February 28, 2026

Dear Oxwater Partners Investors,

In 2025, the fund recorded a gross return of 23.1%, translating to a 19.7% net return. Since inception on July 1, 2023, the fund's cumulative return net of all fees and expenses has been 35.0%, equating to an annualized net return of 12.7%.[1]

In accordance with our investment philosophy, we maintained minimal portfolio activity during the year, recording only two transactions. A portion of the Paramount position was converted to cash upon the completion of the Paramount-Skydance merger; we then used those proceeds to augment the fund's position in PayPal. Such little turnover is emblematic of our approach to remain invested in a business so long as it maintains attractive long-term fundamental prospects that have not become overly discounted. We will always consider exiting a position, however, if we believe market expectations have pulled forward an excessive degree of the company's prospective appreciation and therefore flattened its return prospects.

Tariffs were of course a major headline throughout the year. While their implementation was an unwelcome development for certain of our holdings, these businesses navigated the trade environment effectively, minimizing the impact of tariffs to the extent possible by means such as rerouting imports, altering merchandise assortments, shifting manufacturing partners, and raising prices.

A Few Thoughts on Retailing

Retailers and adjacent businesses (i.e., third-party marketplaces) constitute a notable portion of the portfolio. Indeed, with Five Below and Dollar General composing ~37% of the fund's assets as of December 31, 2025, a discussion of retailing seems pertinent.

Retailing Basics

Retailing is a fundamentally attractive business due to its scalability and unit economics. Unlike other business models, the growth of a retailer occurs in a highly modular manner. Once a successful store layout and format is established, the retailer can solidify it and simply replicate it in other locations. Given that consumer preferences throughout the United States are quite consistent, the market opportunity is usually nationwide, with most concepts able to support hundreds or thousands of locations domestically. Unit growth becomes an exercise in copying-and-pasting. Such modular expansion provides visibility into the long-term growth prospects of the business and a strong use for retained earnings. For instance, it would not be atypical for a successful retailer to generate x in unit-level revenue and deliver a unit-level margin (or 4-wall EBITDA margin) of $0.15x$, while requiring just $0.60x$ of upfront investment to open a new store — in the form of tenant improvements, initial inventory, and pre-opening expenses — generating a return on invested capital of 25%. The ratios differ depending on the retailer, but this is illustrative of the fast payback periods and attractive ROICs commonly generated by unit expansion. As a result of such economics, which allow for self-funded growth, many retail enterprises are able to achieve significant size while maintaining a negatively levered balance sheet (i.e., more cash than debt); examples include Costco, TJX, Ross Stores, Ulta Beauty, and Five Below, among others.

Despite its compelling attributes, retailing is well-known for being a difficult business to manage. In addition to operational challenges, such as notoriously high employee turnover, retailers assume an inherent risk: in effect, they must place bets on consumer purchases. These wagers come in the form of merchandise inventories, acquired upfront with at-risk capital. Furthermore, the duration between when these inventories are paid for by the retailer and when they are ultimately purchased by the end consumer ("Cash Conversion Cycle" in retailing parlance) is often unfavorable from a cash flow perspective. On top of this, retailing is a high fixed-cost business. Therefore, if the retailer is wrong in its prediction of how much merchandise will be purchased by customers and at what price, its profit stands to decline dramatically. The detriment of failing to sell inventory is further amplified on a cash flow basis because, while cost of goods sold is recognized only when sales occur, the cash cost of inventory is incurred regardless of whether it is ever sold. Of course, certain categories exhibit far more consistent and predictable demand than others (e.g., groceries versus furniture). Furthermore, the fixed-cost nature of retailing is a double-edged sword. Despite its risks, it presents the opportunity for significant margin accretion if revenue outperforms. This is because neither corporate overhead nor unit-level costs (e.g., labor, rent, utilities) scale with unit-level revenue; therefore, the vast majority of incremental gross profit flows to the bottom line. Hence, why same-store sales have such an outsized impact on retailer valuations.

In short, retailing is a beautiful business when comparable store sales growth is positive, gross profit growth outpaces SG&A growth, and the business is consequently gaining operating leverage. It is an ugly business when same-store sales are stagnant or declining, SG&A growth outpaces gross profit growth, and the business is consequently experiencing margin compression.

Differentiation

It has been said by pundits in the past that Amazon made retailers "uninvestable." This is hyperbole (a number of retailers have realized excellent earnings growth and share price appreciation over the past decade), but it did fundamentally alter the retail landscape, not only by making e-commerce ubiquitous but also by becoming the first omnipresent competitor. As an "everything store" that is always online, always one click away, always exerting competitive pressures, for virtually every retailer in the country — small and large — its presence is inescapable. As such, in studying the most successful retailers, a shared trait stands out: clear differentiation from Amazon.

