Dear Investors,

Arauca Capital reported a gross return of **+2.65%** for the second half of 2024 (from July 1 to December 31), resulting in a total gross return of **+8.98%** for the entire year of 2024. As usual, net returns vary depending on when the capital was invested in the fund. For specific details, please check your individual statements, which were sent directly by our administrator, Bolder Group back in January.

On a personal note, Laura, Graciela and I were delighted to welcome Joséphine Lilly Tissot into our family. Seeing our family growing makes me more motivated than ever to make the best investing decisions I possibly can, which does not mean I will always get the best outcomes, but I should minimize unforced errors and completely avoid type 1 errors, as explained in this letter.

The 2024 results were largely attributable to various factors. First, let's talk about factors that dragged performance:

- Our largest holding, Shelly, experienced a stagnant year in terms of share price movement, despite a remarkable year in terms of fundamental business performance.
- Our second-largest holding, Vistry Group (since sold), had my hypothesis proven wrong, our results ended up mostly flat after experiencing a meaningful unrealized gain, given the first profit warning.
- Our still somehow large position in short term treasuries.
- Our convex positions, though small and designed for deep asymmetric upside, did not deliver benefits in 2024
- Lastly, my somewhat risk-averse attitude made me research but not buy some micro caps that exploded in 2024.

I have no regrets, except for instances where I researched certain companies that fit Arauca´s criteria and without a strong reason passed (did not buy)—a mistake in hindsight. Shelly's stock performance in 2024 is irrelevant as the company has become incredibly cheap, just for the passing of time as execution remained impeccable, at the time of writing Shelly trades **around 11 times my estimate of 2026 earnings**, and it is a matter of time until the stock re-rates (assuming facts do not change). Regarding Vistry, the initial investment was wrong, as I lost trust on management but not the risk management of the position. So, in a way, what I passed on was the source of the main errors and what I regret in 2024.

The positives were my discipline to re-buy and sell (again) TPL (Texas Pacific Land Corporation). We made more than 100% of the investment at cost in 2024 alone. I continue investing and selling TPL based on valuation, and given that last sale, TPL became one of our largest sources of returns since the partnership started. A 10x when the first sale occurred and the mentioned above "trade" that resulted in a realized profit of more than 100% for the Fund in 2024. Landbridge, which is a "mini-TPL," was also acquired in 2024 and sold after an almost 100% move. Given my research and facts coming out of the company post-selling, I had an opportunity to re-buy it after the "Deepseek" scare. Lastly, worth mentioning, our relatively large position in IDT came to life again, following the resolution of the lawsuits against Straight Path Communications in 2023 and an impeccable execution of the high-margin businesses, especially NRS, Boss Money, and Net2Phone.

Lastly, in recent months, I have been actively deploying our capital and have identified several promising opportunities, including the gem Sofwave, which I will cover in part two of the letter.

Part 1 – General Thoughts

How quickly narratives change - The big picture in a changing world

<u>The waves of narratives:</u> Unfortunately, or fortunately for some who understand, price action drives narratives. Price action drives feelings/emotions/brain chemicals, and those drive the human need to rationalize reality with our mental models, experience and knowledge. The risk is that as price action powers emotions, the rational part of the brain gets shuttered and a "new" narrative emerges, making us take a new set of action, and that is an incredible source of risk. My job is to ensure my investing hypothesis stay valid or are discarded based on facts. Humans are absolutely addicted at "trying" to explain everything, and most are fooled by randomness. In a world with outsourced thinking, as this one, where instead of reading books people get the information from tiktok, the slight change in prices can create a powerful narrative echoed globally, while fundamentals may remain intact risking your investing results.

I give you an exercise. Take narrative flips on either stocks you hold or macro narratives; evaluate why the flip happened? Measure whether it was price action without fundamentals, fundamentals changing or a message spread by social media. I evaluate carefully the facts on any hypothesis I have, and I am a ruthless seller when the facts change. Last year alone, I experienced three major changes in companies I held, prompting me to sell. I also need to act as a guardian of the investment hypothesis if the fundamentals or facts remain unchanged, so I must shield myself from narratives. I cannot stress how important this is. Without discipline, positive outcomes in the investing world are impossible

However, and most critical, fundamentals and facts are changing with unbelievable speed as well, especially with regards to macro and geopolitics. This makes the game a lot more difficult and the discipline I have exercised at Arauca more important than ever.

The big picture: From a macro standpoint, I cannot be more concerned. We moved from a belief—again, narratives—that the new US Government was going to cut bureaucracy, senseless programs, and regulations, and be pro-growth, to the reality of a disorderly dismantling. A chaotic implosion where the vision of a pro-growth, anti-bureaucratic government crumbled into a frenzy of dangerous tariffs that spiked costs and can disrupt supply chains, fighting arrogantly with allies that fractured trade unity and eroded trust, and a reckless spree of firings without strategy, leaving a leadership vacuum that turned promised efficiency into a rudderless mess. Add the U.S. administration's discussion of a crypto reserve filled with Cardano, Ripple, and Solana, presenting them as legitimate, which exposes a troubling conflict between oversight and government influence. A short illustration: Ripple (XRP) is seen as dubious due to its centralized control and SEC lawsuit. Cardano faces skepticism for slow progress despite big promises (hype). Solana is known for outages and insider-heavy token distribution. From the American government standpoint, spreading awareness about these coins is beyond foolish.

