

TIGER ROCK CAPITAL MANAGEMENT LP

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A \$4 Billion Lesson: How Conviction Without Discipline Destroyed Capital

In February 2015, hedge fund manager Bill Ackman began building what would become a 42% position in Valeant Pharmaceuticals. He paid an average of \$166 per share for a company with negative earnings, justifying the investment with Adjusted EBITDA metrics and a seemingly compelling growth narrative. By March 2017, he sold his final shares at \$11 each, locking in a loss exceeding \$4 billion. Later that year, he and his wife of 25 years began the process of divorce.

This wasn't a case of bad luck or an unforeseeable black swan event. It was a failure of process. Valeant's business model was built on debt-fueled acquisitions, stripping away talent and R&D spend, and aggressive drug price increases, sometimes by 400% or more. Buy it, gut it, and jack up the drug prices for the end-user. When regulatory scrutiny intensified and accounting irregularities surfaced, the foundation crumbled. What appeared to be a high-growth pharmaceutical wonder was revealed to be financial engineering masquerading as value creation.

Ackman's mistake wasn't simply picking the wrong stock or getting unlucky. It was ignoring warning signs as he doubled down and publicly committed to the thesis. In October 2015, as Valeant's troubles began to emerge, he held a three-hour conference call defending the company and predicting shares would reach \$306 per share. They never recovered, and now trade under the newly named Bausch Health Companies Inc. (Ticker:BHC) for approximately \$7 per share. By the time he exited, Ackman also had to pay \$435 million just to close out the put options that he had sold, which had obligated him to buy more shares at prices four times higher than the market value.

As mentioned above, the fallout of Valeant extended far beyond Ackman's firm. Amid Valeant's collapse and Pershing Square's worst performance on record, his 25-year marriage ended in divorce. While no single investment causes a marriage to dissolve, the timing seems telling. His fund's assets under management plummeted from \$20 billion to \$11 billion. Investors were fleeing. His reputation was in tatters. The stress of managing a public implosion, testifying before the Senate, fielding redemption requests, and defending the indefensible created a pressure that inevitably seeped into his personal life as well.

What We Learn From This

Ackman's Valeant disaster offers several critical lessons that directly inform our investment process at Tiger Rock:

1. Negative Earnings are a Red Flag, Not a Reason to Turn to Adjusted EBITDA

Remember the old warning from World War II that loose lips sink ships? My version is loose valuations sink hedge funds. In 2022, Chase Coleman's Tiger Global Management was invested in many companies with very high valuation metrics, even in companies with no earnings at all, on the basis of even more speculative revenue multiples. That year its flagship fund had dropped by approximately 56%, causing billions in redemptions as well.

Back to Ackman, though: Valeant had negative earnings when he invested. He justified the position using an Adjusted EBITDA number, a non-GAAP metric that excluded "one-time" charges and acquisition-related costs. When a company cannot generate positive earnings under standard accounting rules, it should trigger skepticism, not creative justification. As Parsa Kiai, my mentor and former boss at Steamboat Capital Partners taught me, it's not our job as disciplined investors to "put lipstick on pigs!" We avoid companies that rely on adjusted metrics to appear profitable.

2. Concentration Risk Can Be Lethal

Ackman allocated 42% of his portfolio to a single position in a company with an unsustainable business model. At Tiger Rock, our maximum position size is generally 10-12%. This discipline ensures that no single mistake, no matter how confident we feel, can destroy the portfolio. Conviction is important, but survival is paramount.

3. Public Commitment Creates Cognitive Traps

Once Ackman publicly defended Valeant, on investor calls, in media appearances, before Congress, reversing course became psychologically and reputationally costly. This "commitment and consistency bias" is well-documented in behavioral finance. We avoid making public predictions or tying our identity to specific positions. Flexibility and intellectual honesty matter more than being right, and we always seek to reevaluate our thesis and cut our losses if and when appropriate.