To consistently attract large numbers of customers in the face of Amazon (not to mention Walmart), a retailer must outshine them on the basis of either selection, value, convenience, or experience. This is nearly always achieved by specializing in a category and doing it better than they can. For example, O'Reilly and AutoZone sell automotive repair parts better than Amazon and Walmart because they carry a greater selection of parts sold by store associates who are more knowledgeable about cars. The same is true of Lowe's and Home Depot in home improvement, and Ulta and Sephora in beauty, to name a few. While Amazon and Walmart are synonymous with value, there are retailers who exceed them on this basis within their niches, such as the dollar stores and the off-price leaders. Convenience advantages exist in both proximity and store size. For instance, a shop located just down the road is all but guaranteed to win business from surrounding denizens if for no other reason than its convenience. If its footprint is small, a further advantage it offers customers is speed of transaction compared to labyrinthine big-box locations. Lastly, while the rarest and most subjective of the four traits, a stand-out experience is another way in which a retailer can distinguish itself — whether delivered by helpful associates or the atmosphere and design of a store. As an aside, department stores generally meet none of these criteria. They sell a wide array of merchandise, much of which is also available on Amazon for an equivalent or lower price. Furthermore, large-format stores located in malls are the opposite of convenient, and their experience is usually wanting. It is no surprise they have struggled mightily.

In summary, there exist a number of excellent retailing businesses despite the dominance of Amazon and Walmart, but they are all sufficiently differentiated. The graveyard is full of those who were not.

Vertical Competition

An interesting trait shared by many, though not all, of the most successful specialty retailers is that they face limited vertical competition. In contrast to traditional retailer-to-retailer competition — call it horizontal competition — we define vertical competition as competing against your own suppliers; in other words, selling products whose brands have a direct-to-consumer presence. The prevalence of vertical competition was amplified exponentially by online shopping and heightened even further in recent years by the popularity of Instagram Shopping and TikTok Shop. For example, it is challenging to be Foot Locker, whose shelves are stocked with brands that have world-class DTC operations and are competing with it for customers to purchase sneakers in their own stores and on their own websites. At its most extreme, vertical competition can result in total disintermediation, as happened to GameStop. With the advent of cloud computing and fast internet speeds, videogame publishers started selling directly to consumers via online download, debasing GameStop's core business. In contrast, home improvement and auto parts retailers, for instance, do not have to compete with their own vendors — paint and lumber, car batteries and brake pads are not known for their DTC brands.

Our Retailer Positions

To tie this discussion back to the fund's retail holdings, we believe that both Five Below and Dollar General are sufficiently differentiated from Amazon; that both score highly in the categories of value and convenience; and that neither faces a threat from vertical competition.

Five Below offers a unique assortment of merchandise that is primarily private-label or exclusively licensed and therefore largely not available elsewhere. Thus, its products cannot be price-compared and then purchased at whichever retailer offers the lowest price. Additionally, its stores present a stimulating in-person experience for kids. Creative product displays generate excitement; merchandise can be touched; and there is immediate gratification when a purchase is made as opposed to waiting for an item to be delivered. All of this results in a selection and experience that differentiates Five Below from Amazon. On the basis of value, Five Below is optimized for its target market, with the vast majority of items priced in the single-digit-dollar range. With small-format stores (~9,500 square feet) predominantly located in high-traffic suburban shopping centers, it is designed for convenience. Lastly, its merchandise does not consist of brands with a direct-to-consumer presence, so it is not faced with vertical competition.

As for Dollar General, consumer staples constitute approximately 80% of its sales. We believe it is safe to say that the overwhelming majority of its customers prefer to buy their groceries in person rather than online. Its remaining percentage of sales is attributable to discretionary merchandise, which largely consists of private-label or unbranded seasonal and decor products. Once again, this means there is no direct price comparison to Amazon and the same exact goods are not available at other retailers. Furthermore, Dollar General is differentiated because it is a dollar store — many of its customers want to buy a basket of goods for a total of, say, $30 instead of spending $30 on a single item. With roughly 20% of its SKUs at the $1 price point, and most of its merchandise below $10, it offers a high degree of value to its consumer base. Perhaps Dollar General's most defining attribute, and greatest moat against Walmart, is convenience. With about 80% of its stores in towns with populations of 20,000 or fewer, Dollar General is in closer proximity to its customers and therefore easier for them to access than other retailers. Furthermore, ranging in size from 7,500 to 8,500 square feet, its stores offer easy navigation compared to a 150,000-square-foot big-box location. Finally, given the merchandise categories it carries, it does not face competition from its own suppliers.