I do not know what it felt like buying stocks during WWII, but I imagine it must have been scary. However, I do know that anyone who bought stocks back then took the tail risk that the war would be lost from an Allied perspective. I doubt anyone thought the U.S. would ever tell Europe to make peace with the Nazis without any security guarantees or offer "sanctions relief" while alienating countries fighting for freedom from Nazi occupation without ever criticizing Hitler. People were scared of losing the war, not of the U.S. betraying its allies. Unfortunately, today we see an unseen scenario unfolding in the West.

The world, in my opinion, faces its gravest crisis yet since WWII. The U.S. once the stalwart of democracy, now undermines leaders like Zelenskyy, who fight against Russian aggression. Trust erodes as America sides with the aggressor, an aggressor that broke over 25 agreements with Ukraine alone and proposing hollow ceasefires. Respect diminishes when powerful nations betray allies and weaken the foundations of democracy. This turmoil brings a new, unstable era, way worse than the fact that Russia invaded Ukraine. This administration is providing a powerful message to allies - do not count with America.

For years, Russia's actions have demonstrated a blatant disregard for international agreements, exemplified by their repeated violations of the Minsk Accords and other treaties. Despite these breaches, certain factions in the West continue to advocate for concessions and negotiations without stringent guarantees. This approach not only emboldens the aggressor and future aggressors but also demoralizes those who stand against tyranny. The insistence on diplomatic solutions without accountability only paves the way for further instability and conflict, specially without offering security guarantees. The same agreements were broken, again more than 25 times, so criticizing Ukraine for asking for guarantees while facing daily missiles is beyond comprehension.

The erosion of American credibility on the global stage has far-reaching implications. Allies who once looked to the U.S. as a reliable defender of freedom now question its commitment and resolve. Think about Maxar Technologies who cut Ukraine from accessing satellite images, which are used to protect itself for countless missiles and drone attacks. How other countries will think about doing business with the US and some American companies needs to be re-examined based on these powerful implications. This shift not only weakens existing alliances, company outlooks but also emboldens other authoritarian regimes to pursue their aggressive agendas. The current situation demands a reassessment of strategies and a recommitment to upholding the principles of democracy and justice.

I live in Europe and have many friends who lived under the Soviet Union. They had no freedom, and every step of their lives were documented, people were imprisoned for making critical comments. Thanks to American pressure, that "empire of evil", as Reagan called it, eventually collapsed. Unfortunately, a similar form of that regime has re-emerged. While they can do whatever they want within their country, the West cannot tolerate invasions and the spread to other countries who want anything but be part of Russia, because the invader does not stop.

Why do I tell you this? Because it matters. The world is taking a turn I never thought possible, and at the same time, I need to manage our capital. So, how does all of this translate to my capital allocation decisions? I need to stay hungry for great companies, but I cannot lose sight of the current landscape. I must remain trustful of the institutions of the United States and hope they prevail, remembering that this administration shall pass. I also need to be optimistic that Europe will take serious steps; for three years, Europe has been sleeping and funding Russia through gas purchases. We are afraid to pay a short-term price for a long-term gain.

With that said, I've never seen pessimism in Europe at these levels. I've been deeply concerned about several issues: Lack of defence spending, excessive taxes, overwhelming bureaucracy and regulation, a welfare system that encourages laziness instead of fostering entrepreneurship, and Europe's—or more specifically, Germany's—misguided energy policies. But markets take extremes; is this not Europe´s peak pessimism? In a way, I am very satisfied that 50% of the stocks we own at Arauca are in Europe and Israel, with the remaining in the U.S. and Canada. If there is a time for Europe to get its act together, it is now. And in my view, the valuations of these European stocks are extremely cheap. With regards to Arauca Portfolio construction, the safe part of the barbell remains in USD denominated assets.

Given the current facts, which are extremely serious and, in my view, inflationary, I need to hold some inflation-beneficiary assets and maintain a larger-than-usual allocation on the safe part of the barbell (see previous letters for the explanation of the barbell at Arauca). I must be extremely disciplined with allocations at cost and valuation. This increases my use of derivatives. For example, our new investment in Alphabet (see further down) is composed of holding stock and a derivative position in a risk reversal, where I can amplify returns if I am right and have a clear smaller downside if wrong. Unfortunately, these derivative positions are only possible to use in large stocks. As Arauca owns several micro/small caps, I cannot hedge them nor use this derivative strategy. Therefore, my approach there is in the discipline of sizing at cost, extreme calibration based on pure facts from the company and valuation.

Part 2 - Portfolio Update

Sofwave – Shelly Group (update) – The cheapest call option on innovation – Some new positions

Sofwave:

We own a relatively decent sized position is Sofwave Medical, which was the undisclosed company of my previous letter. This is a company I think is uniquely positioned to capture a significant share of the aesthetic medical device industry focused on skin rejuvenation. Sofwave is completely under the radar, given it is currently a small cap listed in Israel, reporting in Hebrew, however with a Nasdaq listing expected to happen latest in 2026, which should help in the discovery of the company. Sofwave is building a global base, currently operating in 40 countries with the largest markets being the US and the UK, with imminent entry into Japan (waiting regulatory approval) and the potential to enter China within the next two years. The business model produces 100% margin recuring revenue, the company has consistently increased its share of recurring revenue from 25% in Q3-2023 to an impressive 40% of revenues in Q3-2024, highlighting the use of the technology. It is important to highlight that Sofwave is growing its topline by 20% in its existing markets, while the industry in 2024 experienced a slowdown. Particularly, Sofwave's large competitor, Inmode, which uses an inferior technology, saw a revenue decrease of over 20% in 2024 compared to 2023, demonstrating that Sofwave is rapidly gaining market share.

