern and more peace of mind, given we viewed it as a rational and necessary step to tighten control and prevent future oversights like this from recurring. We would only add that the former COO's departure likely reflected his unwillingness to accept a demotion, making his exit in the aftermath of these changes entirely logical, a nuance that Vistry's heavily US investor base had a difficult time understanding given the differences between US and UK housebuilding. So this was the second profit warning, though in fairness it was an extension of the first with the added benefit that the entire business was subject to a review this time around and came out relatively clean.

Then on Christmas Eve, the company came out with a third profit warning, but again, this wasn't what it appeared to be, and, if anything, was exactly the reaction we would have hoped to see if our roles were reversed. Essentially, Vistry had £50 million in land sales anticipated to close at year-end, and the relevant counterparties, perhaps sensing Vistry's weaker standing, tried to nickel-and-dime the company at the 11<sup>th</sup> hour. Management again acted prudently, choosing to delay the sales rather than accept unfavorable terms, essentially acting exactly as we would have hoped despite the terrible optics on Christmas Eve by pulling the deals and announcing that they would just simply sell them next year for better prices, which was days away at that point.

With all this critical context in mind, we believe the risk/reward ratio remains extraordinarily asymmetric at recent prices and would boil down the key takeaways from this series of unfortunate events as such:

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<sup>6</sup> It's worth noting that of all the dramatic series of events that Vistry experienced in the quarter, this was the one misstep that should be laid firmly at CEO Fitzgerald's feet, given he clearly took his eye off the ball at housebuilding while focusing on the core partnerships business.



- **Massive Overreaction:** The net decline in Vistry’s valuation amounted to a massive overreaction given the actual cash impact of the Q4-related profit warnings is estimated at only £60 million. Consider this is approximately 33% of the accrual-based income statement charges related to previously miscalculated build costs (£165 million<sup>7</sup>) that drove the headline figures. Most importantly, the actual economic impact from these issues was dramatically less than Vistry’s decline in market capitalization of over £2 billion from its Q3 high. To put the magnitude of this massive overreaction in perspective, Vistry’s stock price decline was *over 30x* the worst-case cash impact of the Q4 profit warnings, exceeding the economic reality of the situation by several orders of magnitude. Crazier still, Vistry’s equity remains down ~55% from its highs despite the issues driving the decline clearly being a one-off incident involving the liquidation of its legacy housebuilding operations, rather than any issues within its crown jewel partnerships segment<sup>8</sup> and its medium-to-long-term prospects.
- **“Partnerships” Business Remains Strong:** Again, the core Partnerships business, which is asset-light, generates high returns on capital, and boasts stable, relatively noncyclical cash flows, remains unaffected by these recent missteps and continues to perform well, broadly in line with our expectations. Again, this is a wonderful cycle-agnostic growth business that is less sensitive to interest rate changes than traditional housebuilding and whose prospects remain fully intact; yet Mr. Market has given us the opportunity to purchase this dominant market leader boasting government-backed tailwinds and exceptional returns at a mere ~2.9x normalized EBIT and ~80% of tangible book value<sup>9</sup> (more on this below).
- **Strategic Management Response:** Management owned up to their initial mistake, then proceeded to act decisively by terminating the responsible manager, conducting a third-party audit, and reorganizing the company to prevent future oversights. Critically, the results of the independent audit of all 300 of Vistry’s developments, despite initially spooking low information investors, ultimately validated management’s claims that the issues underpinning the original profit warning were contained to the non-core housebuilding operations (a best-case scenario, as it reaffirmed the only real question that mattered, i.e., that these issues were isolated and did not extend to the core partnerships business)<sup>10</sup>. In the end we walked away with more respect for CEO Fitzgerald and his team, not less, a scenario that is relatively rare and has only reinforced our conviction in the long-term opportunity at Vistry.
- **Dramatic Relative and Absolute Undervaluation:** Vistry currently trades at ~5x “depressed” EBIT or a ~20% earnings yield at the midpoint of our FY25 estimates. Normalizing earnings and giving the company credit for its planned capital return program, Vistry currently trades at approximately 3x EBIT, representing a ~35% earnings yield a few years out. Mind you, comparable—yet objectively inferior—assets have changed hands historically at ~12-15x EBIT and 5-7x book value, suggesting a MOIC of between 4x and 9x at the low and high end of those respective ranges and a truly drool-inducing implied IRR over the medium-term.
- **Re-rating Tipping Point:** Of all the catalysts likely to close the gargantuan price-to-value gap in Vistry’s common equity over time, we believe the completion of Vistry Group’s ongoing transformation to an economically resilient, high ROIC “partnerships” business model—thus far obscured by the liquidation/repurposing of its lower-return, capital-intensive traditional housebuilding operations—is the most important. In short, the completion of its ongoing value unlocking transformation should catalyze multi-bagger upside as the company completes the exit of its legacy housebuilding operations and the underlying strength of its partnerships business becomes clearly visible to investors

