August 2024

Dear Fellow Investors,

Adestella lost 3.5% in the second quarter. Long positions declined 4.3% in aggregate, somewhat offset by 1.0% gains for our short book. Domestic stocks fell 1.8%, while international holdings declined 1.5%. Currency fluctuations had a minimal impact, costing us 20 basis points. Net exposure levels crept up to 95% as we added on weakness in several existing positions and closed a few successful shorts.

Early in the period, markets focused on the Federal Reserve's (prudent, in our view) decision to hold off on any interest rate cuts, with overreactions in both directions during April and May. Our underperformance was mostly incurred during June, in which small-caps once again lagged behind their larger counterparts and left us with a small loss for the quarter.

I often start these letters writing a section that details some element of our investing strategy and philosophy. But after 7+ years of quarterly releases, I am finding limited potential material that hasn't already been covered in one way or another. Any macro forecasts I could offer would be unoriginal, and any commentary on recent factor performance would simply be a rehash of the same trends that have continued to prevail in the last few years. So, for this letter, I will instead spend more time discussing something we can actually control— the businesses we decide to invest in. Both summaries provided below are for newer positions that entered the portfolio in recent months following pullbacks to entry prices we deemed attractive.

Walk in the PRKS

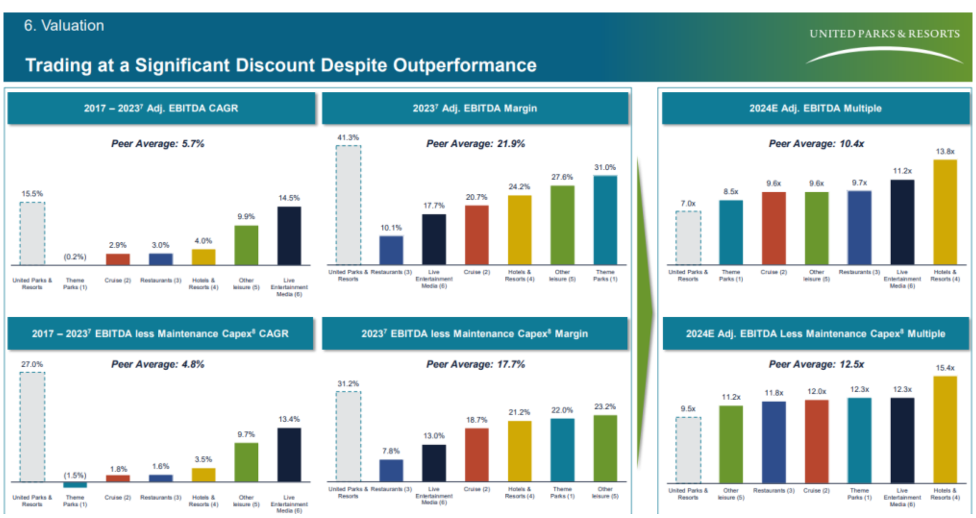
United Parks & Resorts (PRKS) operates theme parks under several brands, the most famous being Busch Gardens and SeaWorld. It is a desirable group of assets that are finally turning the corner, but their progress remains underappreciated. We think there is significant potential upside with multiple ways to win here, combining to create the favorable risk-reward proposition we seek for all our positions. The company in its current form was created in 2009 when the Busch Entertainment Corporation, formerly a unit of Anheuser-Busch InBev, was sold to private equity firm Blackstone and renamed SeaWorld Parks & Entertainment.

PRKS went public in the spring of 2013, but the following years were very rocky, with a string of negative events that began almost immediately after the IPO. In summer 2013, the documentary Blackfish was released, portraying SeaWorld's captive orca programs in a negative light. Though former trainers generally found the film to be one-sided and misleading, the reputational tarnish soon caused a drop in attendance. The decline ultimately cost the CEO and several other employees their jobs, and opened a revolving door in the C-Suite that made longer-term strategic planning difficult. From 2014 to 2017, revenues fell 9% and net income swung to a loss given the significant fixed costs of operating theme parks. Performance improved in both 2018 and 2019, but any momentum from this was snuffed out in early 2020 when PRKS was of course heavily impacted by the pandemic. This led to yet another CEO departure in April 2020 as well as prolonged venue closures and staff furloughs over the following 18 months.