Sofwave Medical has created a breakthrough, FDA-approved technology that meets the growing demand for non-invasive aesthetic treatments. Sofwave's technology is designed to lift, tighten, and smooth skin across various body areas. The fact that Sofwave does not focus only on the face, brings tremendous optionality to the company. For example, the rise in popularity of weight loss treatments, such as GLP-1 ones, often results in loose skin. Sofwave's technology can effectively address this issue, providing a solution for patients seeking to tighten and firm their skin post-weight loss.

Sofwave Medical has pioneered an innovative, FDA-approved technology called Synchronous Ultrasound Parallel Beam Technology. This technology uses ultrasound energy (pulses) to stimulate collagen and elastin production in the dermis, creating controlled thermal injuries that trigger the body's natural healing response. Unlike competitors such as Inmode, Cutera, and Candela, which rely more on marketing than technological innovation, or Ulthera's High-Intensity Focused Ultrasound (HIFU) technology that can cause significant pain and health risks, Sofwave's technology offers a more comfortable, efficient, and effective solution. It delivers precise energy to the mid-dermis, ensuring minimal discomfort and no downtime, making it a game-changer in non-invasive aesthetic treatments.

It warrants explaining what a pulse is: A pulse in Sofwave's technology refers to a precise emission of ultrasound energy targeting the skin's mid-dermis. Each pulse generates thermal energy, stimulating collagen and elastin production without damaging surrounding tissues. This ensures uniform results, minimal discomfort, and no recovery time, making pulses a key component of Sofwave's innovative approach. Each treatment requires pulses, which are sold by Sofwave and serve as the source of its recurring revenue—a topic that will be elaborated on further down.

Let's contrast Sofwave´s added value compared with Inmode, so you understand why one is growing 20% topline while the other decreasing 20%

Inmode's RF microneedling involves penetrating the skin with needles to deliver radiofrequency energy, which can be extremely painful and often requires aggressive numbing protocols. Patients undergoing Inmode treatments frequently experience significant downtime, needing time to heal post-treatment, which disrupts their daily activities. Additionally, Inmode's treatments necessitate the use of disposable components for each session, adding to the overall cost and logistical burden for clinics.

In stark contrast, Sofwave's technology is non-invasive, requiring no needles and no disposables, remember they just deliver pulses. By delivering precise ultrasound energy to the mid-dermis, Sofwave creates controlled thermal injuries that stimulate collagen and elastin production without damaging the skin's surface. The Sofcool™ system maintains a comfortable temperature on the skin's surface, making the treatment much less painful, patients often do not even need numbing gels. Moreover, with Sofwave, there's no downtime; patients can immediately return to their daily routines post-treatment. This results in a more economical solution for practitioners and a more comfortable, convenient experience for patients, setting Sofwave apart in the aesthetic medical device industry.

Similarly to Inmode, the same happens with competitor Ulthera. Ulthera's High-Intensity Focused Ultrasound (HIFU) technology delivers smaller energy pulses deep into the tissue, causing significant pain and often requiring aggressive numbing protocols resulting in considerable downtime. Additionally, Ulthera's treatments pose potential risks of nerve and fat cell damage due to the deeper energy penetration. Sofwave is truly a better solution.

Sofwave's business model consists of selling the device (SUPERB) at approximately USD 100k, a price cheaper than competitors. Management emphasizes that this price allows clients to finance through credit cards rather than traditional cumbersome bank financing, which essentially eases the transaction process. Device sales have around 65% gross profit margins. Devices are preloaded with 3000 pulses, and to give you an idea of what that means: A full-face treatment requires around 200 pulses. Once the pulses are consumed, the practice needs to buy more, and this is done directly through an online system with a credit card and activated via a software interface tied to the device. Each pulse costs around USD 1.50, with discounts it would be reasonable to assume prices of USD 1.00 to USD 1.20 for bulk purchases. The pulses become recurring revenue and are 100% margins. This business model is radically better than Inmode's, which with its system Morpheus8 requiring physical consumables-needle tips or cartridges, which are also more expensive and requires to order in advance and stock inventory. With Sofwave, doctors can purchase pulses once the patient is at the practice (last-minute booking).

Sofwave's business model for doctors is a straightforward razor-and-blade system: Doctors buy the device for USD 100,000, which comes with 3,000 preloaded pulses. Doctors then charge patients USD 2,000–3,000 per single-session, e.g. skin-tightening treatment, using 100–200 pulses (costing USD 150–

200, bought online instantly at USD 1–1.50 each). This delivers a 90%+ gross margin per treatment, with no inventory hassle. Doctors can recoup the investment in 5–7 months with just two weekly treatments, far faster than InMode's multi-session, inventory-heavy model.

The management team is composed of industry veterans who are basically the forefathers of non-invasive aesthetics. Leading the team is Dr. Shimon Eckhouse, Chairman and co-founder, who has substantial skin in the game, holding a 24.8% stake in the company. Dr. Eckhouse invented Intense Pulsed Light (IPL) technology and built Lumenis and Syneron into industry giants before starting Sofwave. His pioneering efforts have laid the foundation for the modern aesthetic medical device industry.

