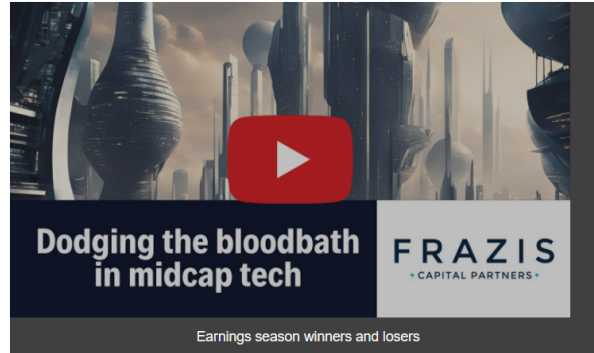


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FRAZIS

• CAPITAL PARTNERS •



May Investment Update

If you were forwarded this you can subscribe to our updates [here](#), and past letters [here](#).

Dear investors and well-wishers,

The fund fell 7% in April, but we are up >20% in May so far, taking us to over +40% for the calendar year-to-date.

NVDA

Nvidia reported last night, with revenue up 18% on the quarter and 262% on the year.

There were some shareholder friendly announcements. The stock will split 10:1, dividends will rise 150%, and the company completed a \$7.8 billion buyback in the quarter.

Goldman forecasts buybacks will increase from \$9.4 billion this financial year to \$32 billion in FY25, \$60 billion in FY26 and \$80 billion in FY27. Large numbers, even by megacap tech standards.

We have discussed our bull case in semis at length: the ~4x increase in capacity planned for the next four years, the \$200 billion annual capex plans of hyperscalers (and growing), and the >\$200 billion of Government subsidies (also growing). As of today end customer demand is strong. Microsoft is opening a datacenter every three days, and once live, these are operating at full capacity in 3-5 hours.

This investment, much of which lands directly on Nvidia's income statement, is driven by return on capital.

Jensen Huang shared some detail on the call.

For every \$1 spent on NVIDIA infrastructure, at current pricing, cloud providers will earn \$5 over the following four years, which aligns with our channel checks suggesting hyperscalers recoup spend on NVIDIA chips in less than 12 months. It's easy to spend up when your first-year return is over 100%.

One of our concerns is that the most advanced chips are becoming obsolete too quickly. But at these returns, that's certainly less of a problem.

Additionally, we learned every \$1 spent on NVIDIA's HGX H200 servers can generate \$7 over the next four years, again with the caveat that this is calculated at current pricing, which will certainly change.

This is what's driving NVIDIA's results: lavish returns to the companies buying their products.

So if NVIDIA's winning, who's losing?

We learned last night that Snowflake is downgrading profit forecasts *'in light of increased GPU-related costs related to our AI initiatives'*

So this fits with our thesis outlined in our last letter, where NVIDIA becomes a cost that many other companies have to pay, the same way that Microsoft taxes nearly every white collar worker, and Google and Facebook harvest data from every user on the internet and then extract the highest quality revenue from nearly every online

on the internet, and then extract the highest quality content from nearly every online business.

There's a precedent for a megacap tech company becoming both critical to its users, while also extracting substantial value from them. There will likely be more losers than winners here.

We have a clear profit target and a clear risk management framework so when the boom does turn to bust, if say, the hyperscalers don't get the returns they're expecting and scale back their plans, and/or Government incentives swamp the market with supply, we have clear levels at which we will move to cash.

At the moment though, it seems more likely that our semiconductor positions will hit their 4x profit targets.



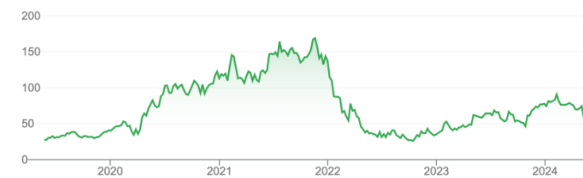
Fortunately, we are long the leaders. I'm unsure who originally made this image but will credit if I find out.

Reporting season

This week marked the end of reporting season for us.