An Enduring Advantage

A common maxim in financial markets, a banality even, is that "you make money when you know something that other people don't." While undoubtedly true in the days — the centuries — when information moved slowly (and insider trading was not illegal), in the present day, it is largely a misconception, an anachronism. The time of the Rothschilds employing carrier pigeons to gain an information edge during war are long gone. One need not travel to the early 19th century, however, to find a time when material information advantages could be had. Just in the 1950s, for those willing to do the research, companies could be found in the *Moody's Manual* trading for such low multiples that a profit was nearly guaranteed. For example, in 1953, Warren Buffett wrote about Western Insurance, a P&C underwriter with a history of impressive premium growth and solid profit, trading for less than 2x its earnings and about half its book value.[2] In 1957, he wrote about Home Protective Co., a life insurance company whose adjusted earnings per share had grown at a five-year annualized rate of nearly 18%. Valued at less than 4x its earnings, he remarked that "Any education of investors to the facts concerning the company should result in a substantially higher appraisal."[3]

Before computers and the internet, information took time to become priced in, and highly discounted securities could remain undiscovered for a lengthy duration. Nowadays, a basic research platform, stock screener, or even LLM query can reveal every publicly traded security, no matter how small, valued at less than x times its earnings with historical growth of y. Default rates, delinquencies, interest rate fluctuations, currency wobbles, geopolitical events, merger announcements, regulatory changes, employment rates — all of this and more is known to global financial markets within minutes. In the Information Age, information in and of itself is no longer a competitive advantage. In the age of AI, this is poised to become even more pronounced, with the advent of AI trading programs capable of ingesting and acting on all news virtually instantaneously.

As such, it stands to reason that strategies based on information asymmetries are no longer tenable. Markets are too liquid; information is priced in too quickly; securities do not remain hidden. However, while capital markets are more efficient in this respect, they do not possess a longer-term mindset. Indeed, the average holding period of a stock was eight years in the 1950s; now, it is less than six months.[4] Given that the majority of capital in equity markets is in the hands of institutions and individuals with a short-term orientation, it is their actions that dictate the prices of securities on any given day or in any given year. Put another way, market participants whose holding periods are measured in days, weeks, and months are simply playing a different game. As a result, good companies occasionally become attractively priced for reasons disconnected from their long-term business value. Our modus operandi centers around capitalizing on such opportunities. Doing so requires a timetable in years and the ability to withstand mark-to-market price declines. To accommodate these requirements, we ensure the following: restricting our investments to well-capitalized, high-quality businesses; employing little to no leverage; minimizing capital flows; and having LPs who share our long-term mindset.

In summary, we believe that most market participants will always exhibit short-term behavior, and that good companies will always, from time to time, become out of favor for transitory reasons. Capitalizing on these opportunities, within a fund structure that enables us to do so, is our advantage, one that we believe is enduring.

Upcoming Capital Raise

In the second half of 2026, we will be accepting additional capital for the first time since launching Oxwater Partners. Given our strategy of making concentrated investments and minimizing portfolio activity, our preference is to raise money in what are effectively rounds, rather than perpetually accepting subscriptions, as infrequent fundraising mitigates capital flows and allows us to plan accordingly for fresh capital.

We believe this year is an appropriate time to secure additional capital for a few reasons. 1) The fund is fully allocated. Therefore, if we wanted to establish a new position, we would first have to liquidate a pre-existing holding. If that holding had an unrealized profit, selling it would be a taxable event; thus, securing dry powder in this manner is economically inferior on an after-tax basis to raising new capital. 2) In July, the fund will have a three-year operating history. While we would prefer a thirty-year track record, we believe three years is sufficient to provide meaningful insight regarding our investment decisions and how we operate. 3) Although market conditions are subject to change, we have identified several compelling opportunities and believe we would be able to put the capital to good use.

This investment window will be open from July 1 through the end of the year. As a reminder, the fund's fee structure consists of a 1% management fee and 10% performance fee. The withdrawal opening is once per year on December 31. Please feel free to contact us with questions, and we look forward to meeting with those who are interested.

Performance Attribution

Below are the contributors and detractors to the fund's gross return for the twelve-month period ended December 31, 2025.[5, 6]

January 1, 2025 – December 31, 2025	
Five Below, Inc.	11.8%
Dollar General Corporation	8.3%
Alibaba Group Holding Limited	7.9%
Paramount Skydance Corporation	2.3%
Toast, Inc.	0.9%
Yeti Holdings, Inc.	0.5%
Etsy, Inc.	0.2%
Income on Cash & Equivalents	0.1%
Under Armour, Inc.	(4.3%)
PayPal Holdings, Inc.	(4.5%)
Gross Return	**23.1%**

Position Updates

Five Below (FIVE)

Five Below delivered exceptional results in 2025, with sales and profit consistently outperforming expectations throughout the year. FY 2025 results have not yet been reported, but same-store sales are expected to have increased by 12.5%, and EPS is anticipated to be ~$6.12. These figures compare to management's initial forecasts heading into the year of comps in the range of 0% to 3% and EPS of ~$4.21. Three initiatives helped to produce this stellar performance.

1) A heightened focus on its core customer demographic: kids. This stretches from the time they receive their first allowance all the way through decorating a college dorm room. In reality, it also includes young parents and "kidults." In essence, Gen Alpha and Gen Z, extending to millennials. Management wanted to deepen the company's understanding of what these customer segments want, how to reach them, and how they shop. All of these generations are digital-native, which leads to the next point.