Louis "Lou" Scafuri, CEO, joined Sofwave from Syneron, where he worked alongside Dr. Eckhouse to scale the company to a USD1 billion Nasdaq-listed entity. Lou brings a wealth of experience and strategic insight to Sofwave.

Assaf Korner, CFO, previously served as Syneron's Global VP of Finance. James Bartholomeusz, Chief Innovation Officer, also a Syneron-Candela alumni, drives innovation at Sofwave. He is the mastermind behind technological advancements like Pure Impact. The people managing Sofwave are essentially the creators of the industry. Imagine the compound knowledge now being utilized through Sofwave technology and the potential value creation coming from their combined efforts.

With regards to financials, the company currently has approximately USD 22 million in cash, and a market cap in USD of 158 million at a share price of 16.4 ILS. Revenues in 2024 grew close to 20% to USD 60 million.

The company just hit an inflection point and is at the brink of breaking even in Cash Flow generation and EBIT, with growth set to accelerate, especially if Japan regulatory approval is granted, which, according to management, is imminent. Recurring revenues (100% margins) should continue increasing as a percentage of total revenues, leading to gross margins above 75%, which is the current level. It's important to mention that Sofwave's topline grew by 20% while most competitors experienced declines between 20% and 50%. If the industry regains its footing, Sofwave's growth could accelerate significantly. With operations in 40 countries, Sofwave should at least maintain a 20% growth rate and reach EBIT margins of 12-15% probably one year out. This brings us to potential revenues in 2027 of USD 85 million and EBIT levels of close to USD 12 million. For a company with an EV of USD 140 million, this is an extremely attractive price. Moreover, this projection does not include entry into new markets, such as Japan. The largest market is China, and as I understand the company has already fulfilled all regulatory steps. Although regulatory approval is slow and cumbersome, if a press release announces China's approval of Sofwave, revenues should at least double.

Another way to look at it is the number of installed devices. Unfortunately, the company does not report how many devices are installed, but my estimates oscillate between 1,400 and 1,600. Let's make a mental exercise: Imagine in a few years the company reaches 5,000 devices, with just 100 pulses per treatment at a price of USD 1 per pulse, and assuming three times per week device utilization over 40 weeks per year (accounting for seasonality or other situations). This would result in close to USD 60 million revenue in pulses or recurring revenue per year (100% margins). Add device sales (65% margins), and we see how this valuation becomes extremely attractive. I just put an arbitrary 5,000 devices, but why not 10,000 or more?

To give you an idea of what Sofwave can achieve, please read this article. The Kardashians, without being paid, are sharing on social media how excited they are with their new skin treatment, and of course, it is Sofwave. Their Instagram account has 357 million followers. Imagine how much a major brand would pay to be endorsed by the Kardashians, and Sofwave got it for free because they genuinely loved it. This can only tell you how early we are to the story.

Alphabet (GOOGL/GOOG):

We own Alphabet through a small stock position and a larger derivatives play—a risk reversal, the same structure we successfully employed with Super Micro in 2023. I bought out-of-the-money call options expiring in December 2026 and sold out-of-the-money put options—a zero-cost setup. If the puts are exercised, I would be more than happy to acquire Alphabet at a significantly lower price than the already attractive level today. The puts are covered puts, meaning I set aside cash in treasury bills earning interest to cover that scenario. If the calls become in the money and the share price surges past the strike, Alphabet will become our largest position by far, thanks to the synthetic leverage—the same number of contracts, but the calls' dollar value would be more than double the one of the puts in case of the price being higher than the call strike. If Alphabet finishes between the strikes at expiry, the option structure has no effect on us, Arauca will only continue with the position it already holds in stock.

I entered in the structure when Alphabet was trading at my estimate of 18 times forward earnings, a very modest multiple for such quality business. The market is afraid the search business will be disrupted by AI startups such as Perplexity and seems to think Google is behind the curve. This fear gave us an incredible opportunity to enter in such a reasonable valuation for the core existing business lines and most importantly, Alphabet's other bets represent a ZERO COST multi-strike call option without expiry on society's highest-impact technologies.

In the rapidly evolving tech industry, the battle between startups and giants like Google ultimately hinges on one question: can the startup scale quickly enough before the giant unveils the next groundbreaking innovation? Let my trying to answer show my thinking about that question.

Google's search business has achieved a 16% compound annual growth rate (CAGR) in revenue since 2017. In 2024 alone, it grew by 13%. Not sure how to interpret the market fear that search is int its way out, I think it is in a transformative face with an untapped possibility for enhancement. As disclosed by management AI overviews while nascent are driving monetization rates similar to traditional search. Just AI overviews are providing higher satisfaction and as per management higher overall search usage, as users come for more complex queries. AI overviews combined with Google lens are providing a new way to find information. Think also of "circle to search" an exclusive android feature that enables users to initiate a search by just circling, highlighting, or gesturing counts for over 10% of searches among users. Google lens is processing 20 billion queries each month. These features are all powered by Gemini that is constantly evolving. Search through Google became more than habit, it is an ingrained behaviour very difficult to disrupt and the integration of search with Google maps with over 2 billion users and YouTube make the cost of switch very high and painful to users.