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<sup>7</sup> Critically, £157 million of which stemmed from cost overruns at a limited number of legacy housebuilding sites, sites that are immaterial to our investment thesis.

<sup>8</sup> Ergo, the massive price decline makes little fundamental sense, which is very likely why we’ve seen management as well as leading shareholders Browning West, Abrams Capital, and David Capital adding materially to their already significant stakes in the aftermath.

<sup>9</sup> Regardless, the price implied expectations currently built into Vistry’s equity clearly imply terminal decline; a genuine catastrophic disaster scenario given its trading today as if it’s worth more dead than alive; a price tag that would be unsustainably cheap even if Vistry were a low-return, capital-intensive traditional UK housebuilder operating at a cyclical peak as the market seems to fear.

<sup>10</sup> Despite a thorough investigation, the auditor identified only an additional £8 million in incremental overruns across Vistry’s remaining 254 developments. These additional costs represent a negligible portion (less than 0.2%) of the approximately £4.5 billion in revenue generated by these developments.



for the first time as a standalone company. Notably, the transition is currently ~85% complete, which is another way of saying we expect it to be wrapped up in full by year-end.

- **NVR-Like Capital Return Policy:** Between partnerships growing free cash flow generation and the expected proceeds from the ongoing liquidation of the legacy housebuilding land bank, management expects to free up an incremental £800 million for share repurchases over the near-to-medium-term, a figure that would allow them to buy back nearly 40% of Vistry's shares outstanding at current prices. Clearly the potential for savvy capital allocation to enhance shareholder value in the years to come via accelerated buybacks is utterly tremendous as the company exits the traditional housebuilding business for good, a dynamic that should place a fundamental and technical floor on Vistry's equity and reinforce/augment its already massive margin of safety.
- **Terrible Sentiment:** Sentiment surrounding the UK capital markets, UK small caps, and Vistry in particular is unlikely to deteriorate from recent levels, paradoxically providing a springboard should some of the macro and capital flow dynamics discussed in prior touchpoints reverse course. If sentiment remains poor, all the better given the magnitude of its buyback and the wildly accretive nature of future repurchases at or around current prices.
- **Positive Outlook:** While the transition to ~£800 million in partnerships operating profit may be delayed by 1-2 years, the Partnerships business's medium-term earnings power and share repurchase capacity remain fully intact. With that in mind, key signposts to keep an eye on over the next 6-12 months include a decrease in Vistry's land bank and a commensurate increase in works in progress, which will signal a step change increase in partnerships ROIC to 40%+. Should CEO Fitzgerald execute the transition without additional hiccups as he has historically, the completion of the business model transformation will provide both the incremental firepower to not only aggressively increase share repurchases but also the fundamental justification driving the sea change in sentiment and the inevitable multiple expansion that we believe will follow<sup>11</sup>.

To conclude, we remain focused on what matters, namely the steady-state earnings power of the Partnerships business and its capacity to repurchase shares using excess cash in the months and years ahead. While watching our investment get promptly chopped in half is never fun, the reality is that all the key elements of our longstanding thesis remain intact. Equally as important, management has been humbled and is now once again focused on all the right things, i.e., on continued execution at partnerships and the steady rebuilding of shareholder trust by setting conservative expectations with the street, an appropriate tact given recent challenges.

Moreover, despite taking his eye off the ball with respect to Vistry's legacy homebuilding operations, our confidence in Vistry's CEO Greg Fitzgerald remains high due to both his unparalleled 30-year track record in UK housebuilding and his transparent and commendable handling of recent missteps. Finally, we think the critical strategic priority at Vistry over the near term lies in executing a full exit from its housebuilding operations, thereby enabling investors to properly evaluate and recognize the inherent value of its core partnerships business via massively increasing ROIC and the release of hundreds of millions in working capital for its planned capital returns policy.