4. Business Models Must Be Sustainable

Valeant's model required constant acquisitions and price increases to generate growth. When regulators stepped in, the entire structure collapsed. In contrast, the companies we invest in create genuine growth through innovation, operational excellence, or essential services. If we do own a business that engages in consistent M&A, we strip out inorganic growth from their sales numbers to make sure the business is still growing without acquisitions. Additionally, we need their business models to endure regulatory scrutiny, economic cycles, and competitive pressure.

5. Valuation Discipline Prevents Disasters

Ackman paid 20x+ adjusted EBITDA for a company with negative GAAP earnings and significant debt. Even if Valeant's story had been legitimate, the valuation left no margin for error. We focus on trailing free cash flow, conservative earnings multiples, and downside protection. Paying the right price is half the battle.

The Valeant case study is a reminder that even the most accomplished investors can fail spectacularly when a process breaks down. At Tiger Rock, our goal is not to be the smartest or most aggressive. It is to be disciplined, patient, and realistic about risk. We seek to avoid catastrophic mistakes, compound capital steadily, and preserve the optionality that allows us to capitalize on opportunities when they arise.

With that framework in place, let's turn to two core positions that illustrate how we allocated capital this year: our largest holding, Taiwan Semiconductor Manufacturing Company (TSMC), and a second position that we have begun to taper after a strong run, Interactive Brokers LLC (IBKR).

Taiwan Semiconductor Manufacturing Company Limited

In April of this year we built a significant position in Taiwan Semiconductor Manufacturing Company Limited, at approximately \$160 per share. TSMC, a critical component of the global semiconductor industry, is a pure-play manufacturer, producing chips at scale for leading technology companies such as NVIDIA and Apple and powering some of the most important companies in the world. Apple relies heavily on TSMC to mass-produce their Series A and M processors, which power the iPhone, iPad, and Macbooks. Additionally, virtually every core GPU that drives NVIDIA's revenue is built by TSMC. TSMC is the key manufacturing partner for some of the biggest and most influential companies in the world.

Our thesis on TSMC was straightforward: rapidly growing revenue and earnings, world-class customers, secular tailwinds, and a depressed valuation creating a margin of safety. But why such a modest valuation at the time? There was an elephant in the room: TSMC was cheaply valued due to perceived massive geopolitical risk tied to China and Taiwan. At the time of our investment, most investors, including even Warren Buffett, called TSMC "uninvestable" and too vulnerable due to China invasion fears. We saw things differently and spent significant time analyzing the geopolitical risk as laid out below.

First, China's ability to execute a full invasion and successful takeover of Taiwan is extremely difficult and remains years out. Even without resistance from Taiwan or outside nations, the geography of the Taiwan Strait, the mountainous terrain across Taiwan's western coast, and the operational distance from mainland China create a complex and fragile military scenario. Naval assaults are hard operations in modern warfare, and Taiwan is one of the most fortified islands in the world. Most credible assessments place China's earliest real preparedness in the 2027-2030 window, and even that assumes coordination, domestic stability, and no intervention from regional powers. Beyond the physical difficulty, China faces additional layers of risk that

complicate any realistic invasion timeline. Taiwan's military has been restructuring specifically to counter a landing attempt, investing heavily in defense systems that raise the cost of invasion as well.

Second, Taiwan's fabrication plants ("fabs") are strategic global assets that would almost certainly be heavily protected and defended by international allies. The United States, Japan, and Europe, specifically Germany, have all invested billions of dollars into subsidizing and diversifying TSMC's production facilities, and have made it clear that Taiwan's independence is in their national interest. Any hostile action by China would trigger a massive global and economic proxy war. The economic consequences of a conflict, especially involving TSMC, would have a ripple effect that would crush Nvidia, Apple, and the likes of most large global stock markets. This reality makes a multinational response very likely, further increasing the strategic difficulty and uncertainty China would face.

Third, a real war over Taiwan would detonate China's economic foundations. An invasion would trigger immediate sanctions from the United States and its allies, spark global capital flight out of China, and shut down key export channels. That single consequence alone has massive implications for the global economy and for China's own tech ambitions. Beijing knows this. They may posture more aggressively in 2026 and 2027 with encirclement drills, drone flights, or gray-zone pressure, but a full invasion would destabilize their currency, collapse foreign investment, and undermine the CCP's claim to competence and inevitability. A failed or excessively costly campaign is the CCP's nightmare scenario, because it risks internal unrest and fractures the political legitimacy they depend on.