In a rare move, Google has finally shared data on its yearly search volume, revealing over 5 trillion annual queries—equivalent to nearly 14 billion searches per day. This is an increase from 365 billion searches in 2009 and 2 trillion in the period from 2016 to 2024. It is a colossal number, which highlights the dominance of Google search.

There is some truth to the claim that Google was slow to fully capitalize on its AI capabilities. While Google was one of the pioneers in developing large language models, as Perplexity CEO Aravind Srinivas highlighted in a recent interview, the company didn’t focus on this area at the time. That said, I believe there’s room for many new entrants, each with a specific focus. In my opinion, the greatest risk to Google Search lies in management complacency. However, I don’t think this is the case. Although Alphabet isn’t currently led by a founder, unlike META, founders often step in when necessary. This is exactly what we saw recently with Sergey Brin, Google’s co-founder, urging employees on the Gemini AI project to boost productivity. He stressed the urgency of developing artificial general intelligence (AGI), calling it "the final race" and affirming Google’s readiness to win. Brin also encouraged the use of Google’s AI tools to improve coding efficiency. This sentiment reminds me of Mark Zuckerberg’s "year of efficiency" mantra. If you see Google only as a search tool, I encourage you to check NotebookLM, the incredible tool that I use daily for work. Google is a lot more than what we see in the surface.

The above was for search, add YouTube, another Alphabet´s platform with +1 billion of users, which as per CFO Anat Ashkenazi became the number one streamer in the US in terms of watch time, achieving USD 50 billion in yearly revenues. Add Android with 3 billion users worldwide (1.5 billion new android devices sold yearly), Android currently is free, but why not adding the possibility to monetize it (charging phone makers for the tech). Add the powerful cloud business growing at 30% with operating margins reaching 17.5%. However, what truly excites me is other bets. I will only briefly mention the “bets” that I think if Alphabet exploits their potential and where independent businesses by themselves could be worth hundreds of billions alone.

Waymo: Based on California DMV data, Waymo’s vehicles average an impressive 95,000 miles between human interventions. Compared that with Tesla´s Full Self-Driving (FSD) software that requires intervention approximately every 17 miles. Waymo’s advantage has no equal today. In addition, think Waymo´s integration with Google maps and the constant data feeding for Google´s maps 2 billion users. Each autonomous kilometre feeds into Waymo’s ecosystem, continuously improving its driving models. This linkage enables Waymo to leverage real-time mapping updates, traffic data, and route optimization on an unmatched scale and explains its advantage mentioned above.

Waymo’s costs and expenses are set to drop significantly from here. Historically, Waymo relied on Jaguar vehicles fitted with expensive radars and cameras, averaging about USD 200,000 per car. However, as recently reported, the company is now ordering a large fleet of Hyundai vehicles, optimizing costs and efficiency. I can easily see this change slashing around USD 100,000 per vehicle over the next few years.

One of Waymo's most obvious advantages is cutting labour costs, but it is not only about cutting that cost but increase the time cars can work. Waymo vehicles can "work" close to 4,000 hours annually, nearly doubling what a human driver could achieve. Although it would require improving the levels of utilization of those cars over time.

The speed at which Waymo is scaling is staggering. Just last week, Alphabet revealed that Waymo now completes 200,000 rides per week—an incredible leap from the first half of 2023, when the weekly number was closer to 10,000. Waymo achieved this in only three cities; imagine the potential when the company reaches national scale and expands internationally. In San Francisco Waymo equalled Lyft's market share in November 2024, the speed of adoption is fast.

Waymo's capital structure, shaped through multiple financing rounds, points to the strong likelihood of a spin-off—a move I fully support. Breaking Waymo out from Alphabet could unlock immense value.

I can see Waymo expanding into logistics and long-distance travel, unlocking tremendous value that, to be honest, is very difficult to estimate but as the leader of autonomous driving technology, can be into the hundreds of billions. What matters to me, at Alphabets current valuation, we get Waymo for free.

Isomorphic labs (IL): Isomorphic Labs, operating as a distinct entity founded by DeepMind's leadership, both of which are under Alphabet's umbrella, leverages DeepMind's groundbreaking AI research, particularly the AlphaFold technology, focusing on transforming drug discovery process through AI. Isomorphic Labs benefits from Alphabet's extensive infrastructure, such as the immense computational power of Google Cloud, and of course from the integration with DeepMind´s Alphafold. Alphafold is open source for scientific research, but the extensive integration is an immense moat. Think in Formula 1, Team Ferrari uses Ferrari´s engines and is one of the best teams while other teams who also use Ferrari´s engines are at the bottom of the table. Why? The integration and know how within, and the possibility to make tweaks makes the whole difference, the same happens here with Isomorphic Labs and AlphaFold.

Remember Google´s DeepMind, which in 2020 surprised the world by predicting the three-dimensional structures of proteins. This is what Isomorphic Labs is leveraging by using Alphafold, a program that now is in its third version: Alphafold3.

Isomorphic Labs has secured major partnerships with Eli Lilly and Novartis to develop new medications using AI. In January 2024, Isomorphic signed agreements worth nearly USD 3 billion in potential value (excluding royalties), with Eli Lilly committing USD 45 million upfront and up to USD 1.7 billion in milestone payments. Novartis, meanwhile, agreed to USD 37.5 million upfront, along with research funding and milestones of up to USD 1.2 billion. By February 2025, Isomorphic and Novartis expanded their collaboration, adding up to three new research programs.