Again, we believe the market's conviction/view surrounding the company will start to change once the standalone partnerships businesses operating and financial metrics are visible in the financials. This makes sense on several levels, but we'll close by noting that history proves the best prices for compounding capital at extraordinarily high risk-adjusted returns are usually produced during periods where the present and future are opaque. Logically then, with the completion of the business model transition set to take place in the relatively imminent term, we are fast approaching a re-rating tipping point. Of course, by the time the "all clear" sign is self-evident to consensus, we suspect Vistry's price will be at some multiple of where it trades today.

Big picture then, our view remains largely the same in that as the company's pivot towards an economically resilient, asset-light, high-ROIC partnerships business becomes increasingly visible in Vistry's financials, we expect its equity will trade up towards 12-15x EBIT or roughly the low end of where comparable businesses trade. This suggests a quintupling in the

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<sup>11</sup> The company plans to aggressively address excess inventory in the coming twelve months, leading to balance sheet improvements and increased ROIC.



company's equity over the next three years should management achieve its original £800 million steady-state operating profit goal, a hurdle we believe remains easily achievable.

### *Calumet Specialty Products ("CLMT")*

Now, on to Calumet: As noted above, after months of delays, the company received conditional approval for its DOE loan in mid-October. Given its strategic importance to the realization of our view of Calumet's underlying value, we researched this situation extensively, calling as many government agencies (including the air quality agency of Montana) as we could to better understand exactly how this DOE loan got across the line. Following conditional approval, that scuttlebutt ultimately paid off, as the final close of the loan came in early January, roughly within the timeline our diligence suggested it would.

On its face, this should have been a celebratory moment at Crossroads. In the immediate aftermath of the announcement, that sentiment certainly made all the sense in the world, as the company just closed what was likely the most transformational event in its 100+ year history. Keep in mind this was a transaction that amounted to both a large-scale debt re-fi AND a low-cost growth capex funding mechanism to fuel (pun intended) a major low-cost sustainable aviation fuel ("SAF") project operating in perhaps the most highly sought-after niche within not just renewables, but the clean tech space and the energy industry more generally.

As just one example of how incredibly unique the larger MRL opportunity is, consider that unlike most of the Inflation Reduction Act ("IRA")-funded (by way of the Department of Energy) science projects currently facing immense scrutiny from the Trump administration, biofuels—and SAF specifically—pretty much stood alone with respect to the clear bipartisan appeal of the project, demonstrating a level of support across party lines that remains frankly unicorn rare in our increasingly hyper-partisan political environment. It certainly helps that the merits of the deal speak for itself as the transaction should unlock the company's maxSAF expansion plans in full, scaling the company's facility in Great Falls, Montana from ~30 million to ~300 million gallons of SAF per annum. And if all that wasn't enough, regardless of tariffs or tax credit changes looking forward, the renewable diesel market is now seeing significant tightening, a dynamic that should result in Calumet's margins reverting towards a more normalized level in the very near term. In short, the unique market dynamics of what is likely the fastest growing niche within all of energy have come together to create a double-barreled step change increase in the company's steady-state earnings capacity. Mind you, this substantial increase in cash flows is happening not a few quarters or a year or so down the road, but right now.

Unfortunately, the rightful fanfare and related stock appreciation all of this should have ushered in was promptly put on hold when the company issued a "tack-on" debt raise alongside a \$65 million "at the money" equity offering ("ATM") the very next business day after announcing the loan's final close. The ATM aspect of this last-minute rug pull was particularly boneheaded, causing an enormous amount of confusion that resulted in the stock selling off heavily. We won't mince words here. This was the managerial equivalent of going for a tongue-out dunk at the company's moment of triumph, only to slip on a banana peel at the free throw line, effectively snatching defeat from the jaws of victory. In Hockey parlance, this was a blunder so incomprehensibly ill-conceived it was tantamount to a star player missing an "open net" tap-in goal after the entire opposing team, not just the goalie, had been pulled. Honestly, there are no words. At any rate, more on all this in our Q1 letter.