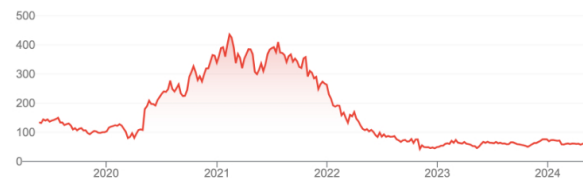
It was a bit of a bloodbath in midcap tech, which we managed to dodge this time.

Crowd favourites (which we don't currently own) like Shopify, Square and Twilio are still languishing. The problem is these are still very large companies making very little money.



Shopify

Shopify has a \$74 billion market cap but reported only 23% revenue growth and an operating profit of just \$86 million for the quarter (and a GAAP loss of \$281 million). That is a big valuation for what we consider low growth and basically no profits.



Twilio

Twilio reported 7% growth and a quarterly loss of \$55 million, which admittedly is an improvement on last year (-\$342 million), but the company is still somehow trading at a market cap of \$10 billion. The increasing share count mutes any prospects of a recovery.

I've shared this before, but it was over a year ago now that Twilio reported the CEO

was paying his direct reports A\$50 million each per year. I'm sure everyone in the office finds his jokes hilarious. The CEO bought the Onion and then asked on twitter for readers to chip in a dollar each. Surely he can't have run out?

Name and principal position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$ ⁽¹⁾)	Option Awards (\$ ⁽²⁾)	All Other Compensation (\$ ⁽³⁾)	Total (\$)
Jeff Lawson Chief Executive Officer and Board Chair	2022	134,000	—	49,228,812	—	14,657	49,377,469
	2021	133,990	—	6,926,889	7,000,586	564,280	14,625,745
	2020	133,700	—	6,753,009	6,741,058	150,105	13,786,872
Khozema Shiphchandler ⁽⁴⁾ President, Twilio Communications	2022	1,100,000	—	28,552,689	—	8,304	29,663,993
	2021	744,362	—	5,909,608	6,021,278	8,700	12,683,948
	2020	622,465	—	3,452,811	3,446,740	8,525	7,530,541
Elena Donio ⁽⁵⁾ President, Twilio Data & Applications	2022	665,385	—	25,451,960 ⁽⁶⁾	8,467,018 ⁽⁶⁾	63,559	34,647,922
	2022	900,000	—	28,552,689	—	9,150	29,461,839
	2021	86,538	—	33,687,986	8,098,119	—	41,872,643
Dana Weaner Chief Legal Officer, Chief Compliance Officer and Corporate Secretary	2022	600,000	—	25,552,061	—	9,150	26,161,211
	2021	11,538	250,000	—	—	—	261,569

Source: Twilio 2022 report, still impressive two years later

If you buy the stock, you could well be buying off insiders earning tens of millions a year, who have themselves chosen to sell.

