DAYTONA ST

"I didn't invent the hamburger. I just took it more seriously than anyone else."-Ray Kroc

8th of October 2024

Dear Clients and Friends,

We realized strong broad-based performance across our portfolios in the third quarter. Our dominant industry-leading companies continued to expand market share and grow profitability. Several of our companies made progress on key strategic objectives that position their businesses well for the future. The management teams continue to execute and deliver value for customers and for shareholders.

The August Consumer Price Index rose by .2% month-over-month, and 2.5% year-over-year, marking the smallest annual increase since February 2021. The cooling inflation figures paved the way for the Federal Reserve to lower the Fed Funds rate by 50bps on Sept. 18th, easing borrowing costs for businesses and consumers. In the U.S., the unemployment rate touched 4.1% and remains near historic lows.

The upcoming U.S. Presidential election may induce market volatility, as some investors reposition their portfolios in anticipation of a new Administration. While we will closely follow the election and monitor the political climate, turnover in the Oval Office will not change our investment approach. Irrespective of who wins in November, we will continue to seek out high-quality, well-managed businesses able to thrive in any political climate. We structure our portfolios to provide exposure across sector and market capitalization, further insulating us from near-term regulatory or political risk that could disproportionately affect a given area of the market.

Amidst short-term change in the political or economic environment, it is crucial to not lose sight of the big picture. The United States is blessed with good corporate governance, well-developed accounting standards, deep and liquid capital markets, and a culture that fosters entrepreneurship and encourages innovation. These virtues form the bedrock of the U.S. economy and have driven long-term growth in both the economy and stock market. To put a finer point on it, consider that since 1980, the United States has had eight Presidents, with six changeovers between a Republican and Democrat Administration. Over the same time, the Dow rose from 844 to 42,330 (at Q3) and the S&P rose from 107 to 5,762. While policy changes can affect taxes, regulation, or corporate deal-making in the short-term, the ingenuity of great businesses operating in a vibrant and growing economy is the recipe for success over the long-term.

PORTFOLIO UPDATE

NETFLIX (NFLX) - $719

Netflix continues to build on its lead in streaming entertainment, announcing increased investments into live content, sports programming, and games. Of note, beginning this December, Netflix will be the exclusive home of two Christmas Day NFL games, and in 2025, Netflix will become the exclusive global distributor of World Wrestling Entertainment programming. We see live entertainment and sports underpinning a meaningful acceleration in Netflix's advertising revenue. We forecast Netflix to grow earnings per share at an annualized rate of between 12-15% through 2027, which approximates our estimated return in the stock.

POST HOLDINGS (POST) - $113

Consumer foods company, Post Holdings, continues to perform against a difficult backdrop for the sector. Market-leading brands, a diversified business model, and shrewd capital allocation helped drive Q2 2024 net sales to $1.9B, up 4%, and net earnings to $99.1m, up 11.4%. Operating earnings growth, combined with debt reduction, could translate into annualized earnings growth in the low teens over the next few years. By 2027, we believe that Post could be worth 150-$160/share.

DISNEY (DIS) - $93

Disney remains on pace to meaningfully grow earnings in the near-term, while also investing aggressively in long-term growth. In 2025, Disney's direct-to-consumer streaming business (Disney+/Hulu/ESPN+) is projected to become profitable. We estimate that Disney could eventually earn between 15-20% operating margins in its streaming business. Disney is also doubling capital investment into its globe-spanning, market-leading portfolio of theme parks, hotels, and cruise ships. With Disney on the cusp of earnings growth in streaming and a long runway for growth in the parks, we believe that the stock remains very attractive at ~18x estimated 2025 earnings.

ALLY FINANCIAL (ALLY) - $35

A projected steepening of the yield curve should drive meaningful net interest margin expansion and earnings growth for Ally Financial. Lower short-term rates on Ally's deposit base should fund longer-duration auto loans at an increasingly attractive spread. Likewise, Ally's tangible book value should increase as lower rates will increase the mark-to-market value of Ally's bond portfolio. With its leadership position in online banking and auto lending, Ally could be a big beneficiary of lower interest rates. We see value in the stock at ~7x E2025 P/E.

META PLATFORMS (META) - $590

Meta's business continues to deliver value for users and advertisers. In Q2 2024, revenue was up 22%, operating profit was up 58% and earnings per share were up 73%. Meta AI, the Company's intelligent assistant, is on track to be the most used AI assistant in the world by the end of 2025. Meta's primary foundation model, LLAMA, an open-sourced large language model has quickly become one of the most utilized in the market. We are also encouraged by several new product initiatives at Meta, including Orion, Meta's new prototype augmented reality glasses. At 24x 2025 estimated earnings, we believe Meta's valuation remains compelling given the quality and profitability of the core business, combined with its emerging leadership in new technologies.