For now, it's enough to state that with final approval in hand and the Trump administration's recent decision to expedite the disbursement of their \$1.44 billion low-cost loan a little over a week ago, CLMT has clear visibility on its SAF production increasing ~7-8x within the next 36 months as RD margins rip higher off trough levels and near-term cash flow generation in Montana predictably explodes. Furthermore, with the receipt of the loan's first tranche of funding in the door as of last week, the constant questions around the company's balance sheet should begin to dissipate in full right around now. And despite our frustration with the poor decision-making at the board level and the related fallout due to management's capital markets naivety, the fact is we still see plenty of upside under the right circumstances as Calumet can now focus 100% on enacting its plan to de-lever via a combination of DOE loan proceeds, non-core asset sales, a potential Muni bond issuance, and an incremental equity investment at MRL (likely alongside the announcement of a significant offtake partner); all events that should materialize at various points over the next couple of quarters at most.

We mention it because the path to redemption, while narrow, remains in place in our view. A few quarters of rapidly expanding margins and cash flows at MRL due to competent execution will help, but the cancellation of the ATM and management making good on its asset sale goals in the very imminent term are essential. After all, that combination alone will allow the de-levering



and reputation repair flywheels to take hold, opening the door for Calumet's equity to eventually get the valuation it deserves. I'd go so far as to state that consistent execution, operationally speaking, from that point forward would all but guarantee it.

Alas, it's been a frustrating last couple of months, but Calumet's current \$15 stock price is nothing short of lunacy as long as management can competently execute the rest of the playbook and, in doing so, rehabilitate the reputation of a C-suite and BoD suffering from several unforced errors and related credibility issues. The 64k dollar question at this point is will the center hold? Truth be told, we think so. Our patience and faith are waning to be sure, but believe us when we say nothing would make us happier than to see this team finally pull it together and make good on all our well-placed hopes since first getting involved over a half decade ago.

## Notable Positions

### **Nintendo (NTDOY)**

Our thesis on Nintendo, the Godzilla of video gaming, is quite simple. Armed with its Apple-like iterative hardware model and software-based ecosystem, as well as a growing active player base and ever-increasing digital sales, the company should generate substantial earnings growth that is de-coupled from the past "boom-bust" console cycles it previously underwent.

Indeed, for the first time ever, the new Switch will slide right into an existing software ecosystem, kickstarting an upgrade cycle from a profit base of nearly \$4 billion rather than starting from zero as it has with every other major console changeover in its multi-decade history in the video game space. And if that wasn't enough, Nintendo begins the final stage of its ongoing business model transformation with an active playing base of 129 million users, the largest and most diverse integrated hardware/software ecosystem in all of gaming, over 34 million NSO subscribers, and industry-leading (historically under-monetized) IP library that continues to shine, getting new life in a rapidly expanding number of movies, theme parks, retail stores, general merchandise, and (we strongly suspect) a whole new crop of perpetual first-party live service games in the months and years ahead.

All that said, the company officially debuted the Switch 2 in early January, which should go on sale after April 2nd, likely sometime in mid-May. With the official launch of the Switch 2 the company is embarking on a new era that should see massive and consistent growth that consensus continues to miss. For example, consider the Switch 2's enhanced hardware, which is allowing developers to bring over more technically demanding games to the Switch platform in true fidelity to their intended gameplay right out of the gate.

In other words, unlike the OG Switch era, the Switch 2 will be the first Nintendo console with comprehensive AAA third-party support in decades and is expected to receive major AAA titles such as Activision's *Call of Duty*, Take-Two's *Grand Theft Auto 6*, and EA's *Madden Football* within the new console's launch window. This step change increase in third-party "system selling" game availability will be further bolstered by the fact that all these games do an excellent job of monetizing in-game microtransactions in a recurring, annuity-like fashion, opening Nintendo's ecosystem to not just third-party AAA games but an entirely new cohort of higher-spending gamers.

And that's just one driver of returns. The global blockbuster Super Mario movie has the company embarking on the next leg of its journey in visual content, i.e., a multi-film, very Marvel-like "Nintendo Cinematic Universe," with the company aiming to build up to a one-movie-per-year pace over the next five years. New movies for Mario, Zelda, and others are in development. And the company's venues at Universal Parks continue to gain traction, with the Japan and LA locations already open, Orlando opening in May next year, and Singapore following shortly thereafter.