Insider Trading	Relationship	Date	Transaction	Cost	#Shares	Value (\$)	#Shares Total	SEC Form 4
Wagner Dana	Chief Financial Officer	May 22 '24	Buy	61.80	800	50,280	228,000	May 22 05:15 PM
Wagner Dana	Chief Legal Officer, Secretary	May 22 '24	Buy	61.80	700	46,150	144,174	May 21 10:15 AM
Wagner Dana	Chief Legal Officer, Secretary	May 17 '24	Buy	61.80	2,800	173,240	146,190	May 17 09:00 AM
Wagner Dana	Chief Financial Officer	May 15 '24	Buy	61.08	1,980	122,133	229,238	May 17 08:57 PM
Wagner Dana	Chief Financial Officer	Apr 30 '24	Buy	60.76	3,475	210,354	211,030	Apr 30 09:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Apr 30 '24	Buy	61.45	941	61,644	185,773	Apr 08 09:00 AM
Wagner Dana	Chief Executive Officer	Apr 22 '24	Buy	62.12	13,901	864,018	333,902	Apr 22 09:00 AM
Wagner Dana	Chief Financial Officer	Apr 09 '24	Buy	62.12	6,833	423,274	234,411	Apr 09 09:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Apr 09 '24	Buy	61.30	4,130	254,430	147,104	Apr 09 09:00 AM
Wagner Dana	Chief Financial Officer	Mar 21 '24	Buy	61.71	1,200	76,032	241,344	Mar 21 02:00 PM
Wagner Dana	Chief Legal Officer, Secretary	Mar 21 '24	Buy	61.71	618	38,113	171,744	Mar 21 02:00 PM
Wagner Dana	Chief Financial Officer	Mar 15 '24	Buy	61.51	1,844	114,293	181,941	Mar 20 09:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Mar 15 '24	Buy	62.92	1,048	66,420	139,456	Mar 20 09:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Mar 07 '24	Buy	64.40	3,820	247,280	148,790	Mar 07 09:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Jan 30 '24	Buy	60.20	294	18,120	132,122	Jan 09 09:00 AM
Wagner Dana	President, Communications	Jan 30 '24	Buy	59.18	10,500	620,340	201,500	Jan 30 09:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Jan 30 '24	Buy	72.20	6,061	437,142	171,820	Jan 04 02:00 PM
Wagner Dana	Chief Legal Officer, Secretary	Jan 30 '24	Buy	72.22	4,025	290,458	122,872	Jan 04 02:00 PM
Wagner Dana	President, Data & Applications	Dec 11 '23	Buy	53.97	1,000,000	5,395,000	111,146,100	Dec 11 09:00 AM
Wagner Dana	President, Data & Applications	Nov 20 '23	Buy	61.71	2,800	174,812	464,822	Nov 20 09:00 AM
Wagner Dana	Chief Financial Officer	Nov 20 '23	Buy	62.06	1,121	70,262	178,461	Nov 20 09:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Nov 20 '23	Buy	62.06	467	29,143	136,361	Nov 20 09:00 AM
Wagner Dana	President, Data & Applications	Nov 15 '23	Buy	61.46	2,047	126,410	484,116	Nov 15 09:00 AM
Wagner Dana	Chief Financial Officer	Nov 15 '23	Buy	61.91	2,187	136,296	178,522	Nov 15 09:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Nov 15 '23	Buy	61.88	1,547	95,266	131,941	Nov 15 09:00 AM
Wagner Dana	Chief Financial Officer	Oct 30 '23	Buy	59.87	3,147	178,193	181,709	Oct 30 09:00 AM
Wagner Dana	President, Data & Applications	Oct 30 '23	Buy	59.88	3,187	191,653	413,083	Oct 30 09:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Oct 30 '23	Buy	59.87	789	47,170	139,130	Oct 30 09:00 AM
Wagner Dana	President, Communications	Oct 30 '23	Buy	61.80	14,129	880,280	198,190	Oct 30 09:00 AM
Wagner Dana	Chief Financial Officer	Oct 30 '23	Buy	59.87	6,237	386,708	188,816	Oct 04 07:00 AM
Wagner Dana	President, Data & Applications	Oct 30 '23	Buy	61.80	5,224	322,817	418,800	Oct 04 07:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Oct 30 '23	Buy	59.86	3,382	202,648	145,116	Oct 04 07:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Sep 29 '23	Buy	60.30	7,082	426,410	144,900	Oct 01 07:00 AM
Wagner Dana	Chief Financial Officer	Sep 29 '23	Buy	61.11	463	28,303	144,267	Oct 01 07:00 AM
Wagner Dana	President, Data & Applications	Aug 15 '23	Buy	62.96	3,807	240,000	424,114	Aug 29 09:00 AM
Wagner Dana	Chief Financial Officer	Aug 15 '23	Buy	61.28	1,210	75,210	181,110	Aug 29 09:00 AM
Wagner Dana	President, Data & Applications	Aug 15 '23	Buy	60.00	7,169	430,238	422,461	Aug 16 10:00 AM
Wagner Dana	Chief Legal Officer, Secretary	Aug 15 '23	Buy	60.88	2,960	180,408	182,041	Aug 16 10:00 AM
Wagner Dana	Chief Financial Officer	Aug 15 '23	Buy	60.84	1,369	83,188	151,822	Aug 16 10:00 AM
Wagner Dana	Chief Financial Officer	Jul 26 '23	Buy	61.02	1,917	117,463	199,044	Jul 26 02:00 PM
Wagner Dana	President, Data & Applications	Jul 26 '23	Buy	61.10	2,842	174,846	435,061	Jul 26 02:00 PM
Wagner Dana	President, Communications	Jul 26 '23	Buy	61.07	4,878	297,483	728,344	Jul 26 02:00 PM
Wagner Dana	Chief Financial Officer	Jun 30 '23	Buy	61.07	6,184	386,208	198,237	Jul 08 02:00 PM
Wagner Dana	President, Data & Applications	Jun 30 '23	Buy	61.08	5,100	312,140	438,333	Jul 08 02:00 PM
Wagner Dana	Chief Legal Officer, Secretary	Jun 30 '23	Buy	61.40	3,888	240,000	153,821	Jul 08 02:00 PM
Wagner Dana	Chief Financial Officer	Jun 30 '23	Buy	61.43	6,416	396,344	244,441	Jul 08 02:00 PM
Wagner Dana	President, Data & Applications	Jun 05 '23	Buy	67.07	6,949	464,917	435,177	Jun 07 09:00 AM