CHARLES SCHWAB (SCHW) - $65

In September, Schwab issued positive revenue guidance for Q3, projecting a 2-3% increase in the top-line versus the prior quarter. The Company also announced that new brokerage accounts in August increased 4%, and core net new assets increased by $32.8B for the month. With the TD Ameritrade brokerage platform now fully integrated, Schwab is poised to strengthen its market position as a one-stop shop for high value financial services. By 2027, we estimate that Schwab could earn $5/share and be valued at $100/share.

FRESH DEL MONTE (FDP) - $29

A renewed focus on its core fresh produce business, coupled with cost discipline, drove profit growth at Fresh Del Monte. The vertically integrated fruit and vegetable supplier posted $50.9m in net income for Q2 2024, up approximately 10% year-over-year. The Company has also meaningfully strengthened its balance sheet, with long-term debt down $116m year-over-year. We believe that FDP's brand and market share in fresh produce, coupled with its portfolio of owned real estate, make the Company an attractive acquisition target. In a sale of the business, we estimate that stock could be worth 40-$50/share.

LONG-TERM ALIGNMENT

It is hard to overstate the value that a talented executive and management team can create in a business. Two companies in the same industry, with similar financial characteristics, selling comparable products or services, can deliver dramatically different performance depending on the quality of the management team.

On August 13th, one our holdings, Starbucks, announced the surprise hiring of one of the best executives in the restaurant industry, Brian Niccol. Mr. Niccol was previously the Chairman and CEO of Chipotle. After becoming CEO in 2018, Mr. Niccol was instrumental in making Chipotle one of the most successful restaurant chains in the world. His focus on people, brand and operational excellence resulted in enormous growth during his tenure. Under Mr. Niccol, Chipotle's revenue roughly doubled, profits increased nearly sevenfold, and the stock price increased by approximately 800%.

We believe that Mr. Niccol is the right leader to build on Starbuck's strong foundation. With best-in-class real estate, a large and growing loyalty program, and market leadership in cold coffee-based beverages, Starbucks possesses a strong brand and business model. However, recently the Company was not performing to its potential. Wait times in the morning were growing longer, the mobile app was projecting inaccurate pickup times, the Company was frequently out-of-stock on popular items, and China, once viewed as a growth market, had become increasingly competitive.

Mr. Niccol, and the team he assembles, are ready to tackle these challenges head-on. At Chipotle, Mr. Niccol oversaw the development of Chipotle's market leading digital ordering system, including creating a second cooking area in the back of the restaurant focused exclusively on online orders, helping reduce wait times. Mr. Niccol also led the rollout of Chipotlanes, dedicated mobile order drive-through lanes that let customers order ahead for immediate pickup at a designated time. Prior to Chipotle, Mr. Niccol was the CEO at Taco Bell, owned by Yum Brands. Yum Brands was one of the earliest U.S. based-restaurants companies to build a successful franchise restaurant business in China, giving Mr. Niccol a valuable perspective on ways to improve Starbuck's Chinese business.

With the right leadership team in place, Starbucks could improve operational execution, return China to growth, and improve the functionality of its mobile app. The right strategy and solid execution could result in double digit earnings growth for the foreseeable future.

NEW POSITION

MCDONALDS (MCD) - $299

We initiated a new position in McDonald's in the quarter. We feel that McDonald's is one of the most durable and defensible businesses in the world. With its global restaurant footprint of 34,000 stores in 118 countries, talented franchisee base, and decades of experience delivering customers unmatched value, McDonalds has established a wide competitive moat. The Company has a long, proven history of profitability and one the strongest balance sheets in the restaurant sector.

McDonalds shares were under pressure in the first half of 2024 due to a slow-down in traffic across the restaurant space. Inflation-induced menu price increases created challenges for the sector; investors feared that restaurants were going to become heavily promotional to stay competitive and began to worry that restaurant profitability would suffer under the weight of higher costs and heavy promotions.

After reviewing prior periods of promotional activity, we concluded that McDonalds is well-positioned to not only withstand the current challenges, but to gain market share. McDonalds competitive pricing, broad appeal, and unrivaled speed and convenience offers customers real for value for money in tougher economic times.

At the same time, McDonalds is pursuing key growth initiatives that could boost revenue and earnings over a multi-year period. Management recently unveiled a plan to expand the global store base from 40,000 stores to 50,000 by 2027, and McDonalds is investing to expand its digital capabilities, building on its base of 150m active digital loyalty members, generating an estimated $20B in system sales.

Through a combination of 3-4% revenue growth, continued operating margin expansion, and share repurchases, we project that McDonalds can grow earnings per share between 8-10% per year through 2027, which can approximate our return, assuming no multiple expansion.

Sincerely,

Ben Weiss, JD
Chief Investment Officer

Tom Eidelman, CFA
President

DISCLOSURES