We could go on, but the setup is now perhaps more attractive than it's been at any time since we initially got involved all the way back in Q4 of 2018. Indeed, we expect its earnings power to rapidly snowball unlike anything we've seen to date, ushering in an avalanche of pent-up demand that will absolutely bury consensus estimates over the next several years. That in mind, we anticipate strong Switch 2 sales starting in the summer of 2025 (FY 2026) at the latest, alongside an impressive lineup of first- and third-party software and higher prices for NSO and all AAA games sold on Nintendo's App Store-like eShop platform. Furthermore, with reports of Nintendo's supply chain preparing 20 million Switch 2s for sale this year and a \$450 per unit price, consensus FY 2026 revenue estimates of ~¥1.9 trillion would be off by almost ¥1 trillion. Incredibly, we think consensus on



software is off by an even larger order of magnitude than the streets deluded hardware takes, but more on all that in our next annual letter. For now, it is safe to say that a console release of this importance, plus spring-loaded game sales and a modest valuation of less than 12x normalized earnings (less cash) puts Nintendo's forward risk-adjusted return profile into rarified air over the next three to five years.

### **Vistry PLC (VTY.LN)**

UK homebuilder Vistry Group is transitioning to a pure-play "partnerships" business model that combines the financial and land resources of local authorities and housing associations, the central government, and even financial institutions with those of the homebuilder to create a capital-light home construction enterprise at the center of a virtuous circle for all stakeholders. Unlike traditional homebuilders, Vistry's "partnerships" model pre-sells over 50% of its homes at affordable prices (mostly to cycle-agnostic local councils or housing associations), shortening cash collection times and considerably reducing the business's cyclicity and interest rate sensitivity. Vistry's shift from a hybrid traditional/partnerships housebuilder to a partnerships "pure play" will not only make it the UK's largest affordable housing manufacturer but will also drastically improve the predictability of its financial and operational results, radically increasing its revenue visibility, return on capital, and earnings potential in lockstep.

The best analogy, valuation comp, and example of expected returns for Vistry is US-listed NVR. For those unfamiliar with NVR, it's a slow-growing, capital-light US housebuilder that's repurchased more than 75% of its shares over the last 30 years. Vistry continues to repurchase its shares as it reaches the late stages of its ongoing business transformation. The company should complete ~17k homes this year and as described above, will be delayed in reaching its 20k Partnerships completion and £800 million operating profit targets as part of the issues discussed earlier on.

Mind you, we still view both targets as very achievable, as their issues to date have been Housebuilding related, which is in wind-down and ultimately irrelevant to our long-standing thesis. Though the pace of the wind-down is contingent on open market housing sales, the release of this trapped working capital will be material, not to mention a matter of when, not if it can be returned to shareholders. The Labour government has also prioritized housing and should debut a new, larger, funding program in June/July. Moreover, both management and the Board of Directors, as well as the company's major shareholders, some of whom are key members of the board continue to show conviction in Vistry as they've been adding to their collective investments meaningfully in the face of recent weakness.

Despite all these virtues, VTY trades at a 3x EBIT on its medium-term targets, while comparable firms trade 4x-5x higher. A repair of trust with investors and future operating results that balance out at or around the original guidance for target profitability make this a compelling investment at these levels assuming the company can execute, which we believe they can.

### **Magnite (MGNI)**

Magnite is the largest independent programmatic Sell-Side Platform (SSP), an entity that provides technology solutions to automate the purchase and sale of digital advertising inventory on behalf of publishers. The company arose from the merger of The Rubicon Project and Telaria in 2020. It then acquired a CTV competitor SpotX in early 2021 to become the third-biggest CTV SSP, after Comcast's Freewheel and the Darth Vader of the AdTech world, Google. Critically, Magnite stands today as the key enabler of Connected TV advertising for streaming platforms, an increasingly crucial revenue source for media parent companies around the world.

The company's contract win with Netflix is proof of its differentiation in the space, and was something we expected after hearing back in early 2023 that Microsoft's Xandr ad tech stack wasn't capable of true CTV ad delivery. The company has impressive incremental EBITDA margins (75%+), and after spending the last few years consolidating its acquisitions, is in a place to capitalize on growth opportunities, generating cash flow far in excess of current market expectations.

Nonetheless, the company trades on a single-digit multiple of this year's estimated EBITDA, with minimal credit applied to Netflix onboarding programmatic advertising. That's strange, if only because the Netflix ad tier is likely to deliver \$6 billion in ad spend next year, and half of that may go through Magnite with low-single-digit take rates (3.5 to 5.0%). Should this occur



with incremental margins they have shown in the past, the company could see EBITDA rise by over \$70 million next year, implying 30%+ growth from Netflix alone. Better yet, with the success of Netflix's programmatic endeavors, other media customers may accelerate adoption of the same type of programmatic infrastructure/services with MGNI that were previously just tertiary monetization activities.