Ownership of PRKS has been almost as turbulent as the business itself over the period. In 2017, Blackstone sold its remaining 21% stake to Chinese real-estate developer Zhonghong Group. But then in May 2019, Zhonghong defaulted on loans secured by SeaWorld stock and was forced to surrender its holdings, leading to a flurry of negotiations and transactions among PRKS and other key shareholders that same month. When the dust settled, private equity firm Hill Path Capital had increased its stake to 34% and been approved for three seats on the board; they remain the controlling shareholder today.

Thus, it was unquestionably a tumultuous decade for PRKS, and it seems many investors still view the business as having a bit of an “ick” factor given its baggage. But looking forward, there is reason to believe that brighter days are ahead. In February of this year, the company changed its name to the current moniker to reflect its broader range of properties. They’ve finally regained leadership stability in the popular Marc Swanson, a longtime lieutenant who has been with PRKS for nearly 20 years. These days, SeaWorld no longer performs theatrical orca shows, and with the mob now on to other targets, the controversy will continue to fade from the collective memory (Netflix pulled the film from its catalogue in 2021, and PRKS no longer keeps a section on the company website addressing its claims). Business momentum and global perception has also been aided by the successful opening of SeaWorld Abu Dhabi last year, prompting attendance numbers to once again trend in the right direction.

These developments, however, are yet to be reflected in the company’s valuation. Despite PRKS’s similar growth and superior profitability metrics to leisure industry competitors, it trades at a discount to peers (see below). We acknowledge that PRKS has cherry-picked the 2017 start date to make the EBITDA growth comparisons more impressive, but changing it to 2016 (11.5% CAGR) or 2018 (12.2% CAGR) would still put them in the upper end of peer ranges, and still with superior margins and lower multiples.



Going forward, PRKS has several levers to pull that should further improve financial performance. Admissions per-cap (admission revenue divided by attendance) were $44 in 2023, which is well-below theme and amusement peers and suggests some capacity to take price. And while not explicitly modeled, the medium-term upside from adding accommodation to properties should eventually become significant. The company owns 400 acres of developable land in major tourist destinations, and its market research (along with the [success of peers](#) [in doing so](#)) has made it clear that there is plenty of demand for on-property hotels and resorts. PRKS is still evaluating its options for the construction and operation of such accommodations, but management has stated they will not spend any capital on development unless they're confident in being able to generate a 20% ROIC on it.

In the near term, though, much of PRKS's ultimate success will depend on their progress in driving attendance and admission per-cap growth. We don't think they will ever reach the attendance levels of 2008 again on the current park base now that the orca shows aren't quite the spectacle they once were, but there still should be upside to current figures as group and international attendance (which remains well below 2019 levels) rebounds again. Once they demonstrate sustained top-line growth, I expect the lingering pessimism about the company's ability to execute effectively to be assuaged, and the stock should re-rate accordingly. A sensitivity analysis is laid out below; the price targets assume interim FCF generation reduces net debt to around $1.5 B and that the share count remains flat.

PRKS Sensitivity Analysis

Attendance Growth	-2%	0%	4%	8%	12%	<-- upside case still assumes below 2008 levels
Per-cap (Admission+In-Park) growth	-2%	2%	6%	11%	15%	<-- targeting 2-5% per year; implies 6-15% 3 year CAGR
Implied Attendance	21.17	21.60	22.46	23.33	24.19	
x Implied per-Cap (Admission+In-Park)	78.31	81.51	84.70	88.70	91.90	
Implied Revenue	1,658	1,761	1,903	2,069	2,223	
3-Yr. Fwd. Cumulative Revenue Growth	*-4.0%*	*2.0%*	*10.2%*	*19.9%*	*28.8%*	
Estimated EBITDA (excluding SBC)	657	760	902	1,054	1,198	
Implied EBITDA Margin	*39.6%*	*43.1%*	*47.4%*	*51.0%*	*53.9%*	

PRKS 3-Yr. Price Target

		EBITDA				
		657	760	902	1,054	1,198
Multiple	6x	$ 38.63	$ 48.13	$ 61.26	$ 75.34	$ 88.63
	7x	$ 48.73	$ 59.81	$ 75.14	$ 91.56	$ 107.07
	8.5x	$ 63.88	$ 77.34	$ 95.95	$ 115.89	$ 134.73
	10x	$ 79.03	$ 94.87	$ 116.76	$ 140.22	$ 162.38
	11x	$ 89.13	$ 106.55	$ 130.64	$ 156.44	$ 180.82

