

July 11, 2026

Dear Partners,

The past few months have been a particularly exciting and busy time for research; I have been ass in seat, working as hard as I can on our portfolio. Accordingly, I apologize for not writing a Q1 letter. Going forward this will likely be our approach as well; I will write as often as I'm able, but some quarters I will skip a letter. As always, reach out to me if you want to talk about our portfolio and what we're thinking.

As you know, we allocate our portfolio based on where we see the best risk-adjusted returns, from a bottom-up basis. For example, software is a sector we've followed for a long time and where we've always loved the amazing products, business model, and growth potential, but our exposure has varied dramatically depending on the valuations on offer: none at launch in May 2022, when valuations had corrected but still looked far too high, with consumer internet being more attractive; heavy exposure by late 2022, as earnings implosions from Okta and Atlassian blew up the sector; several of our positions were taken out by PE and others we sold as valuations rose, leaving us with no US software exposure at all by mid-2024, while buying some positions in Japan SaaS which we later sold as they reached fair value; and buying in late 2025 as valuations fell.

Starting in February, we ramped up our buying, as deals in great companies we understood well from covering the space were offered to us at amazing prices (e.g., Klaviyo which a little over a year ago traded at peak for 12x NTM sales declined to as low as 2x – an 83% move). In addition to Braze and Monday which we already owned (Monday we have since reduced due to opportunity cost as all software fell), we progressively added Workiva, Atlassian, Dynatrace, and Klaviyo. We spent a lot of time speaking with customers, former employees, partners, AI experts – totaling 105 expert calls on the topic in the first half (hence why no Q1 letter!). Our unique lens in investing has always been our focus on product, and we leveraged that – what are customers saying? How are they using AI? Which vendors do they love and find value in?

There is of course a lot of negativity on the sector, as investors fear it will be disrupted by AI, leaving terminal value in doubt. Most investors have put software into the “too hard” pile, and some are actively short (most of our software holdings have double-digit short interest as a percentage of float).

Amidst widespread selling, we think nuance is being missed. Some software will be disrupted by AI; others will be largely fine and continue as is (defensive thesis); and some will be big beneficiaries (offensive thesis). Given where things trade today, there will be a lot of money in discerning the difference. We focus primarily on the third category, the beneficiaries (as creation of more customer value through use of new tools to build amazing products is fundamentally what excites us), but there will be investment winners in the first and second categories as well – investing is about value vs. price, and if value falls but price falls much more, in the hands of good and incentivized management this will likely reconverge over time.

Differentiation between software on relative AI exposure risk and opportunity isn't just theoretical; it's already started to happen, but still at a relatively unnuanced category level. Infrastructure and cybersecurity software initially fell but over successive months rebounded sharply as investors repriced them as AI winners. We believe application software, our forte (and far cheaper than infrastructure and cybersecurity, which have almost turned into concept stocks), has similar nuances but has not yet received that relative intra-category repricing.

Why invest in software at all, given all the risks? Isn't it easier to just focus on other things?

This is the approach most investors are taking, and the reaction we most often get when discussing our ideas with other managers. Yet we don't agree:

- The potential prize is too big, given how much prices and multiples have fallen for exciting, fast-growing businesses (for the companies we purchased, generally a move from 8-12x sales to 2-3x sales; the decline in EV/sales multiples is greater than it appears from just looking at stock prices, given 1) substantial net cash positions magnifying changes in EV and 2) continued 20%+ revenue growth inflating the denominator as time passes). We see 30-40%+ IRRs (3-4x over four years, and probably frontloaded if we're right, as narratives change fast) for many of our holdings, with unheroic modeling and exit assumptions.
 - SaaS is an amazing business model, which makes us reluctant to give up on the category entirely without deeper analysis. Buffett always says that the best business is a royalty on another fellow's sales – someone else puts up the capital and takes the risk, leaving you a high-margin, capital-light, recurring revenue stream (particularly relevant during troubled times like recently with the Iran war, when traditional companies face oil/margin/consumer demand risk and can become difficult to analyze). Traditionally, these royalty-like businesses were rare, expensive, and often no longer fast-growing. Software is a pure expression of that thesis (Jeff Raikes at Microsoft made this point to Buffett in his famous 1997 email) and happens to have the added benefit of continued high growth. When that royalty is offered cheaply, it's worth looking into more deeply.
- Downside from these depressed levels if we're wrong is not a zero. The newspaper analogy frequently discussed on X is totally inappropriate and reflects more the poster's deep misunderstanding of newspapers¹ than knowledge about AI or SaaS. In a real bear case we think these companies turn into high-margin declining annuities, which can already support today's valuations. A more likely bear case, but still one we don't believe, is that the AI brain ends up sitting at the customer level, with existing software companies turning into pipes via MCP to provide context – in which case software stays important and meaningful traditional growth in revenue remains, but the incremental AI opportunity is captured by others. A distinction should also be drawn between public SaaS (selection bias of the highest-quality companies, and most with substantial net cash) and private PE-owned SaaS (selection bias of older, more non-founder led SaaS that were willing to sell, and levered); some of the latter may well turn out to be zeroes, but more due to high leverage and difficulty refinancing than major business decline.
- Taking a step back, the “AI kills *all* software” thesis just doesn't make sense, and if true would be quite bearish on the labs/hyperscalers' ability to realize returns on AI capex – there *must* be winners, independent vendors who can take a new intelligence substrate and think of ways to use it to create customer value. Avoiding software means avoiding the space where AI is most likely to be creatively applied – if not at great founder-led product orgs most focused on technology, then where? And why are the VCs most invested in the frontier labs still investing heavily in “AI-native” software? (A fun post on X by our good friend malinvested: “It's not AI [native] unless it comes from the cash-burning-start-up region of the Bay Area, otherwise it's just sparkling SaaS.”) We appreciate the “innovator's dilemma” risk in incumbent SaaS that could make it difficult to re-build products as necessary, but we think that framework is being too broadly applied, while also underestimating some key advantages possessed by incumbent SaaS (deterministic system of record and context layer, workflow embedding, trust, existing distribution and bundling optionality, etc.). We are looking for

¹ Newspapers were disrupted in their distribution moat, which is far more serious – they simultaneously lost the local distribution monopoly, the bundle of all sections of the newspaper which subsidized the expensive newsroom, the highly profitable classifieds business, the attention aggregation which drew in advertisers. AI potentially disrupts the *production* model of some SaaS, but doesn't affect its distribution moat; if anything, the armies of FDEs (forward-deployed engineers) the AI labs and AI agent companies are hiring suggest that distribution may actually be more difficult for AI than it is for traditional SaaS.

the right management teams willing to make the tradeoffs to overcome that dilemma, and the big selloff has actually been very helpful in focusing management teams' attention and efforts.

Our software stocks day to day largely trade as a basket (semis down, software up, and vice versa). But fundamentally we think they are very different bets. It both does and doesn't make sense to think of them as a basket. AI will affect all, but what e-commerce SMBs will do with AI in retention marketing (Klaviyo) is very different from what sophisticated enterprises will do with AI in retention marketing (Braze) which is very different from what public companies will do with AI in regulated high-stakes financial reporting (Workiva) which is very different from how companies will use AI in team collaboration (Atlassian) which is very different from what will happen in AI in observability (Dynatrace) which as a category has already started to be repriced as an AI winner. We feel good about the diversification of our software portfolio, which is a minority subset of our total portfolio; and we are watching all our eggs closely.

As we always have been, we are extremely focused on risk and maintaining the safety of our capital. We follow developments in AI closely and are constantly on the lookout for disconfirming evidence. If you don't agree with our views, please reach out to me – I'd love to talk.

Our framework for selecting software

For years we have been following almost the entire SaaS landscape. Pre-AI we evaluated software companies on a few primary criteria, in order of importance:

- Customer love for product, quality/modernity of tech stack, quality of management and culture (bonus for founder-led);
- Sales & marketing efficiency (incremental revenue generated per S&M dollar spent), which is a key input into end-state margins;
- Revenue growth vs. EV/sales multiple – plotting growth on the X-axis and multiple on the Y-axis and looking for companies that fall far off the trendline and where we don't agree with the reason why.