The potential value of Isomorphic Labs, and by extension DeepMind, is immense and nearly impossible to measure. Yet, just like Waymo, I don't need to estimate it to see the incredible promise it holds. I only need to tell you we get it for free at the current Alphabet´s valuation.

Quantum Computing/Willow: During my visit to IBM's European headquarters in Switzerland, I got a firsthand impression of quantum computing and became convinced it represents the next S-curve after AI. Willow From Alphabet is a clear example of why. Google claims it can solve a complex math problem in under five minutes. This same computation would reportedly take today's fastest supercomputers approximately 10 septillion (10^25) years to complete. Quantum Computing could revolutionize drug discovery, cryptography, and complex system modelling, among who knows what else. Paired with AI, Willow has the potential to lead this change.

Breakthroughs across the ecosystem are rapidly accelerating progress. Microsoft's Majorana 1 chip, powered by topological qubits, is tackling scalability and error correction with the promise of systems reaching up to a million qubits. IBM's Heron processor, combined with Qiskit, has set new records in scale and speed, slashing processing times by 50x and enabling highly complex quantum circuits. These developments are pushing quantum technology toward practical adoption, and I believe only a handful of companies will achieve meaningful breakthroughs in this field. With Willow, Alphabet is well-positioned to be one of them.

How much value could Willow unlock for Alphabet? Again, I don't know, but the prospect of having a key player in humanity's next S-curve included within Alphabet at no additional cost is a wonderful opportunity for us.

IDT Update:

IDT's execution has been outstanding, and I couldn't be more impressed with management. At the time, IDT's market cap stood at USD 1.1 billion, with USD 171 million in cash. For fiscal year 2025, the company is expected to deliver approximately USD 130 million in EBITDA, reflecting a remarkable 40% year-over-year growth. Each of IDT's segments is contributing impressive results:

- **NRS** growing topline more than 30% to around USD 120million with EBTDA margins around 30%.

- **BOSS Money:** Delivering a 10.60% Adjusted EBITDA margin on USD 36.8 million of revenue for 2Q25, which represents 34% growth. The inflection point in profitability is evident.

- **Traditional Communications:** This segment, despite supposedly being in decline, is exceeding expectations. By refining sales channels, focusing on key geographies, and adopting smart pricing strategies, it is maximizing gross profit. Operational streamlining and cost-cutting continue to drive efficiency. These efforts have delivered a third straight quarter of Adjusted EBITDA growth, surpassing USD 20 million for the first time since fiscal 2022 and achieving an impressive gross profit margin of 20%.

- **Net2phone:** Another segment has reached the profitability inflection point, with topline growth of 10% and Adjusted EBITDA up an impressive 55%. Net2phone recently launched an AI agent functioning as a virtual assistant. The segment appears to be attracting larger clients, which could drive revenue growth at a faster pace than the increase in seats.

As you can see, IDT stands out as one of the top-performing companies in our portfolio. The company just announced an increase in its dividend and is constantly buying back shares. IDT is doing everything I love to see in a company - growing revenues, growing profits and decreasing the number of shares.

Shelly Group (Largest Holding):

Shelly Group has been and continues to be our largest holding. I don't have another company with a better risk-reward profile that has had such consistent execution. In 2024, the company grew about 42% and expanded meaningfully into markets like the UK, Spain, Italy, and France, while also starting to get serious traction in Asia. The rest of the world, outside of core Europe, grew by 54%, still from a low base, but it gives you an idea of Shelly's potential.

Shelly released Shelly X, and as of a few days ago, the company is selling third-party products "powered by Shelly" in Shelly´s sales channels. I can't wait until a big appliance manufacturer signs a deal with Shelly. Management has confirmed ongoing discussions with several of them, and once that happens, the whole story changes. Everything is ready—products, technology, and sales channels. We just need the big brands.

Shelly keeps innovating like no other company in the industry. Recently, Shelly introduced devices with another protocol- LoRa, allowing devices to communicate within 5 kilometers—unprecedented for an Internet of Things company. Shelly is definitely becoming a platform company, and the more I get to know Shelly, the more upside I see in different terminals.

For example, there are companies that create devices to identify water leakage in homes and communicate with users via Wi-Fi and insurance companies, which are the final clients. Shelly already makes similar devices but has not yet targeted the insurance market, though there are plans to do so. Additionally, Shelly can include and offer services to insurers for the prevention of issues in floor heating, AC devices, and heating systems. The company acknowledges the potential in these markets but needs to remain focused on what matters today, given it is still growing in the core products around 40% (while the market is growing at 10%, as mentioned by management). But I hope you get the point—Shelly has unlimited avenues for growth, and I hope the company targets the insurance market eventually.

Shelly remains net cash positive, with revenue guidance for 2025 in the range of EUR 150 million, representing another 40% year-on-year growth. Advertising expenses have increased, but I welcome that. This is a company with 25% EBIT margins and markets that beg to know Shelly exists, meaning management needs to make sure Shelly is widely known. Shelly is spending some of the cash it produces on trade shows and advertising, and I look forward to this continuing; it is a good investment.