PRKS 3-Yr. IRR

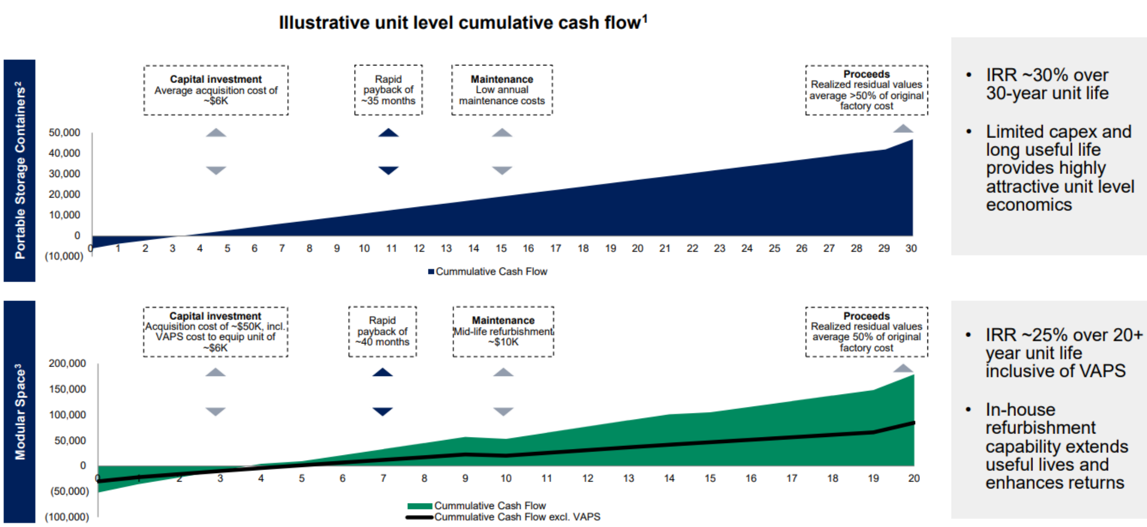
		EBITDA				
		657	760	902	1,054	1,198
Multiple	6x	-7.3%	-0.3%	8.1%	15.8%	22.2%
	7x	0.1%	7.2%	15.7%	23.5%	30.2%
	8.5x	9.6%	16.8%	25.5%	33.6%	40.5%
	10x	17.6%	25.0%	34.0%	42.4%	49.5%
	11x	22.4%	30.0%	39.1%	47.7%	55.0%

The exercise shows a 25-35% IRR is possible even at the low end of their attendance/per-cap growth targets and with a multiple below peers and PRKS's trading history. While the high fixed cost nature of the business makes the range of outcomes here above average, their skew at current prices is attractive. And given its controlling stake, Hill Path will be highly incentivized to drive this upside. While we are happy to wait for a gradual re-rating over time, a sale of the business is also very plausible outcome. There has been a significant amount of private equity activity both in PRKS's own recent history and in the broader amusement space, and it doesn't hurt either that CEO Swanson comes from a financial background.

Great Willscot

Willscot Mobile Mini Holdings (WSC) provides temporary space solutions. About two-thirds of sales are from the Modular segment, which provides things such as mobile offices, while the other third is derived from portable storage units. Typical use cases include workspace replacements during significant maintenance or upgrade works and temporary event venues. The original Williams Mobile Offices and the Scotsman Manufacturing Company were both founded in the 1940s, and after merging in 1990, they continued expanding via bolt-on acquisitions. In 2020, Willscot merged with Mobile Mini to become the company in its current form.