The recent documentary by Johnny Harris, *Why This Island Could Trigger World War III*, does an excellent job tracing Taiwan's history from early European colonization in the 1600s through the post-World War II geopolitical bargaining among the United States, China, and the Soviet Union. With a deeper understanding of Taiwan's vague status since World War II, it validated our view that the China invasion threat continues to be what it has been for decades: a threat alone due to U.S. military strength. While China continues to outwardly maintain their "One China Principle," we believe Chinese leadership understands that a near-term military takeover of Taiwan is not feasible. The economic, financial, and technological stakes are simply too high, not just for Taiwan and the U.S., but for the global economy as a whole.

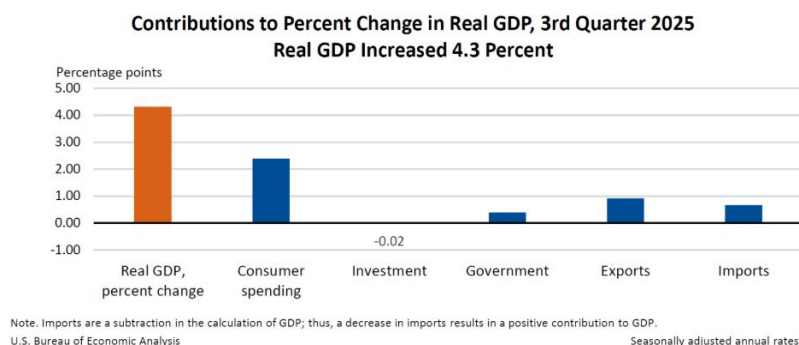
We believe China knows they cannot do it, and has largely settled with a strategy of intimidation, encirclement drills, and rhetorical pressure, maintaining an appearance of power and success in their unification efforts, without crossing a line that would trigger catastrophic sanctions or even war. This informs our assessment of China-Taiwan risk as elevated in narrative but constrained in practical reality over the intermediate term.

The Real TSMC Bear Case

The real risk with TSMC is the industry's cyclical nature and potential for short-term revenue deceleration. A sales slowdown is always a possibility, as demonstrated by the industry reset in 2023 and, more recently, the October 2025 monthly figures (16.9% y/y vs. ~33% avg. y/y for 2025). While TSMC's 2023 slowdown was not company-specific, rather the result of a

macro-driven inventory correction following the exceptional hardware boom of 2021–2022, similar macro slowdowns could occur again if large technology companies reduce production or pull back on capital expenditures. Excess capacity across the semiconductor ecosystem can temporarily suppress demand and pressure TSMC's top line.

That said, we maintain a constructive macro view and are bullish on continued production trends. Additionally, a slowdown in large tech AI spend does not fully stagnate TSMC. Consumer spending continues to drive roughly 69% of U.S. GDP. Consumer hardware purchases, including smartphones and personal devices, require consistent semiconductor output, providing TSMC with a durable base of recurring fabrication demand. Also, technology companies are increasingly embracing lower-cost accelerator solutions, such as Google's ASICs and TPUs, which can remain economically viable even during periods of enterprise capex contraction and are mainly reliant on TSMC for production.



These dynamics, coupled with a strong uptick in November 2025 y/y sales growth of 24.5%, support fabrication demand even in a softer macro environment. And lastly, we are patient, multi-year investors prepared to hold through cyclical volatility. If we see a slowdown like we did in 2023, we will stay patient and continue to hold through cycles knowing that TSMC is and will remain a critical toll both and center of the technology and AI industries.

Valuation and Entry

At the time of our research, TSMC traded at roughly 20x trailing earnings with 30% y/y revenue growth, a combination of quality and growth at a reasonable price. To further improve our margin of safety, we initiated our position by selling cash-secured puts with an exercise price of \$160 per share, giving us effective entry closer to 17x trailing earnings. Soon after selling those puts, the March stock market volatility and temporary tech sell-off drove TSMC's stock lower, forcing execution of our puts and creating our core position at attractive levels. As we seek in all of our investments, the short-term stock price's decline was not driven by any deterioration in TSMC's fundamentals. It was fear-driven noise across the entire market that provided an attractive entry-point. Since then, TSMC has appreciated more than 70%.