Shelly managed to capture an entire top team in Poland, a very large market. This has been communicated, but I don't think the market understands, Poland can become a major market for Shelly. In terms of valuation, given that the stock has remained pretty much flat for over 12 months, we've seen value multiple compression. Today, Shelly trades around 20 times this year´s earnings, and 14 times my estimate of 2026 earnings, without any credit to Shelly X or Poland, UK or potentially Asia and the US. Guidance for next year (2026) is EUR 200 million in revenues. Just by waiting, Shelly became very cheap.

Shelly has managed to fund its growth with internal cash flows without needing any external capital. Shelly continues with the same number of shares it had at the beginning of last year. Shelly is transforming itself and given the low float and limited access by big institutions, we have to remain a bit more patient, but I'm completely fine with that. Execution has been consistent and superb. No other company is outpacing the market by four times with increasing avenues of growth, expanding geographies, market product categories, in such a profitable way and doing so without dilution.

To finalize, I want to compare Shelly with an extremely good competitor called Plejd based in Sweden, which sports a substantially higher valuation than Shelly´s (more than double) but is growing less rapid and has a more limited product range when compared to Shelly. Plejd captured the entire installer market phenomenally well. In Sweden or Norway, if you ask an electrician about smart devices, they'll almost always mention Plejd and that has been the main aspect of their moat; a moat, I think is breakable. To give you an idea, Shelly focused initially, unlike Plejd, on direct to consumer and just recently started to aggressively expand in the professional market, in a very short period of time Shelly signed 900 installers, while the main competitors after almost a decade have around 2500 and 3000.

I created a table on the main differences between the two company´s offerings. Any mistakes are mine and given the industry innovates fast, this table will be soon obsolete, but it should close the discussion on the comparison. The pace of innovation, integration, possibilities, and customization between the two is radically different. There is room for both, and I am an admirer of Plejd, but one deserves a premium valuation over the other, in my opinion.

Plejd trades on the Swedish Stock Exchange, where it enjoys greater exposure to retail investors. In contrast, Shelly trades on the German stock market, where retail investors are less pronounced. This disparity affects the stock's discovery, and achieving a fairer valuation might take longer. However, as the differences between Shelly and its competition continue to widen, the market will eventually recognize Shelly's true worth. If Shelly maintains its current level of execution and some of the unpriced growth avenues materialize, the company could be worth multiple times its current valuation.

If you are new reading Arauca's letters, please see my original write up on Shelly here and in the previous letter I wrote a clear explanation about the competitive landscape. See below the comparison between Shelly and Plejd.

Aspect	**Shelly Devices (Shelly Group)**	**Plejd Devices**
Company Overview	Shelly Group (Bulgaria) is a global IoT leader, offering a wide range of smart home devices with a focus on affordability, versatility, and open integration.	Plejd (Sweden) specializes in smart lighting control, targeting the Nordic market with electrician-friendly solutions.
Primary Focus	Advanced smart home solutions with high customization capabilities: lighting, energy monitoring, garage doors, HVAC, sensors, blinds, smart locks, and more, featuring multi-protocol support (e.g., Wi-Fi, Bluetooth, Zigbee, Matter, MQTT), hub-free operation,	Plejd offers smart lighting control solutions, including dimmers, switches, and relays, with minimal expansion beyond lighting, limited to electric floor heating thermostats and motor controllers for window coverings (e.g., roller shutters and blinds).

	and integration with Alexa, Google Home, HomeKit, SmartThings for enhanced automation and interoperability.	
Product Range	Extensive and diverse: Examples are not limited to: Relays (Shelly Plus 1, Pro 4PM), Dimmers (Shelly Dimmer Gen3), Energy Monitoring (Shelly 3EM, EM Mini Gen4), Sensors (Motion, H&T, Flood Gen4), Plugs (Outdoor Plug S Gen3), Specialized (Garage door controllers, roller shutters), New Gen4 multiprotocol devices (CES 2025) and smart locks.	Initially Limited to lighting: Dimmers (DIM-01, DIM-02), Relays (REL-01, REL-02), Switches (WPH-01, SPR-01), Gateway for remote access. No energy monitoring. Recently launched a Thermostat (TRM-01) and a Shutter Controller (motor controller for window coverings)
Technology	Multi-protocol support: Wi-Fi (core), Bluetooth (BLU series, Gen3/Gen4), Z-Wave (via Qubino), Zigbee (Gen4, CES 2025), Matter (via bridge or native), KNX (limited via third-party). Gen4 combines Wi-Fi, Bluetooth, Zigbee.	Single-protocol focus: Bluetooth Mesh (primary), with Wi-Fi connectivity available only through the Plejd Gateway. No official support for Z-Wave, Zigbee, Matter, or KNX as of now
Connectivity Range	Varies by protocol: Wi-Fi (broad), Bluetooth (~10-30m), Z-Wave (~40m, mesh), Zigbee (~10-100m, mesh). Gen4 integrates multiple standards. LoRa (5 Kilometers)	Bluetooth Mesh: ~10-30m, extended via mesh; Gateway required for remote Wi-Fi access.
Integration	Open ecosystem: Home Assistant, Google Home, Alexa, MQTT, Matter (Gen3/Gen4), REST/HTTP/WebSocket APIs for third-party integration, LoRa for IoT applications. Z-Wave/Zigbee	Closed ecosystem: Plejd app, HomeKit, limited unofficial integration (e.g., Home Assistant via Bluetooth), Bluetooth Mesh for local control. No open API or Matter integration.
Energy Monitoring	Robust: Shelly 3EM (three-phase), EM Mini Gen4, Plus 1PM provide real-time tracking.	None available.