Twilio insider buys and sells, but only sells in this case

Anyway, enough about stocks we don't own. We had a lucky reporting season with our major positions holding up. To give a quick run down in order of decreasing size:

Transmedics



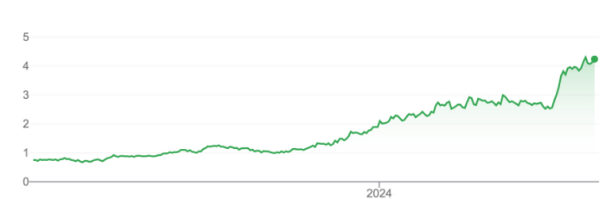
Transmedics reported revenue growth of 133%, a 19% increase on the prior quarter alone, and more importantly a 13% GAAP after-tax profit margin.

The hair-raising sell-off late last year came on the back of a surprise decision to buy aircraft. It seems that bet is paying off.

Transmedics now has 14 operational planes, and should reach 20 by the end of this year. They are doing ~50% of missions on their own aircraft, which allows them to capture margin that would have otherwise gone to aircraft operators and brokers, while making the entire process more efficient.

They are accumulating more and more data that their organs-in-a-box, partly developed at St Vincent's in Australia, offer better health outcomes (rather than just non-inferiority) than the prior standard: a bucket of ice.

Clarity Pharmaceuticals



Clarity rallied after an impressive patient update which we discussed in a prior letter.

[Johnson & Johnson reported last night](#) that four patients died in an early trial of Actinium-232, an alpha particle, behind more than one recent multi-billion dollar acquisitions.

The hope was that alpha particles, with a shorter range and greater destructive power, could work better in radiopharmaceuticals.

Perhaps this study casts a chill on this line of investigation, and returns attention to beta-emitters, like the copper isotopes used by Clarity.

Acquisitions in the US have been at several times Clarity's current market value (~US\$800 million).

It's worth remembering why there is so much big pharma interest in the space. Prostate cancer is often curable, but the side effects are horrific. After rounds of invasive biopsies, prostate removal, hormone therapy, and chemotherapy, men are often impotent, incontinent, or both. Certainly miserable.

Radiotherapies are more targeted and have much milder side effects (it messes with salivary glands, for example), and we are on the side of experts who expect it to move to front-line treatment, one way or another.

Nubank



Nubank reported revenues up 64%, revenue-per-customer up 30%, and net profits up 159%. The company crossed 100 million customers, and is growing faster in Mexico than it was in Brazil at a similar stage.

So the thesis of growing customers, growing revenue-per-customer, and successful entry into new countries in South America is on track.

Celsius



Celsius reported 60% (adjusted) revenue growth, and the stock recovered from a plunge in April.

Celsius is in the early stages of an international roll-out across the UK, the EU, Canada, and we are assured, Australia.

You might have to try it to understand why it has taken so much market share from Red Bull and Monster. I would never drink a Red Bull and try and avoid even looking at cans of Monster, but I found orange Celsius addictive.

MercadoLibre reported solid results, Sea Ltd is back on the path to profitability, and has steadied its market share vs Tik Tok, which was a bit of a wild card and quickly took ~15% of e-commerce in the region. This is one of the last stocks we own from the boom/bust period but it does finally look back on track.

Finally, I recorded an interview with Tom Buckley and Dexter where they asked some new questions.

Best wishes
Michael



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touch.

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