This is how we ended up with the companies that we picked in the past, several of which we've written about in these letters: Confluent, HashiCorp, Alteryx, Smartsheet, Sansan, etc.

We still focus on the above criteria, but we've added some additional lenses with which we're thinking about the impact from AI, which are a bit different from how the debate is usually framed (such as whether something is a "system of record" vs. not):

- Essential utility vs. core business software – perhaps somewhat counterintuitively, we prefer the former. With agentic coding making software development faster, it may make sense for businesses to re-build and customize core software that's most important to their business and where customizing gives them a business advantage, in their own domain area that they know well which makes a custom build more likely to succeed. It doesn't make sense to re-build a utility like Zoom or Slack, even if you could (and it's not as easy as it looks, with any attempt likely running into an unending stream of edge cases when placed into operation), where domain expertise is held by the vendor – doing so offers no business advantage, cuts you off from vendor-driven innovation that is accelerating, and adds maintenance and security burden for cannot-be-down software. Even the big AI labs don't do this – as relates to our companies, for example, Anthropic and SpaceX are new customers of Workiva, SpaceX/xAI is a new customer of Braze (Anthropic uses Iterable, an inferior substitute, due to what we heard was an early company implementation they haven't changed yet), Anthropic and SpaceX are heavy users of Atlassian.
- Cheap vs. expensive software – this is related to the point above. Core business systems which can cost in the multiple tens of millions paid to a single vendor per year are potentially more at risk.

We're focused on cheap software in the \$100k-\$1 million per customer range that for enterprises is a rounding error; at the lower end of that range, just a few FTEs equivalent.

- Small (but still #1 in its category) vs. large (Salesforce, ServiceNow, Workday, etc.) in size – we prefer the former. The former can hold strong positions in niche markets too small for venture-scale outcomes even if major success is reached; the latter have more attention and a potential revenue prize that is worth new startups going after. We also have our general thesis that small companies can grow faster and for longer than large ones (hence our usual focus on smaller, lower-liquidity companies). From a stock perspective, the former also have fewer investor eyeballs, especially in the current environment where many have abandoned the sector, making them more likely to be mispriced.
- Consolidator platform vs. point solutions – consolidating software platforms was a trend pre-AI but is accelerating with AI, as businesses move to modernize and consolidate data estates for AI to work on. We want to focus on the winning platforms being consolidated on; Workiva, Atlassian, Klaviyo, Braze, Dynatrace are all beneficiaries of this. Publicly listed software companies, due to selection bias where only the best can go public and stay public (a lot of software that started a post-founder transition to legacy and fell in price were picked off by PE), are in general beneficiaries; behind every public software company there is a long list of smaller, single-product competitors that are more likely to be losers.
- Low multiple of sales vs. high multiple of sales – we prefer companies trading for a low multiple of sales, even if current profitability is weaker. We believe this gives us both more downside protection and more potential upside. Net profitability is a *choice* for SaaS with 80-85% gross margin and good S&M efficiency, with the investment and cost efficiency levers fully in management's control. The market is making clear that it wants more real margin, and management teams are already starting to deliver (e.g., Workiva GAAP operating margins +1800 bps y/y in 1Q26, Atlassian 10% layoff and hiring freeze while ARR continues to grow 20%+, Dynatrace new commitment to "rule of 50" of margins plus growth, etc.). Additionally, since R&D cost as a percentage of revenue is unusually high at software companies vs. in other industries, some of the biggest beneficiaries from an uplift in R&D productivity due to agentic coding are likely to be found there.
 - This also gets into the stock-based compensation debate. Part of why software stocks have declined so much is not just the fundamental risks but also a major growth-to-value transition in the investor base, or lack thereof due to stock-based compensation being such a large cost item that different groups of investors treat differently. Growth investors were happy to value software companies on fake non-GAAP earnings before subtracting stock-based compensation (we care a lot about real earnings, and were not in this category), but they have fled as the category has fallen out of favor amongst growth investors; value investors newly looking at these beaten-down stocks were shocked at the current low level of real economic earnings and concluded, wrongly but understandably in our view, that these companies are still quite expensive. So software stocks are in no-man's land. But we expect this to change as real profitability quickly inflects upwards (illustratively, a 10% margin company that grows revenues and gross profits by 20% but keeps operating expenses at only +10% – quite realistic for what's happening in SaaS – would expand margins by 600 bps per year). In the meantime, we see this as an opportunity – when "Non-GAAP" becomes a bad word and "EV/Sales" is met with revulsion, only said by those who don't "get it" – we see it as the best time to lean in, confident in our framework around mature GAAP margins for high-quality software.
- Offense vs. defense in ability to benefit from AI – we care a lot about this, as discussed above. We are staying away from older-tech stack companies such as software rollups assembled through purchases of old technology at bargain prices, where the personnel needed to build great AI products aren't there and where the main hope is that AI isn't as disruptive as feared. We want to 1) know

