PERNAS RESEARCH

PORTFOLIO UPDATES

We send timely alerts whenever we adjust position sizing or make any other material change to our portfolio

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Remitly ::UPDATE:: TRIM 5/16/2025

We have reduced our Remitly (NAS: RELY) position by half. Prior to this, it was the largest holding in the portfolio. This move contrasts sharply with our prior communications, which emphasized Remitly's long-term upside. Reversals like this occur for one of two reasons: either we were wrong or new and material information emerges that challenges the original thesis. In this case, new information has surfaced that we believe was not forecastable, prompting us to reevaluate our position.

We have long viewed Remitly as a rare business with multi-year upside. It has strong product-market fit, network effects, and a growing moat in compliance and onboarding. Despite strong fundamentals, the stock remains widely misunderstood by both retail and institutional investors. However, a newly proposed policy from the Trump administration has led us to reassess.

Trump's renewed focus on illegal immigration often triggers misinformed selling in Remitly. But this reaction is fraught with misunderstanding. Remitly does not serve undocumented immigrants (zero exposure to this segment), its customers use bank accounts and debit cards, meaning the user base consists entirely of U.S. citizens, green card holders, and visa holders. Historically, illegal immigration rhetoric has presented a buying opportunity.

This time is different.

Sec. 112105. Excise tax on remittance transfers.
Current Law: Not applicable.

Provision: This provision imposes a five percent excise tax on remittance transfers which will be paid for by the sender with respect to such transfers. The provision requires that the tax be collected by the remittance transfer providers and the remittance transfer providers are

42

responsible for remitting such tax quarterly to the Secretary of the Treasury. The provision also makes it clear that remittance transfer providers have secondary liability for any tax that is not paid at the time that the transfer is made. The provision also creates an exception for remittance transfers that are sent by verified U.S. citizens or U.S. nationals by way of qualified remittance transfer providers. "Qualified remittance transfer providers" are defined as remittance transfer providers that enter into a written agreement with the Secretary of the Treasury to verify the remittance transfer senders as U.S. citizens or U.S. nationals. The provision also provides a refundable tax credit for any excise taxes required to be paid by taxpayers with valid Social Security numbers. Lastly, the provision also has an anti-conduit rule.

A provision in the new "The One Big, Beautiful Bill" (see above) released on May 12th proposes a 5 percent excise tax on remittances sent by lawful residents who are not U.S. citizens (see snippet below). That includes green card holders and individuals on work and student visas. For Remitly, this would represent a 200 percent or greater increase in remittance costs for a significant portion of its U.S. sender base (Remitly does not disclose the portion of their sender base in the US by citizenship status).

The provision explicitly exempts U.S. citizens and nationals. Green card and visa holders are not covered. This would be analogous to a grocery store that charges different prices based on your citizenship status. This is not only politically volatile but raises constitutional concerns.

This provision may violate the Equal Protection component of the Fifth Amendment's Due Process Clause, which prohibits arbitrary discrimination against lawful permanent residents. It may also conflict with the Commerce Clause, since it targets cross-border financial activity. Some legal experts believe it is likely the provision will be amended to include lawful residents, which would fully clear Remitly and restore the original investment thesis.

We do not know how to assign probabilities to this bill passing or to the remittance provision remaining intact. We are normally good at separating emotion from our investment process. But to be frank, this one stings. We viewed Remitly as a long-term compounder and intended for it to be a top position in the portfolio.

If the provision is amended to exempt lawful residents, we will reestablish the position aggressively. If it passes as written, we will monitor how the remittance market evolves before taking further steps.