Use Cases	Whole-home and beyond: Lighting, appliances, energy management, security, blinds, HVAC, irrigation, and large-scale IoT (via LoRa). Highly customizable with APIs (REST/HTTP/WebSocket), MQTT, scripting (JavaScript on Gen3/Gen4), and third-party integration (e.g., Home Assistant, Z-Wave/Zigbee via gateways). Use cases are evolving daily given Shelly, high level of customazation.	Lighting and limited home control: Control, dimming, scheduling, and scene-setting of lights via Bluetooth Mesh; electric floor heating control (thermostat TRM-01); motorized window coverings (shutter controller JAL-01). Limited to proprietary app and official integrations (HomeKit, Google Home, Alexa via gateway), with no customization options.
Installation/ Go to Market	DIY-friendly **AND** electrician-installed (Z-Wave/Zigbee/Pro series). Retrofit-capable. Access to Both markets	Professional electrician focus; simple for lighting retrofits but limited scope.
Scalability	Highly scalable: Multi-protocol support and broad device range suit large setups.	Limited: Lighting-focus restricts expansion beyond mesh lighting networks.
Cost	Affordable: €20 (Shelly 1) to €100+ (Pro 3EM). Gen4 may increase costs slightly. Average 20-25 Euros per relay	Premium: €50-70 per device, plus €70 Gateway. Higher cost for limited functionality.
Target Audience	DIY enthusiasts, homeowners, businesses wanting versatile, open automation.	Nordic homeowners, electricians prioritizing simple lighting solutions and as of 2024 starting to add new prodicts/services.
Market Perception	Global leader (21M+ devices sold by 2024); praised for innovation and affordability.	Strong Nordic reputation for quality lighting control, especially in the installer market.
Innovation	Rapid expansion: Gen4 multiprotocol (CES 2025), Matter adoption, Z-Wave via Qubino, ShellyX chip (Feb 2025).	Incremental: Refining Bluetooth Mesh lighting; no major protocol diversification.

Some of our other holdings:

We own an Italian company called Fabbrica Italiana Lapis ed Affini S.p.A, FILA Spa in short, the creators of the brands Ticonderoga, Giotto, Canson. It is a small cap completely under the radar. The company trades at approximately EUR 500 million market cap and produces around EUR 110 million in EBITDA, although does not have high levels of growth. The company owns a stake of 30% in DOMS the "equivalent FILA" in India. Just the stake is worth around EUR 560 million at the time of writing, more than the entire market cap of FILA today. I like our odds of winning here.

I bought ContextLogic at USD 5.43, a price below the net cash the company was holding at the time. The company has USD 2.7 billion in NOLs (Net Operating Losses). The hypothesis is that ContextLogic will secure a strategic partner to invest, and, with some debt, the company should identify an acquisition target where those NOLs can be utilized. In February 2025, the company announced that BC Partners is investing USD150 million into the company at an implied valuation for ContextLogic of USD 7.95 per share. Let's see what the company does in terms of acquisitions. Again, I like our odds in this investment.

We own DNO, one of the oldest Norwegian oil and gas E&P companies, strategically positioned for the potential reopening of the Ceyhan pipeline. If this occurs, the company could be trading at just 3 times its 2026 earnings. Additionally, DNO is expanding rapidly in the North Sea, where its discoveries offer pure optionality. In March 2025, DNO ASA announced the transformative acquisition of Sval Energi for USD 450 million, a deal that boosts DNO's global net production by two-thirds to 140,000 boepd (Barrels of Oil Equivalent Per Day) and quadruples its production in the North Sea.

We keep a decent sized position in short term treasury bills. I am deploying the cash when I see fit, in market pullbacks adding to our largest holdings and when opportunities present themselves. We own more companies, as the one mentioned earlier Landbridge, a company I believe is the best inflation beneficiary we have in the portfolio.

Final Comments:

I want to thank my family, Laura, Graciela and Joséphine for their support and inspiration.

It is a true honour to be the steward of your precious capital, and I look forward to seeing the developments of our wonderful companies.

Yours truly,

Jean Philippe

Jean Philippe Tissot

Founder of Arauca Capital

Jean Philippe Tissot full track record		
	Year	**Gross Returns**
Partnership	2014	*+12.47%*
Partnership	2015	*-8.32%*
Partnership	2016	*+63.42%*
Partnership	2017	*+12.62%*
Partnership	2018	*+0.81%*
Partnership	2019	*+43.14%*
Partnership	2020	*+84.21%*
Partnership	*2021 H1	*+16.11%*
Arauca Capital	**2021 H2	*-11.42%*
Arauca Capital	**2022	*-19.54%*
Arauca Capital	**2023	*+30.65%*
Arauca Capital	**2024	*+8.98%*
	CAGR	***17.44%***

** Arauca Capital was launched in July 2021 post the family partnership*
*** Gross returns do not include management fee*
**** Mid-year returns are not annualized and assume a yearly return*

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Therefore, the fund manager is registered with the AFM as an AIFMD "light regime" or "de minimis regime" (not supervised) manager. The registration number of this Fund is **50026641**, and the updated registry of "light regime" managers can be obtained on the AFM website: Register of investment institutions

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