exactly what we own and thus what the specific AI risks are (not really possible in rollups) and 2) see a path where our companies can create great AI products.

Framework for AI risk

We think of “existential” AI risk as coming in mainly three forms; we evaluate the first two closely for every company, and companies in the third category we avoid entirely due to inherent terminal value risk:

- Customers re-build the software internally
- New competitors, who can now build faster due to AI
- The nature of the job to be done changes completely – e.g., going from productivity software for customer service agents to replacing customer service agents entirely, or creative software going from workflows for image editing to direct image generation.

(Seat-based revenue is another risk, but we don’t consider seat-based revenue risk existential. Pricing and packaging can change as long as customer value is being provided, and it already is changing. We do however prefer companies that don’t charge on seats, and Workiva, Braze, Klaviyo, and Dynatrace are all in this category.)

Customers re-build the software internally

We are looking for companies where both 1) the software is of such complexity that it is very hard for customers to build internally, especially because they don’t specialize in it and 2) there is no reason to, as it is a utility, where rebuilding offers no business advantage other than possible cost savings that are not material (as discussed above).

Software is not just code, and code is not software. Software is about using code to solve business problems, and that involves deeply understanding what the business problems are in that domain, what edge cases other customers have run into across a wide base, and delivering it as a well-run service where all the issues and support are handled by the vendor (and perhaps underappreciated is that software is *cheap* for what is being delivered – illustratively, pay \$100k per year to access the results of >\$1 billion spent by the vendor on R&D – a classic scale economies shared). Orlando Bravo talks a lot about “domain expertise” as being the real moat of software, not code, and we agree. Braze is a deep domain expert in sending emails, texts, and app push notifications at scale and perfectly (a much harder problem than it sounds, both in engineering and also because deliverability of messages is adversarial against recipient systems that try to filter messages into promotions and spam); the customer is not. Workiva is a deep domain expert in the nuances of SEC reporting and internal controls compliance; the customer is not.

In general, we feel this risk has calmed down since early in the year when investors briefly worried that everyone might rebuild everything. Talking with customers now fully equipped with great agentic coding tools and models, it’s becoming more clear what is being internally built and what is not, and how they think through such decisions (with consideration around diversion of resources from revenue-generating activity, maintenance cost and responsibility, integration with other tools, losing access to vendor-driven innovation, legal liability/accountability, organizational politics, etc.). That might still change, of course, and we will continue to hear stories of individual customers rebuilding certain software internally; but for the types of software we’ve picked, the dimensions of this risk seem more clear.

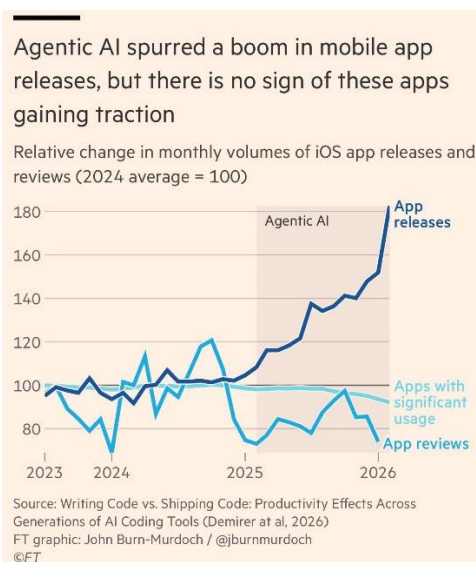
New competitors

Another worry is that faster agentic coding will lead to an explosion of new competitors, leading to loss of customers and/or destruction of profitability for incumbents.