2) Enhancing its presence and marketing on social media. This point is obvious, but effective implementation is key — talking to the customer where they are, and speaking to them in a more relevant way. To accomplish this, Five Below has reoriented its marketing away from traditional

channels toward social channels and shifted its messaging from studio-produced to creator-produced.

3) Improving the execution and alignment of its various operating divisions. This is particularly relevant during its six “curtain-up” moments (New Year’s / Valentine’s, spring break / Easter, summer, back-to-school, Halloween, and Christmas). This means unifying the divisions of the organization to work cross-functionally in order to better serve the customer. For instance, the company has adopted a “test, learn, ramp” approach to quickly introduce new products, which requires tight alignment between the marketing, sourcing, distribution, and store teams.

Another important operational development during the year was management’s decision to disband the Five Beyond section (a dedicated space for items above $5) and integrate those products into the rest of the store. This opened up square footage for seasonal displays where the Five Beyond section used to be and is more aligned with how people shop. For example, if a customer were browsing for room decor, a $30 mini fridge will now be located where they are already shopping, rather than being situated in the back of the store. Based on the results, this change to the store layout was well-received by customers and had a positive impact on sales per square foot.

Regarding unit expansion, Five Below opened approximately 150 stores during the year and entered the Pacific Northwest, where they opened eight stores in November (all former Party City locations), each of which surpassed pre-existing grand-opening sales records. For FY 2026, management is projecting unit growth of 9%, equaling roughly 170 stores. Based on its long-term goal of ~3,500 stores, Five Below has a nearly decade-long runway of growing its unit count at a high-single-digit annual percentage pace. Combined with assumed same-store sales growth, we believe Five Below is poised to grow its revenue at a low-double-digit compound annual rate for years to come. Barring an exogenous factor, such as new tariff-related upheavals, this revenue growth should flow down the income statement, producing a similar rate of earnings growth, if not slightly faster due to benefits from operating leverage.

Overall, Five Below, led by CEO Winnie Park, delivered stand-out results in 2025. Borrowing a page from Sam Walton, she has championed the belief that the customer is the boss. This philosophy, combined with an enhanced marketing approach and securing merchandise that delights and excites customers, is the right strategy.

Dollar General (DG)

While Dollar General has not yet reported its Q4 results, it is on pace to outperform the expectations initially established for FY 2025. Revenue of roughly $42.5 billion is projected for the year, an increase of nearly 5% — stemming from over 2% same-store sales growth and ~2% net unit growth. Operating margin is expected to be approximately 5%, as the company works toward its mid-term goal of 6%, and earnings per share (adjusted for non-cash charges) is forecast to increase by approximately 10%, thanks primarily to lower shrink.

A major initiative of Dollar General's has been refreshing its store base. The company is on pace to have completed 4,250 total store remodels in FY 2025, equal to 20% of its store count, and expects to complete another 4,250 remodels in FY 2026. Thus, by January 2027, it will have renovated 40% of its stores in two years. These renovations consistently deliver a lift to comps and helped contribute to the 2.6% increase in same-store sales that DG realized during the first three quarters of 2025 — healthy comparable store sales growth, split evenly between customer traffic and average transaction amount. A notable portion of this customer acquisition came from relatively higher income households. This is an encouraging trend, as this customer demographic tends to bolster discretionary merchandise sales, which carry a higher margin than groceries.

Between inventory reductions and debt repayments, Dollar General notably improved its balance sheet in 2025. As of Q3, it was carrying $6.7 billion in merchandise inventories, a decline of $465 million, or 6.5%, compared to the prior year (while simultaneously growing its revenue and store count). This decrease in inventory contributed to an increase in cash flow, which was utilized to continue deleveraging. In the first three quarters of 2025, gross debt was reduced by $1.1 billion. Based on its last update, the company was planning on redeeming an additional $550 million of senior notes in Q4, which would bring gross debt to $4.6 billion, down from $7.0 billion at the end of FY 2023 when DG began deleveraging. Its targeted leverage ratio is 3x Adjusted Debt to Adjusted EBITDAR,[7] which supports a mid BBB rating from S&P and Moody's. Based on our estimates for FY 2025 figures, Dollar General is at roughly 3.1x, placing it near its leverage goal. Once this is achieved, we expect DG will augment its capital return to shareholders via the resumption of share repurchases (which have been paused since 2023) and perhaps an increase to its dividend.

In summary, over the past few years, in response to a challenging operating environment, Dollar General shifted its focus to enhancing its pre-existing store base, improving its cash flow generation, and deleveraging its balance sheet. With this work largely complete, we believe the business is poised for continued same-store sales growth, gradual margin expansion, and enhanced capital return to shareholders, complemented by a modest pace of new unit growth.

Alibaba (BABA)

Alibaba is in the midst of two generational growth drivers: AI and quick commerce.

