DAYTONA ST

"The strength of our economy is that it is dynamic and always adapting to changing conditions. That's our advantage in the world."-Peter Lynch

9th of January 2025

Dear Clients and Friends,

Our portfolios posted strong performance in Q4. We own a diverse collection of high-quality businesses across market capitalization and industry. Our companies are growing market share and profits by delivering increasingly valuable products and services. The respective management teams think and act like owners, with healthy incentives and a long-term orientation. We believe that our portfolio will benefit from multiple growth drivers translating into meaningful upside over the long-term.

PORTFOLIO REVIEW

The major indices generally performed well in Q4. The Republican sweep of the White House and Congress ushered in expectations of lower tax rates and less regulation, generally viewed as constructive policies for the markets. U.S economic data showed some bright spots: retail sales have been resilient, the employment rate remains historically low at 4.2%, and the PCE price index, the Fed's preferred inflation gauge, increased .1% from October to November, slightly better than forecast. Still, bigger picture challenges loom; the U.S. budget deficit is running close to 6.4% of GDP, historically high, and many essential household expenditures, such as food, autos and insurance, remain above pre-Covid levels, burdening consumers with higher bills.

The short-term direction of the stock market is unknowable. There are too many factors that one cannot predict that can impact investor sentiment, world events, and market prices. Our approach is to control the controllable and remain focused on owning a portfolio of resilient and adaptable businesses designed to deliver value to customers and shareholders in any environment. We will continue to pursue the best investment opportunities, while remaining agnostic to market capitalization and sector. We believe that our approach offers exposure to the best companies across many industries, while prudently insulating our portfolio from over-exposure to a sector, investment style, or market paradigm. Across our holdings, we are encouraged by the solid execution and profitable growth.

ALPHABET (GOOG) - $197

Alphabet reported excellent results in 2024 across its portfolio of businesses, including Search, YouTube, and Google Cloud. Google remains the world's dominant digital advertising business, YouTube continues to build on its market leadership in short-form video, and Google Cloud has solidified its position as one of the three dominant public cloud companies. Alphabet is also developing a portfolio of cutting-edge innovative technologies, including Willow its new quantum computing chip, and Waymo, an autonomous vehicle service. At ~20x estimated 2026 earnings, Alphabet's valuation remains attractive given the quality of the business

and the potential for growth. We project 12-15% annualized EPS growth over the next several years, which can approximate our return in the stock. Commercialization of Alphabet's portfolio of developing businesses could provide additional upside.

ALASKA AIRLINES (ALK) - $66

Alaska Airlines ("Alaska") continues to turn in industry-leading performance. In Q3 2024, Alaska generated a 13% pre-tax margin and earned $2.25/share, far exceeding the Company's original guidance of 1.40-$1.60/share. Alaska's pre-tax margins were the highest in the airline sector. In September, Alaska completed the acquisition of Hawaiian Airlines, establishing a formidable, scale regional operator in the Pacific Northwest. At Alaska's Investor Day in December, Management forecast 2027 earnings per share of $10/; at a 12x P/E multiple, a reasonable valuation for a best-in-class dominant regional airline; the stock would be worth $120/share.

SPOTIFY (SPOT) - $477

Spotify continued its march to higher levels of sustainable profitability. In Q3, Spotify's revenue increased 19%; operating profit increased from $32m to $454m, demonstrating the immense operating leverage in Spotify's model. With 650m monthly active users, a best-in-class user experience, and continued diversification into podcasts and audio books, Spotify is well-positioned to grow its user base, revenue and earnings well into the future. If Spotify can achieve its long-term target of $100B in revenue and $20B in operating profit, we believe that the stock has the potential to be worth multiples of its current price.

CHARTER (CHTR) - $347

After several years of increased investment into broadband infrastructure and customer service, Charter, the nation's second largest provider of high-speed home internet, is poised to grow its customer base and profits. Customers depend on Charter to provide fast, secure internet connectivity. Over the last three years, Charter invested substantially to upgrade its broadband network, investing ~$30B into capital expenditures. Charter now claims it offers the fastest internet speed across its footprint of 50m homes. In tandem, Charter is building a fast-growing wireless business that allows internet customers to bundle home internet with their mobile phone service. Adding to our bullish stance, we believe that Comcast, the nation's largest home internet provider, could attempt to acquire Charter given a more favorable regulatory environment. Charter's largest shareholder, the famed cable investor John Malone, stated the same at the Liberty Media Investor Day in November. At 9x E2026 consensus earnings $40/share, we believe Charter's valuation is very attractive given the favorable utility-like characteristics of the broadband business.