In some ways this is a bigger threat than customers building in-house, as even complex software can be steadily tackled over time by a focused team in a way that an individual business focused on a whole different industry is unlikely to do so for its internal tools.

That said, we also don't believe this is a big threat for the companies we've picked.

As mentioned earlier, software is not just code. Building a great product is still *hard*, even though the coding part is much easier. As an illustration, think of the great new mobile apps you use daily – or lack thereof? – now that agentic coding has allowed everyone to build so much.



Building a great software product still requires a great founder, a great team, and a lot of hard work solving business problems. Yet where will those founders, teams, and funding come from? We have some thoughts here:

- Building a new pure copycat business (we'll do the same thing as this other product, just 50% cheaper) in what are often already crowded categories (as mentioned earlier, all our companies have a long string of private competitors behind them, with their offerings priced at discounts to try to offset their non-#1 positions; accordingly, our companies' moats are already somewhat battle-tested against competitors that try to compete on price, and revealed preference from customers is that they care much more about the right features than price) is not an attractive proposition for a great founder. Nor is it an exciting proposition that VCs would fund. (Nor do we think the business model would even be that successful – R&D cost is lower but the sales & marketing cost would still be enormous, for a prize that's shrunk by a reduced price.)
- Instead, founder and VC energy is being directed at re-imagining software categories in AI-native ways (e.g., Sierra customer service agents replacing humans, Serval agents replacing manual ServiceNow-style ticketing, Monaco agents automating legacy CRM-style workflows).

This only works if 1) there is space to disrupt existing software companies with AI-native workflows (not all work is amenable to this) and 2) if there is, that our companies aren't the ones doing the disrupting themselves.

Again, our view here is that nuances matter. Some companies will be disrupted by AI-native competitors; others will be able to add AI to existing products that remain necessary as deterministic layers and if

appropriate turn their own products AI-native. Our longstanding focus on great products and great product cultures helps guide us here. We will only invest in companies that have the management teams and product excellence necessary to do the latter, and do so even better than AI-native startups can, given their inherent incumbency and data advantages (more historic domain-specific data → train and harness better domain-specific AI), while having access to the same underlying base models.

For example, Braze and Klaviyo, as customer engagement platforms that help companies send emails and texts and app notifications, historically mainly provided the execution layer, with a human deciding what and when to send; AI gives these companies a new opportunity to additionally sell the “brain” behind marketing – messages personalized for each customer rather than by broad category, near-fully automated campaigns, intelligent agent responses when customers reply, etc. Braze, now with AI, is accelerating its disruption of its legacy competitors, Salesforce Marketing Cloud and Adobe Journey Optimizer; and Braze’s organic revenue growth accelerated to 27% y/y in its most recent quarter ending April 2026, up from a low of 20% in the year-ago quarter ending April 2025.

Note that in all our analysis so far, we have not mentioned switching costs as a reason to own software. Many switching costs remain (and a surprising amount of switching cost is non-technical in nature), but technical switching costs are indeed lower than before due to AI. One manager friend we spoke to said that this was his reason for no longer looking at software – historically the thesis around these companies was that they were super sticky, and now maybe they’re less so. But our investment style is different – we never wanted to own software because it was sticky and customers couldn’t get out. We wanted to own software that was so great in terms of product that existing customers wanted to buy more and new customers couldn’t wait to get in. AI doesn’t change this approach, and in fact AI makes our companies’ products *better*.

Workiva

Workiva is the dominant player in SEC reporting, almost a monopoly for large filers, with 95% of the Fortune 100 and 89% of the S&P 500 as customers. We estimate market share of ~50% of all US filers and ~85% of market cap. Beyond SEC reporting (35% of revenue), Workiva’s other solutions include other financial reporting (~30% of revenue, comprising European ESEF reporting, management reporting, statutory reporting, banking and insurance regulatory reporting, etc.); SOX controls/audit/governance (~20% of revenue); and sustainability/ESG reporting (~15% of revenue). As mentioned earlier, Workiva recently won SpaceX as a large customer ahead of its IPO; and scraping Anthropic job postings also reveals them as a multi-solution customer, across financial reporting, internal controls, and SOX compliance.