AI-related product revenue continues to grow at a year-over-year rate in excess of 100%, contributing to the 30% growth that Alibaba Cloud recorded in the first six months of FY 2026. Alibaba is unique in that it is a vertically integrated cloud and AI provider. As the largest cloud provider in Asia, Alibaba Cloud offers the compute, storage, and databases its customers require, in addition to Qwen, the leading large-language model in Asia (akin to combining AWS and GPT under the same roof). As a hyperscaler, Alibaba Cloud is investing significant amounts of capital in its infrastructure, and its order backlog continues to grow, as the pace at which it can deploy AI servers still lags behind customer demand. In the first half of 2025, Alibaba announced its intent to invest about $18 billion per year over the next three years in cloud and AI infrastructure. Given the degree of customer demand, this sum is likely to be on the small side.

Quick commerce is a rapidly growing segment of the e-commerce industry. It is essentially the delivery of goods in thirty minutes to a few hours — “take-out delivery for everything.” For Alibaba, this centers around food delivery via its ele.me platform and general merchandise via Taobao Instant Commerce, which launched in May 2025 and, as of November, attracted over 100 million daily active users. Alibaba’s management team sees these services as core pillars of its domestic consumer e-commerce offering and long-term growth drivers that will bring synergies to its broader ecosystem. Thus, substantial capital is being invested to scale the quick commerce segment, which recorded 37% revenue growth in the first six months of FY 2026 as well as significant losses. However, these losses are set to improve. As of October 31, 3,500 Tmall brands had onboarded their offline stores to Alibaba’s quick commerce platform. As product supply grows, average order value increases, and economies of scale are realized, unit economics are expected to improve dramatically; as of November, per-order losses were already half of what they were during the summer.

Given the capital devoted to AI and quick commerce, Alibaba’s free cash flow, which averaged $20 billion annually over the past five years, is currently negative. As mentioned, quick commerce losses should narrow in the quarters ahead, and, although not possible to say when, AI investments should deliver substantial profits over the long term. Furthermore, with cash and short-term investments exceeding total debt, Alibaba has the balance sheet to support elevated levels of investment. With Asia’s leading e-commerce network, cloud computing service, and AI platform, it goes without saying that Alibaba is in a highly advantaged and valuable position.

Paramount Skydance (PSKY)

One of the principal reasons we originally invested in Paramount was because we believed it presented a compelling acquisition target. Given that such an acquisition occurred — with the completion of the Paramount-Skydance transaction on August 7 — and considering the certainty of cash against the outstanding uncertainties regarding Paramount’s long-term earnings potential, we elected for the cash option, resulting in three-fifths of the position converting to cash at a price of $15 per share. As of year-end 2025, the remaining position in PSKY constituted only ~2% of the fund’s assets.

Since September, Paramount has been in talks to acquire Warner Bros. Discovery (WBD). However, on December 5, WBD announced that it had entered into an agreement to be acquired by Netflix, with its cable networks division to be spun off into a separate business. On December 8, Paramount made a cash tender offer for all of the outstanding shares of WBD at a price of $30 per share, which it believed offered superior value to Netflix's proposal. On February 24, PSKY submitted a revised "best and final" offer of $31 per share plus a "ticking fee" of $0.25 per quarter commencing in Q4 2026 and continuing until consummation of the deal; other terms were also enhanced, related to items such as termination fees and equity backstops. WBD's board concluded that this offer constituted a superior proposal, following which Netflix declined to match. As of the time of writing, Warner Bros. has formally accepted Paramount's offer.

On a standalone basis, for 2026 Paramount anticipates revenue of $30 billion, up 4%, and adjusted EBITDA of $3.8 billion, a margin of ~13%. Free cash flow is expected to be approximately $700 million, temporarily depressed due to $800 million in one-time transformation costs and heavy investments to ramp content. Paramount+ has continued to make progress, recording revenue growth of 20% in 2025, primarily led by an increase in ARPU (average revenue per user). With new hit series, a strong sports offering (enhanced by Paramount's seven-year exclusive deal with the UFC), renewed vigor on the film side, and backend technological efficiencies being realized, Paramount is on a promising path to successfully make the transition from linear-first to streaming-first. This journey will be accelerated by the acquisition of WBD, as a combination of the two studios should significantly strengthen Paramount's operating position due to reasons related to content and scale. Furthermore, if Paramount+ and HBO Max are eventually combined into a unified offering (as happened with Disney+ and Hulu), the content would be second to none, and the service would be capable of reaching A-tier status as a global streamer, in terms of content and audience reach.

Toast (TOST)

Toast has four overarching priorities: 1) growing market share in its core SMB restaurant business; 2) expanding in its new market verticals; 3) increasing customer adoption of its software offerings; and 4) improving profitability. It made great progress on all of these in 2025, once again achieving very strong consolidated results, with 30,000 net location additions (+22%), gross payment volume of $195 billion (+23%), and ARR of over $2 billion (+26%).