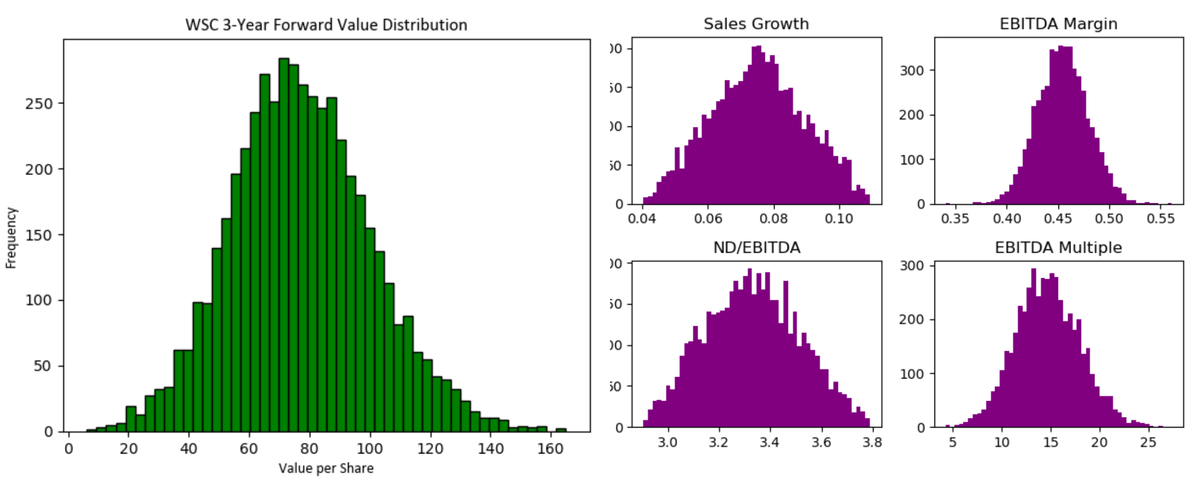
Temporary space solutions have proven to be a good business model over time. Unit economics are compelling (see chart)— new units provide 35-40 month paybacks and 50% residual proceeds upon eventual retirement from the fleet, combining to generate 25-30% lifetime IRRs. Leases average three years, making most of the revenue recurring, with a wide range of customer industry segments and minimal concentration risk.



It's also a relatively fragmented industry, and hence larger players such as WSC often expand via M&A. Management now has an established playbook for their targets; the current team has done 30+ deals since taking the reins in 2017 while delivering 10% ROIC expansion and 14% EBITDA margin expansion. Earlier this year, WSC announced plans for the acquisition of McGrath RentCorp, which will further improve its position in modular rentals and provide significant operational synergy opportunities. The deal was supposed to close in Q2, but the companies recently agreed to postpone the planned date by two months at the request of an overzealous FTC. The new date is now set for September 27, and we hope the transaction will finally be consummated at that time.

Looking out a few years (pro forma for McGrath Rent, as we think it's likely the merger is approved) the outlook is bright for WSC. Management has guided to 5-10% revenue growth at 43-48% true EBITDA margins. Given the GDP+ nature of many of their end markets, WSC's success in selling VAPS add-ons and expanding their branch network, and the potential upside from a sustained uptick in infrastructure spend, we think the top-line goal is attainable. LTM EBITDA margins are already at 42.5%, and management had the confidence to raise their 3-5 year target range by a full 5% recently, so the margin story seems credible as well.

Running these values through their growth algorithm, the above metrics should lead to around $4.30 in EPS, tying in well with their target of $4 FCF/share by 2026. Importantly, these milestones are achievable regardless of whether the planned MGRC acquisition is consummated – while we hope it will be approved, it is not a dealbreaker to the thesis. Our typical scenario analysis is below, and it suggests a 3-year target of around $75 per share, good for a 27% IRR from here. This works out to a mid-teens multiple of free cash flow, which we think is reasonable considering WSC's profitability and business quality.



Willscot is a classic under-the-radar investment opportunity – a smaller company in an unglamourous industry, but one that has attractive unit economics, consistently executes well, and currently trades at a discount. We see a relatively straightforward path to a 20%+ IRR in the next few years and will likely add to our position should the stock sell off on news of further FTC delays.

Outlook and Conclusion

The July and August months are often relatively quiet for markets, but this year was a bit different. Externally, election talk has begun to heat up, with my local news channels now stuffed with political ads of all persuasions following the late candidate change. Internally, we are finalizing the registration process I mentioned in the last letter, and it should be completed in the next few weeks. But amid these various developments, our strategy and goal remain the same – finding overlooked opportunities that offer attractive risk-reward propositions, and trusting that a group of such companies will generate superior returns for us over time.

Enjoy the rest of your summer and I look forward to writing to you again in the fall.

"How poor are they that have not patience!"

\- William Shakespeare

Per Ardua Ad Stella,

Andrew Jakubowski

Performance Summary:

	2Q 2024	YTD	Since Inception
S&P 500	4.4%	15.2%	233.4%
Vanguard Total World Stock ETF	2.5%	10.5%	125.9%
Russell 2000	-3.3%	1.6%	92.8%
HFRI Equity-Hedge (Total) Index	1.0%	6.1%	76.0%
Adestella Investment Management	**-3.5%**	**7.8%**	**292.2%**

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