Workiva became so dominant because it solved a nightmarish recurring filing process (“10K_final_v7_FINAL_legal_edits.docx”, frantic edits before sending to a financial printer, manually checking the printer output line by line for errors hours before a midnight deadline, etc.) by building a workflow platform that multiple departments involved in financial filings (finance, accounting, legal, IR, external legal counsel, external audit) could work in together. Workiva’s Wdesk platform is well-loved by users (“10/10” said one customer we spoke to, and “blew them [competitor] out of the water” said another) and became a standard in the industry, akin to Microsoft Office (quite literally – Wdesk includes the equivalents of Word, Excel, and PowerPoint). One killer feature is its “deep linking,” which allows changes in one number (e.g., revenue guidance for next quarter, which can change multiple times before filing) to update across all related documents simultaneously, saving a lot of time and preventing errors.

Like with other software, Workiva sold off heavily on AI risk (5.2x NTM revenue at 12/1/2025, 2.6x now – a 50% decline). But we believe Workiva is unusually resistant to AI risk vs. other software:

- Financial reporting data needs to be 100% accurate and auditable/traceable back to origin, not 95% or even 99%, making it unsuitable for AI agents without heavy supervision, within a governed deterministic platform like Workiva's. Security and access control are also critical.
- In the US especially, the stakes are high because the CEO and CFO of a public company have *personal liability*/legal responsibility around the accuracy of financial statements and the adequacy of internal controls.
- As mentioned earlier, Workiva software is a multi-player, multi-department workflow system, not a single-player tool. We believe less familiar investors' impression of Workiva is that of software to generate a 10-K, which sounds replaceable; that misses the complex workflows and extensive collaboration that actually happens to produce final documents. Financial reports are also not only about the final document but also about the whole process that needs to be auditable; every number, every change and why and who made the change, needs to be tracked for later review.
- Workiva does not price based on seats, making it less exposed to declines in back office headcount. Workiva in fact encourages as many users as possible to collaborate without friction. Workiva's pricing is value-based (e.g., on revenue size of a company, with a cap) and metrics-based (e.g., number of controls, number of entities).

Running through the standard dimensions of AI risk for software that we outlined earlier:

- Customers building in-house – this seems quite unlikely given the importance of the solution, deep domain-specific nature, plus the key feature around deep linking data that we've heard is hard to replicate. Workiva is a low-cost essential utility.
- New AI-native competitors – also seems unlikely given the platform advantage over point solutions (which we'll discuss later), mission-critical nature of reporting, and unsuitability for agent-only work.
- The nature of the job to be done changes completely – for similar reasons as above, we don't think this applies here.

Another potential risk is further product extension from ERPs like SAP/Workday into Workiva's last-mile reporting area. But they've tried and failed already; SAP has had a disclosure product for 15+ years with very limited traction. Focus by ERPs here seems unlikely, given the small market and specialized nature of the solution. Other structural difficulties would be 1) source system neutrality – Workiva gathers data from many systems, not just ERP; and 2) ERPs' ability to expand beyond collecting and reporting data to become a Workiva-like workflow tool used collaboratively – which historically has not been their strength.

Conversely, on offense, Workiva is integrating AI into its product to make it better: an internal tie-out agent to check for data inconsistencies (a historically tedious, low-judgment task), automated MD&A roll-forward and earnings call prep, in-line content generation and editing, automated peer disclosure comparisons, etc. – all within a governed platform where data stays with the customer and every agent action is logged and audit-ready. Because they have a differentiated product (and in SEC reporting, near-monopolistic), AI gives them the ability to charge more. Workiva has introduced a new good/better/best pricing model to capture value, an upgrade over its old model of offering all features to all customers and discounting to fit smaller company budgets. For example, in the first product they've rolled out this pricing model in, SEC Advanced, Workiva charges a 20% pricing uplift vs. the standard product, and we've heard from partners of very good uptake (though driven by other features as well, not just AI).