Toast continued to gain market share in 2025, which now stands at 20% of non-enterprise restaurants in the US. In essence, 1 in 5 independent restaurants in the United States uses Toast. With such a percentage of the market, saturation obviously becomes a question. However, the encouraging sign is that in its highest market share geographies, where it holds over 30% of the market, Toast is continuing to gain share and with greater sales productivity than its systemwide average. This supports management's belief that the company is on path to double its market share in its core business.

Toast's new markets include enterprise, international, and food & beverage retail. On the enterprise front, in 2025 Toast signed its largest customers, Applebee's and Firehouse Subs. In Q4, it added Papa Murphy's, a pizza chain with over 1,000 units. This year, Toast will be launching its drive-through offering, expanding the set of enterprise customers it can serve. Internationally, Toast operates in the UK, Ireland, Canada, and Australia, which it entered last year. As these markets scale successfully, Toast is poised to enter additional countries where it sees attractive demand potential. In food & beverage retail, Toast continues to add customers, as the operational benefits are clear when shifting from on-premise legacy solutions to a cloud-based solution unified across point-of-sale, inventory management, payroll, data analysis, and guest-facing products like loyalty and email marketing. Each of these three new market verticals is growing faster than Toast's core business was at the same point in its history. These results, paired with the size of the addressable markets, suggest the new verticals can be substantial drivers of growth over the long term.

Software subscription revenue grew 33% in the year, outpacing location growth due to an increase in SaaS ARPU. Additionally, SaaS net retention rate — the software industry's closest metric to same-store sales — was a healthy 109%, driven by existing customers adding more software modules and opening new locations. Toast's most notable software release in 2025 was ToastIQ, its AI assistant. In addition to generating reports and conversational insights based on a restaurant's data (e.g., "Your top-selling item last week was…" or "Orders of guacamole have declined by x% since you raised prices last month."), ToastIQ is able to execute operational tasks. For example, a restaurant operator could ask for menu prices to be updated, an item description to be rewritten, or hourly shifts to be adjusted. Over time, ToastIQ will gain more functionality and agency. With 164,000 locations on its platform, Toast has the largest dataset in the restaurant industry, giving its AI platform an advantage over competitors.

Toast made notable progress improving its profitability in 2025. Operating income (adjusted for restructuring expenses) was $304 million compared to $62 million in 2024; adjusted EBITDA was $633 million compared to $373 million; and free cash flow approximately doubled from $306 million to $608 million. For 2026, adjusted EBITDA is expected to be about $785 million, which includes a negative impact from higher memory chip costs for its hardware due to the global surge in demand for chips. While Toast could be maximizing for higher near-term profits, it is purposefully choosing to invest a portion of the cash flow from its core business into R&D and S&M to scale its new market verticals. We believe this is the right choice and positions Toast to maintain high growth for years to come.

Yeti (YETI)

Between tariffs, supply chain constraints, a saturated drinkware market, and tighter wholesale sell-in, 2025 presented multiple headwinds to Yeti's U.S. business. For the year, consolidated revenue increased 2% and operating income declined 13%, primarily due to the unfavorable net impact of tariff costs. Despite this, we believe Yeti enhanced its business value and is well-positioned for long-term growth.

The year finished stronger than it started, with Q4 sales up 7%, led by international growth of 25% stemming primarily from European performance attributable to rising brand awareness and an expanded wholesale presence. For 2026, Yeti's revenue is expected to increase 7% at the midpoint of guidance, on pace with the company's long-term growth expectations — the key drivers of which are product innovation and international markets.

Yeti released around 30 new products in 2025 and is poised to continue expanding its product portfolio with a slate of new releases scheduled for this year. The Yonder shaker bottle, which utilizes a whisk-free design, provides an example of how Yeti can expand into new addressable markets while delivering best-in-class products. Fueled by demand for protein powders and supplements, shaker bottles are a multi-billion-dollar market. Through the acquisition of Helimix's IP, Yeti was able to quickly launch its own branded version of this leading product to excellent reviews. At a $25 price point, this is a highly accessible yet premium product that exhibits the durability, performance, and design for which the Yeti brand is known. During the year, Yeti also partnered with Fanatics, enabling it to offer an extensive product line-up featuring the official colors and logos of collegiate and professional sports teams.

Yeti's international opportunity is significant, as its products are still only available in a handful of countries, whose combined sales accounted for just 21% of revenue in 2025, or $0.4 billion compared to $1.5 billion for the U.S. From its growing base in the UK and Germany, Yeti will continue its expansion with debuts in Austria and Switzerland. Beyond Europe, its entry into Japan began in earnest in 2025 and will likely be followed in the future by South Korea and China. For 2026, Yeti's international business is expected to keep up a strong pace, with revenue forecast to increase in the high teens.

Over the long term, we believe Yeti has the opportunity to grow its revenue at a high-single-digit annual rate and gain moderate operating leverage, particularly as it achieves scale in international markets. Paired with share repurchases, this would provide Yeti with a long runway of double-digit EPS growth.