Meanwhile, Magnite DV+, the company's open internet SSP division, should continue its modest growth. However, it also has a potentially massive call option in Google's forced divestment of its ad tech stack (Google Networks). We published our [first writeup on the situation](#) in September 2023 before the search trial, highlighting investor complacency about a breakup risk for both search and ad tech trials. With (1) Google's loss in the search trial and (2) there still being an opportunity for the beneficiaries in the ad tech case, [we published an update to that thesis](#) in September 2024. The ad tech trial concluded in November and the ruling is imminent as of late February. Recently, and for the first time in Google's history, its open internet DSP, DV360, announced direct integration with MGNI DV+ to streamline ad transactions. We believe that action is a canary in the coal mine. Meanwhile the second ad tech trial, in Texas, has begun discovery, with a trial date later in 2025.

In the event of a breakup of Google's ad tech stack, Magnite stands to see its DV+ market become competitive again and gain share from Google, potentially resulting in 5-10x upside in MGNI's equity and 50-100x upside in the LEAPs. Again, completely independent from a compelling setup in the stock itself. That's our kind of setup, to say the least.

## **New Company Z**

In Q4, we started building a position in Company Z, a telecommunications company developing a satellite constellation to provide broadband connectivity directly to unmodified smartphones. Its innovative Direct-to-Device (D2D) technology eliminates network dead zones by leveraging satellites to extend coverage into areas where terrestrial networks are unreliable or nonexistent. As a first-mover in this space, Company Z is uniquely positioned as a "winner-take-most" player in the D2D satellite connectivity market. It's largest and best capitalized competitor, has poor technology and service for D2D and is a surprising laggard in this regard, despite investor enthusiasm for said competitor.

Company Z targets billions of underserved or unconnected individuals globally, addressing significant opportunities in consumer, B2B, and government markets. Its innovative go-to-market strategy leverages partnerships with mobile network operators, allowing it to scale rapidly through a revenue-sharing model without the burden of direct consumer acquisition costs.

With key milestones achieved, including technology validation, satellite launches, and regulatory approvals, Company Z is transitioning from proof-of-concept to large-scale commercialization. Should the company show its promise of commercialization, which we believe should be evident as early as this year, it could become one of the most profitable companies of the 2020's. Company Z will be discussed further in our Annual Letter, where we will detail the key factors to its mispricing and future growth prospects, all at an appealing valuation.

## **Operational Updates and Basic Housekeeping**

As some of you may have noticed, we've introduced the MSCI All Countries World (ACWI) index as an additional benchmark to our longstanding yardsticks given the fund's significant current exposure to non-U.S. developed markets, particularly Japan and the UK. In short, this decision reflects both the evolving composition of our portfolio and better aligns with the fund's global mandate. We also think it provides our international partners with as robust a proxy for the long-term opportunity cost of investing in Crossroads as any global investor is likely to find, not to mention a more relevant comparison than our existing US domestic small-cap and broad market index-related benchmarks.

The hope in making this addition despite the substantial comparative flaws involved is that it will help all our global investors better contextualize our performance within the broader international landscape. Furthermore, by incorporating this widely recognized global benchmark we aim to provide greater transparency and relevance in our performance reporting, reinforcing our commitment to objective evaluation and alignment with our investors' diverse geographical perspectives. The change also



coincides with the launch of our offshore investment vehicle, another recent change that aims to better address the needs of our international investors.

On that front, in the fourth quarter we decided we're moving forward with the launch of our offshore fund and plan to launch a BVI mini-master vehicle starting April 1 due to great interest. This offshore structure will benefit both foreign investors AND US investors with tax-advantaged accounts like ROTH IRA's and 401k's. Please reach out to us if you're interested to learn more. It goes without saying we're excited about this development as the firm continues to evolve into what we envision, a top-tier investment fund at the service of an incredible group of partners can and should become.

To conclude, we have managed the currents of the investment landscape and are poised to strike on an opportunity set that has us excited for 2025. Additionally, we've made progress in elevating Crossroads and bringing the fund to a wider spectrum of investors at the very same time some of our best ideas appear to be coming into their own. As always, thank you for your continued trust and support.

Sincerely,

Ryan O'Connor  
Founder & Portfolio Manager



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