Workiva is the only true *platform* in the market, and thus grows by taking share from point solutions that can address SOX/audit but not financial reporting (AuditBoard/Optro, Diligent, Archer, ServiceNow GRC), or legacy financial printers that focus on financial reporting but don't do SOX/audit and are losing share in reporting overall (DFIN, Toppan Merrill), or, in non-SEC reporting, sometimes from customers still working manually in spreadsheets. As vendor consolidation continues across software, Workiva is a

natural beneficiary. There are user functionality (all relevant data in one system, numbers cross-linked) and procurement benefits from customers buying these solutions as a platform. We expect Workiva to grow subscription revenue by ~21% this year (total revenue by 19%, dragged down by an intentional shift of professional services revenue to partners), continuing a long trend of >20% annual subscription revenue growth.

Workiva has steadily expanded its platform by adding more products, and recent signs point to Workiva's platform sale strengthening. Multi-solution customers are 75% of the revenue base (up 600 bps y/y in 1Q26) but only 45% of total customers. Customers with >\$100k in annual contract value are growing 24% y/y, customers >\$300k are growing 38%, and customers >\$500k are growing 39% y/y. Customer satisfaction and platform essentiality are reflected in Workiva's gross logo retention rate of 97% (at the top end of SaaS) and net revenue retention rate of 110% ex-FX.

The market for a long time didn't care too much about profitability for SaaS, and Workiva operated accordingly, focusing instead on its product and revenue growth. Starting in 2025 this changed sharply, as Workiva approached \$1 billion in revenue and CEO Julie Iskrow decided that a business of that size should operate more efficiently. As mentioned earlier, we believe profitability is a choice for software, and Workiva made that choice; by late 2025, margins were increasing 1000 bps y/y, and in 1Q26, GAAP operating margin increased 1800 bps (illustrating the effect from revenue growing faster than expenses; R&D declined 2% y/y and S&M grew 3% while revenue grew 20%). S&M efficiency improved, and should continue to improve, as Workiva reduces its historically costly and inefficient model around multiple overlay sellers, one for each product (we heard that Workiva previously would often bring 5-8 people onto a customer call, many of them collecting commission on the same sale, which actually created more customer confusion rather than improving outcomes).

Workiva in the past year has also upgraded its talent. We've heard great things about Workiva's new Chief Revenue Officer, Michael Pinto, who is bringing a greater focus on value selling of the platform to large customers, a larger focus on partners, and more emphasis on metrics and accountability vs. the previous head of sales. The company has added a new Chief Product Officer (formerly at Adobe and ServiceNow), a new CFO (former CFO of SentinelOne and Workday), and three new board members with SaaS experience (former CFO of Cisco and Autodesk, former CFO of Workday and VMware, and the current Chief Business Officer of our other holding Braze).

There has been some noise around the SEC's recent proposal to give companies the option to file semiannually instead of quarterly. We think this would be immaterial to Workiva's revenue: 1) SEC reporting is 35% of total revenue; 2) we believe most large public companies, which comprise Workiva's base, would face pressure from investors to continue filing quarterly (or would be mandated to due to outstanding debt); 3) even for companies that do take the semiannual filing option, Workiva is a workflow platform used year-round that does not price based on the number of filings. Perhaps some customers who move to filing semiannually would be able to negotiate a discount; but when we run assumptions through the three gates outlined (% of revenue that's SEC reporting, % of relevant Workiva filers that stop filing quarterly, % discount that customers who stop filing quarterly can negotiate), the impact to revenue looks to be low single digits at most.

Valuation

Workiva's current multiple of 2.6x NTM sales is very low, for a quality business that should have 25-30% GAAP operating margins at maturity (so ~10x mature EBIT).

Workiva targets \$1.8-2.0 billion in revenue in 2030, up from \$1.05 billion in 2026; we model \$1.85 billion (not because we think they'll miss, but because our MO is to be conservative, so we can have full

confidence in what we underwrite). Assuming an exit at 4x NTM revenue at year-end 2029 (so ~14x mature EBIT for a business that should still be growing in the mid-teens), and incorporating assumptions for share dilution as well as FCF generation, we get an IRR of 31%. If the multiple doesn't improve much from current levels, a 3x revenue exit gets an IRR of 23%; a 5x revenue exit pushes the IRR to 39%. We see a plausible downside case of 2.0x 2027 revenue, which would be -20% vs. the current price.