Etsy (ETSY)

Etsy demonstrated sequential improvement throughout 2025, with GMS (gross merchandise sales) progressing from a year-over-year decline of -8.9% in Q1 to -5.4% in Q2 to -2.4% in Q3 to +0.1% in Q4. Furthermore, in Q4, U.S. buyer GMS grew for the first time in four years. These are positive indicators that Etsy is stabilizing and support management's forecast for slight GMS growth in 2026.

In October, it was announced that Kruti Patel Goyal would be taking over as CEO, effective January 1, from long-time chief executive Josh Silverman. We believe this internal hire is the right choice given Ms. Goyal's accomplishments as Etsy's Chief Product Officer from 2019 to 2022, followed by her tenure as CEO of Depop (a fashion resale marketplace and former Etsy subsidiary) from 2022 to 2025. In both of these positions, she played a key role in overseeing acceleration in top-line growth. Going forward, management's focus is on making sure Etsy appears earlier in consumers' shopping journey; better matching buyers with the right inventory; enhancing loyalty and retention with its most valuable customers; and further emphasizing the human elements of Etsy. There is no silver bullet to reignite growth, but by sharpening execution and delivering on what matters most to customers, we believe Etsy can return to consistent increases in GMS.

On February 18, Etsy announced the sale of Depop to eBay for $1.2 billion, with the transaction expected to close in Q2. While Depop is rapidly growing (GMS was up 36% in 2025), it is still far from profitable on a GAAP basis, and it has been undervalued as a subsidiary within Etsy. This divestiture allows Etsy to benefit from a more appropriate valuation for Depop, and the sale will be accretive to margins, as Depop accounted for a 3.5% drag on Etsy's consolidated Adjusted EBITDA margin in 2025. As such, Etsy's FY 2026 Adjusted EBITDA margin is forecast to be in the range of 28% to 30%, up from 25.5% in 2025.

The proceeds from the sale, equal to over 20% of Etsy's market cap, are earmarked for general corporate purposes and share repurchases. In 2025, Etsy bought back 11% of its stock. Based on its current market value, we anticipate a similar or higher percentage of share count reduction in 2026. With $1.8 billion in cash and investments (before accounting for the proceeds from the Depop sale) and ~$650 million in annual free cash flow relative to $3.0 billion in debt, Etsy is in an excellent position to manage debt maturities, continue returning capital to shareholders, and invest in its business to reposition itself for growth.

Under Armour (UAA)

While Under Armour's turnaround effort is a multi-year process, it is on pace with FY 2026 expectations. For the year ending March 31, revenue is anticipated to decline by 4%, gross margin is expected to decline by 2% (driven primarily by tariffs), and adjusted operating income is forecast to be $110 million, all of which are slightly ahead of prior forecasts.

With much work completed related to restructuring, pruning SKUs, enhancing product lines, and reducing reliance on discounting, Under Armour is better positioned heading into FY 2027 than it has been for the past few years. This is supported by the fact that management believes the December quarter marked the bottom of North American performance, with revenue down 10%, and that underlying indicators are improving in both DTC and wholesale.

Since the company's turnaround efforts began in April 2024, a key goal has been to "sell more of less at a higher price" — to pare back the breadth of its offerings in favor of a more focused selection of performance-based products accompanied by compelling marketing. An example of this can be found in UA's primary pants franchise. This product line has ten different styles with equally as many different fabrics, waistbands, and logo placements. It is being reduced to three — a "good, better, best" selection. Moves like this should result in efficiencies and make it simpler for Under Armour to run its business, from sourcing to distribution.

Under Armour's ability to return to growth is not dependent on financing — it has positive operating cash flow and a balance sheet with more cash than debt — but, rather, its ability to make and market products that resonate with its youth athlete demographic. To that end, it has developed a strong presence on social channels like TikTok, gained brand ambassadors at the professional sports level, and is playing host to additional in-person events, such as the UA Track and Field Nationals.

To reiterate what we have stated before, our preference is to avoid turnarounds. However, based on its brand prominence, distribution footprint, balance sheet, and valuation, we felt Under Armour presented a positive risk-reward profile. With the company entering the third year of its turnaround effort, we believe Under Armour has had enough time for the work it has completed to begin to be reflected in its financial results. If the business returns to modest growth and achieves a normalized though still below-average margin profile, we believe there is notable appreciation potential over our cost basis.

PayPal (PYPL)

Since establishing our position in 2023, PayPal's operating earnings have increased by 21% and its share count has declined by 13%, yet its earnings multiple has compressed by nearly 50%, from ~13x to ~7x operating income. Most of this decline in sentiment has occurred over the past three to four months.