Stock prices are often depressed for valid reasons, but sometimes, for non-fundamental ones. We are cautious as TSM's October sales growth showed a modest slowing in revenue growth down to 17% y/y, but we continue to hold a position and will monitor demand over the coming months.

Interactive Brokers (IBKR): The Quiet Compounder in Financial Services

Our last idea for this letter is Interactive Brokers, a global electronic brokerage firm that provides trading and custody services to individual investors, hedge funds, registered investment advisors (RIAs), and proprietary trading firms. Founded in 1977 by Hungarian-born Thomas Peterffy, a now legendary figure in the trading world, IBKR has grown into one of the largest online brokers in the world, serving more than 3 million customer accounts across 100+ countries.

Peterffy, the Hungarian immigrant who founded Interactive Brokers and became one of the world's wealthiest individuals with a net worth exceeding \$70 billion, arrived in New York in 1965 with no English, no college degree, and \$100 from his father who told him to "make something of himself." He worked as an architectural draftsman by day and taught himself computer programming at night.

In 1977, Peterffy bought a seat on the American Stock Exchange and would write code in his head during trading hours, and then build automated trading systems after the market closed. His focus was on efficiency and automation, combined with priceless immigrant hunger. This recipe led him to develop the first electronic trading platform for securities, fundamentally transforming how financial markets would operate. Peterffy's story exemplifies a core principle that guides both our investment process and hiring philosophy at Tiger Rock.

Exceptional returns, and exceptional people, rarely come from traditional pedigrees or well-polished narratives. They come from scrappiness, hunger, and a willingness to challenge conventional thinking. Our goal is not to hire analysts with the shiniest resumes or play it safe and invest in the ideas the crowd feels safest endorsing. In the same way Bill Belichick would start wide receivers who never even played college football, we seek out businesses led by individuals who have massive hunger and an unrelenting drive to succeed.

*"I've been in this business since '69. Most of these Harvard MBA types don't add up to dog ****. **Give me guys that are poor, smart, and hungry.**"*

-Gordon Gekko, Wall Street (1987)

Beyond Peterffy's personal story, the company's competitive advantage today is simple: it delivers a low-cost, technologically advanced trading platform that gives individual investors institutional-grade tools, and also provides established funds with an efficient, low-fee execution and custody solution. IBKR's customers can trade stocks, options, futures, currencies, bonds, and funds across more than 150 markets globally, all from a single online account. Margin rates are among the lowest available, and the platform's execution quality and speed well-praised.

Their revenue comes from three primary sources: interest income (earned on customer cash balances and margin loans), commissions (on trades), and market-making income. The business model is capital-light, highly scalable, and benefits from powerful network effects. As more customers join the platform, liquidity improves, execution quality increases, and IBKR's competitive moat widens.

Why the Opportunity Existed

Despite its scale, profitability, and strong position in the discount brokerage space, IBKR has historically traded at a discounted valuation relative to high-growth fintech peers. The company is generally perceived as a "boring" and "old-fashioned" brokerage platform in an industry dominated by younger competitors like Robinhood and others that place a larger emphasis on more novel, though in our view unsustainable, gimmicks such as fractional stock share ownership, cryptocurrency focus or even gambling options, euphemistically branded as "prediction markets."

IBKR's customer base more favorably skews toward more sophisticated individual domestic and international traders, as well as institutional clients such as RIAs and Hedge Funds (approx. 50-50 split), rather than the younger and impatient retail audience that prefers platforms like Robinhood. We see those speculators as more fickle, less well-off, and more likely to switch platforms anyway. As of 2024, the average Interactive Brokers account held a multiple six-figure balance and executed ~200 trades per year. We view this as an ideal client profile, active enough to generate meaningful commission revenue, but disciplined enough to avoid account churn and value destruction common on retail-gamification platforms. Larger average balances also enhance IBKR's net interest income collection and securities lending revenue, reinforcing the durability of IBKR's earnings model.