But it may not remain public long enough for us to get our modeled exit; we think Workiva would be a prime PE takeout target. Look at the buying criteria for software that Orlando Bravo gave at the Semafor conference in April 2026:

“The selloff has made prices more desirable for companies that fit Thoma Bravo’s investing guidelines, he said.

The first thing Thoma Bravo wants in a target company is the highest quality business in a particular space, usually the number one player, he said. The company must have a management team with deep domain experience, along with “big momentum” using AI to accelerate growth, he said.

“If we can get those three things at these bargain prices, we are huge, huge buyers of these companies right now,” he said.” (Semafor, 4/15/2026)

This hits on the key elements we highlighted for Workiva – the best product in the market and the only platform (and a near-monopolistic position in SEC reporting), deep domain expertise, AI making the product better, and a bargain price. If Workiva sells for 5-6x sales, that’s a double to double and a half from here. In May 2024, PE firm Hg acquired Workiva competitor AuditBoard, a point solution in GRC (not a platform like Workiva), for ~13x ARR, though of course valuations for the sector have changed since then. In January 2026, Hg announced its acquisition of OneStream, another company in the “office of the CFO” space, for 8x NTM sales.

Workiva’s size at a 5-6x multiple would be \$6-7 billion EV, well digestible for PE even given current financing markets for software. Workiva does have a dual-class share structure, with founders controlling 42% of the vote, but they are minimally involved in the business and our read is that they would be willing to sell.

Conclusion

AI poses risks and opportunities for software. Our job as a manager is not to avoid all risks but to deeply understand them and decide which ones are worth taking, to try to attain asymmetric and disproportionate rewards. Our companies were chosen carefully after iterating through almost the full public SaaS universe, continuously refreshing on stocks that had declined to try to unearth the best investments.

This is an exciting time. Putting software aside, the expanding AI capex trade is having a classic effect of pulling capital out of non-exposed sectors, giving us additional opportunities to buy companies we like with amazing products at cheap prices (which, per our last letter, could actually be big beneficiaries of AI as users as AI continues to improve, but which the market is ignoring currently as attention is focused on the sellers of AI capex, not the buyers of tokens).

We continue to be cautious of the AI capex trade. One factor that alarms us is the multiplicative effect of supply additions, reminiscent of the effect from DWDM (a breakthrough in multiplexing that allowed each fiber strand to carry multiple wavelengths of light simultaneously) in the late 90s fiber buildout: >4x increase in AI data center GW in 2030 vs. 2025, >30x increase in tokens/second/watt from newer

generations of Nvidia chips vs. an older mix of chips in the installed base, further multiple times improvement from model-side algorithmic efficiency (in addition to supply-side architectural gains, there's also the phenomenon that a lot of tokens today are wasted due to unnecessary reasoning, irrelevant context processing, failed turns and wrong hypotheses, inefficient routing, etc.) – leading to supply growth of potentially >300x in useful tokens by 2030, with continued multiplying growth implied beyond that as capex spend growth, a second derivative of underlying AI usage, is capitalized at high multiples. Coding, a verifiable domain where an agent can repeatedly re-ingest context, check its own work, and progress forward in loops, is a perfect use case for AI agents and consumes tokens at 100-1000x the rate of pre-agentic coding chats; AI customer service agents, another successful business use case, are a rounding error in terms of token consumption in comparison. Beyond coding which will continue to grow, we can't easily see where the next token-consuming use case of similar magnitude (100-1000x chat intensity, driven by verifiability) will come from. We very much hope that AI continues to succeed, and would not bet against the AI capex trade, but neither would we bet on it at these levels. We will stick to our knitting and our areas of expertise, focused on customer value, great products, and low prices.

As always, I am immensely grateful for the opportunity to manage our capital and am hard at work trying to compound it at the highest rate that I can.

Yours,
Tim Liu

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