While PayPal delivered solid consolidated results in 2025 — with currency-neutral TPV (total payment volume) up 6%, TM (transaction-margin) dollars up 6%, non-GAAP operating income up 9%,[8] and free cash flow of $5.6 billion — its online branded checkout business disappointed in Q4, delivering growth of only 1%. In order to re-accelerate growth amid a heightened competitive environment, PayPal is taking necessary steps to improve its branded checkout business by implementing a smoother, faster experience; improving the placement of its BNPL (buy now, pay later) and payment buttons relative to competitors; and enhancing its rewards and loyalty programs. These investments are expected to present an approximately 3% headwind to TM dollars in FY 2026. Paired with a low-single-digit increase in operating expenses, PayPal's operating earnings are forecast to decline this year. However, given its current market cap and share repurchase program, it is on pace for a double-digit net reduction in its outstanding shares. Therefore, we expect EPS to increase in 2026.

Usually, when a business trades for as low a multiple as PayPal's, it is in structural decline and has a highly leveraged balance sheet. PayPal does not meet either of these criteria. It is in a growing industry (digital payments), and while it faces intense competition, it itself is a highly formidable competitor, with 439 million users and TPV of $1.8 trillion. This is not a scenario where the competitive threat is beyond the company's capability to address. This is a question of execution. Additionally, its financial position is excellent, with $5–$6 billion in annual free cash flow and cash and short-term investments of $10.4 billion (plus $4.3 billion in long-term investments) against total debt of $11.6 billion.

We believe a confluence of factors has resulted in sentiment toward PayPal reaching anomalously low levels, as measured by its earnings multiple: 1) a fintech-wide sell-off, 2) underperforming branded checkout growth, 3) its unexpected CEO replacement, and 4) the perception that it possesses inferior technological prowess and innovation capabilities compared to its peers.

First, it should be mentioned that PayPal is not alone in seeing its shares sold off to start the year. Other major fintech companies, including Affirm, Klarna, Adyen, Sofi, and Block (parent company of Square, Cash App, and Afterpay), have also seen their market values decline in the range of one-quarter to more than one-third.

As for the PayPal-specific reasons, it is essentially being regarded as a poorly managed fintech conglomerate losing market share to more capable competitors. There is merit to this assessment, as PayPal's growth has not kept pace with e-commerce as a whole (which, by definition, means it has lost market share); its implementation of software enhancements has lagged behind peers; and it is lacking in managerial stability. Nonetheless, PayPal is significantly undervalued by any measure.

Whether the company's assets are worth more together or separate is debatable. It largely depends on how well those assets are managed. To maximize their potential would likely require a tech-forward, world-class fintech leader. Given the board's decision to hire Enrique Lores, former CEO of HP and PayPal's Board Chair since 2024, we believe this indicates that PayPal is heavily considering divestitures because, based on his career, Mr. Lores does not seem like the first choice to lead an innovative, growth-oriented fintech company. He does, however, make sense to oversee complex asset sales, given his experience at Hewlett-Packard, where he played a key role in the company's split into HPE and HP Inc.

There is a strong argument to be made that Venmo's value could be maximized through a sale, as it is a coveted asset that has been undervalued sitting within PayPal. The proceeds could be used to repurchase a significant amount of stock or pay a substantial one-time dividend. The remaining business could be split into branded checkout and unbranded payment processing, each with the ability to pursue their own prerogatives that align with investor expectations; the first a highly cash generative business, the latter more oriented toward growth. Whether PayPal chooses to retain its assets or divest them, we believe it has multiple paths it can take to deliver value substantially above where it currently trades.

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Charles Leeper	Hank Leeper
Managing Partner	Managing Partner

Endnotes

1. Gross return reflects the performance of Oxwater Partners LP (the "Fund") before the deduction of management fees, administrative expenses, and performance fees. Net return reflects the Fund's performance after deducting, among any and all other expenses, management fees, administrative expenses, and performance fees. The stated net return is calculated using the Fund's standard fee structure, which consists of a 1% management fee and 10% performance fee. Depending on the timing of an investor's investment in the Fund, and potential side letter terms, returns may vary from those stated herein.
2. Warren E. Buffett. "Western Insurance Securities." *The Security I Like Best*. *The Commercial and Financial Chronicle*, April 9, 1953.
3. Warren E. Buffett. "Home Protective Co." *The Security I Like Best*. *The Commercial and Financial Chronicle*, December 19, 1957.
4. Marcus Lu, "Long-Term Investing: What Are the Reasons Behind Its Decline?" *World Economic Forum*, December 17, 2021.
5. The contribution or detraction ascribed to each position is inclusive of dividend payments made by the respective issuer during the period of measurement. Values may not equal due to rounding.
6. Gross return reflects the performance of Oxwater Partners LP (the "Fund") before the deduction of management fees, administrative expenses, and performance fees.
7. Adjusted Debt and Adjusted EBITDAR are non-GAAP metrics. Adjusted Debt is calculated as follows: current portion of long-term obligations + long-term obligations + current portion of operating lease liabilities + long-term operating lease liabilities. Adjusted EBITDAR is calculated as follows: operating income + depreciation and amortization + operating lease costs + noncash losses.
8. PayPal defines non-GAAP operating income as GAAP operating income + amortization of acquired intangibles + restructuring costs.

Disclosures

Forward-Looking Statements