Additionally, despite a sizable market capitalization north of \$100 billion, IBKR receives far less stock coverage and awe as compared to the trillion dollar MAG 7 companies and other fintech players.

However, the thesis has worked for us so far. IBKR has been growing its customer base at 20%+ annually, driven by international expansion, product innovation, and the secular trend toward self-directed investing. The company has also benefited from a higher interest rate environment, which drives outsized interest income on customer cash balances.

Valuation and Thesis

At the time of our position IBKR was trading at ~23x trailing earnings, a fair multiple for a company growing earnings at 15-20%+ annually with high returns on equity (typically 20%) and reasonable capital requirements. The company has generated significant top-line growth, and substantial free cash flow, which it returns to shareholders through buybacks and dividends.

Our thesis was straightforward. IBKR is a high-quality compounder with secular tailwinds, a dominant competitive position, and improving growth dynamics that had attractive features and a reasonable valuation. The company benefits from multiple structural trends:

1. Globalization of Self-Directed Investing

As individuals worldwide gain access to financial markets, many like the combination of low-cost yet technologically sophisticated platforms. IBKR is uniquely positioned to serve this audience. Its platform supports trading in 30+ currencies across 150+ markets, a capability that traditional U.S.-based brokers cannot match.

2. Higher Interest Rates Drive Profitability

IBKR earns interest on customer cash balances and margin loans. In a higher-rate environment, this income stream grows substantially. While rates have come down from 2023 peaks, they remain structurally higher than the 2010-2020 period, providing a tailwind to profitability.

3. Operating Leverage and Margin Expansion

As IBKR scales its customer base, its technology costs (the company's largest expense) are spread across a larger customer base. This drives margin expansion and allows the company to maintain its low-cost leadership position while growing profitability.

4. Capital Allocation and Shareholder Returns

IBKR generates more cash than it can reinvest in the business. Management has a strong track record of returning excess capital to shareholders through buybacks. As the company continues to compound earnings and buy back shares, earnings per share growth will exceed revenue growth, driving long-term value creation.

Our investment in IBKR proved to be a winner for us, showing earnings beats and multiple expansion. Now we stay cautious and right-sized with the position given the current risks. The risk with IBKR is primarily cyclical and interest-rate driven. In a severe market downturn, trading volumes decline, margin loans are repaid, and customer cash balances shrink. This would pressure revenue and earnings in the near term. Additionally, if interest rates fall sharply, interest income would decline.

However, IBKR has operated through multiple cycles and consistently emerged stronger. The company's low-cost structure, diversified revenue base, and global reach provide resilience that many competitors lack. And as a firm that seeks to hold positions for the long-term, we are willing to stomach potential short-term macro-driven losses for the opportunity to own a solid business long-term.

In Closing

In summary, the lesson from Bill Ackman's Valeant disaster is not that investing is inherently dangerous or that mistakes are unforgivable. It is that process matters more than speculation. Ackman believed deeply in Valeant's story, but belief without discipline is a recipe for disaster. At Tiger Rock, we seek to avoid that trap by maintaining position sizing and valuation requirements, prioritizing downside protection and staying intellectually honest about what we know and what we don't.

The investments discussed in this letter reflect our approach. Each is a profitable, cash-generative business that we believe in long-term. Each trades at a valuation that we can compute based on GAAP earnings rather than Adjusted EBITDA assumptions. And each can compound capital for years without requiring heroic stories or flawless execution.

We do not seek to swing for the fences with every investment. We seek to compound capital steadily, avoid catastrophic mistakes, and preserve the flexibility to act when opportunities arise. That is how endurance becomes strength, and strength creates outperformance.

Lastly, we want to thank our Investment Analyst Andrey Juchau for all his hard work and research support. I could not track all of our portfolio names and new research without his help.

Thank you for entrusting me with your capital. I remain committed to growing your assets with discipline, humility, and a relentless focus on long-term value creation.

Best,

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