NEW LEADERSHIP

We love situations where a fundamentally good business that has underperformed due to mismanagement gets new leadership. We never underestimate the value that a talented manager with vision and fresh ideas can have on a Company's performance. Over the years, several stocks fitting this formula have delivered great

returns. To that end, we are encouraged by the potential of new leadership to improve stock performance across several of our holdings:

ALLY FINANCIAL (ALLY) - $36

In April 2024, Michael Rhodes became Ally Financial's ("Ally") new CEO. Mr. Rhodes brings two decades of financial services expertise, most recently as the CEO of Discover Financial Services. Prior to that, Mr. Rhodes spent 12 years at TD Bank, where he served in leadership positions in personal banking and North American credit card and merchant services.

Ally has a strong competitive position as the nation's leading pure-play auto finance company and online bank. However, over the last few years, a combination of challenging industry conditions and interest rate volatility, negatively impacted Ally's earnings and valuation. Adding to investor discontent, Ally's prior management contemplated large acquisitions outside of the core business.

Mr. Rhodes is charting a new course. In November, Ally signaled its interest in selling Fair Square Financial, the credit card business that it acquired in 2021, to focus more on the core auto lending business. The prospective sale suggests Ally is unlikely to undertake any big acquisitions. At a financial services investor conference in December, Mr. Rhodes indicated that Ally would commit to prudent cost control and may restructure its securities portfolio; positive steps to improve financial performance.

Ally currently trades at 7x E2026 earnings, a large discount to peers and to the overall market. We believe that good execution and a favorable economic backdrop can drive meaningful earnings growth and a higher multiple. By 2026, we estimate that Ally could trade at 10x P/E and be valued 55-$60/share.

CVS HEALTH (CVS) - $46

CVS owns a portfolio of large, profitable health care businesses, including Aetna, one of the nation's largest health insurance companies. We were attracted to CVS due to its diversified business, long history of profitability, and attractive valuation. Over the last few years, the Company has underperformed expectations, due in large part to mismanagement at Aetna.

We added to our position in the fourth quarter after the Company undertook several major constructive changes to improve Aetna's performance and overall profitability. In October, CVS replaced CEO Karen Lynch with long-time executive health insurance executive, David Joyner. Mr. Joyner told analysts that he would "make the hard choices and take the necessary action to drive a multiyear earnings recovery at Aetna."

On Nov. 18th, CVS added four new Board members, including Larry Robbins of Glenview Capital, one of the most experienced and successful healthcare focused investors. Mr. Robbins revealed that his firm built a 1% position in CVS and was committed to working to improve performance. In an interview on CNBC on Nov. 18th, Mr. Robbins laid out two near-term opportunities to improve profitability: 1) stem losses of ~$3B from recently acquired businesses; and 2) refocus capital allocation on debt paydown to bring the leverage ratio under 4x Debt/EBITDA (target 3.75x). The combination of reducing losses and paying down debt can improve profitability and perceived balance sheet risk.

CVS is currently trading at ~7x E2026 P/E, a significant discount to the overall market and CVS's peer group. With new leadership, a commitment to improve performance at Aetna, a refreshed board of directors, and an opportunity to improve earnings through reducing losses in acquired businesses and debt paydown, we see multiple catalysts from earnings growth and multiple expansion. By 2026, we estimate that CVS could trade at 12x P/E and be valued at ~$80/share.

The quality of our businesses, combined with the potential for profitable growth, makes us optimistic about our future returns. Thank you for your trust and partnership.

Sincerely,

Ben Weiss, JD
Chief Investment Officer

Tom Eidelman, CFA
President

DISCLOSURES

This letter is for informational purposes only and does not constitute a complete description of our investment advisory services. It is in no way a recommendation of any security or a solicitation or offer to sell investment advisory services. This letter should not be construed as advice to buy or sell any particular security. This letter is not definitive investment advice and should not be relied on as such. It does not consider any investors' particular investment objectives, tax status, or investment horizon. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. Any forward-looking statements speak only as of the date they are made and Daytona Street Capital assumes no duty to and does not undertake to update forward-looking statements. Certain investments mentioned in this post may not have been held by clients of, or recommended by, Daytona Street Capital. Past performance is not indicative of future results.