"An investment in knowledge pays the best interest" – Benjamin Franklin

10th of April 2025

Dear Clients and Friends,

Our portfolios of high-quality companies performed relatively well in a challenging quarter. Against a backdrop of growing political and economic uncertainty, consumers still need to eat, be entertained, take medication, and buy household essentials. We own best-in-class companies that serve these fundamental needs, positioning our businesses well.

MARKET REVIEW

In the U.S., the Trump Administration enacted a raft of policies that address the federal deficit, trade, taxes, and regulation. Perhaps the most unexpected was the series of tariffs laid out on April 2. The markets were negatively surprised by the breadth and amount of the tariffs, which were much higher than the market anticipated. Investors grappled with the growing uncertainty throughout the first quarter by sending the S&P 500 and Russell 2000 down 4.6%, and 9.8%, respectively.

Supporters of the Administration's policies believe that they will strengthen the U.S. fiscal position, reduce the federal deficit, and spur a wave of business investment in the United States. Some supporters also believe that the tariffs are the opening salvo in negotiations to secure fair terms with trading partners. Those weary of the policies are concerned that they will drive inflation, damage relationships with key allies and trading partners, stifle supply chains, and nudge the U.S. toward recession.

There are multiple different scenarios that could play out in response to the new policies, and we acknowledge that it is difficult to predict what will happen. Higher prices and slowing economic growth do not serve the interests of voters or U.S. businesses, therefore our working assumption is that elected officials will respond to economic data and market signals to support a healthy U.S. economy.

As uncertain as the political climate is, we remain bullish on the United States. The economic miracle that is the U.S. economy is underpinned by the enduring virtues our system: deep and liquid capital markets, a culture that fosters entrepreneurship and innovation, a well-developed system of corporate governance, and the legal and accounting frameworks that establish trust and transparency. These bedrock principles are why the U.S. is the home to the world's most valuable companies. It has paid to stay long the U.S. regardless of who occupies the White House.

At the individual company level, we see our holdings successfully adapting to the current environment, innovating on behalf of customers, and investing in profitable growth. A few shining examples:

MCDONALD'S ("MCD")

MCD is emerging as a leader in the use of artificial intelligence ("AI") in the restaurant industry. In the last year, MCD accelerated the deployment of AI to improve order accuracy, detect equipment failure, and personalize the drive-through experience. With 40,00 restaurants, strong cash flow, and an experienced franchise base, MCD can aggressively invest in technology at a scale the few competitors can match. MCD is also well-positioned to take market share with a customer value proposition that resonates in the current environment. Through a combination of sales growth, margin expansion and new unit growth, we believe MCD can grow earnings per share at 10-12% through 2028, which can approximate our return in the stock.

AMAZON ("AMZN")

Amazon continues it march to expand margins and dramatically improve profitability. In Q4 2024, Amazon's North American Retail business posted an 8% operating margin, the highest in its history and the eighth consecutive quarter of operating margin expansion. In 2024, Amazon generated ~$60B in net income, up from $36B in 2023. We believe that Amazon can grow profitability for many years as investments in robotics and same-day delivery facilities enable faster, most cost-effective delivery. By 2027, we believe that Amazon can earn $10/share and be valued at between 250-$300/share.

BRISTOL-MYERS ("BMY")

Bristol-Myers is a highly profitable pharmaceutical company with a rapidly growing pipeline of new treatments. BMY's growth portfolio of new medicines grew to $22.6B in 2024, up 17% year-over-year. Concurrently, BMY's management maintains its focus on efficiency, committing to $2B in cost reductions by the end of 2027. At 8x E2025 P/E, we think that the market is pricing in very little growth from new treatments, creating an attractive risk/reward in a well-managed healthcare company.

WARNER MUSIC GROUP ("WMG")

Warner Music Group ("WMG") owns a collection of irreplaceable and iconic recorded music and publishing rights, including works from Aretha Franklin, Led Zeppelin, Madonna, Prince and Ed Sheeran, among others. WMG leverages it catalog by licensing its music to distributors such as Apple Music, Spotify and YouTube. In Q4, WMG signed a new distribution deal with Spotify that was well-received by the market. According to the International Federation of the Phonographic Industry, global paid streaming music subscribers totaled 667m at the end of 2023, representing less than 13% of the estimated 4.6B global smartphone users, suggesting that the streaming music market has a long runway for growth. With top-line growth of 7-10%, and growing profit contribution from its high-margin licensing business, WMG could earn $2/share by 2027 and be valued at 45-$50/share.

ALPHABET (GOOGLE)

Alphabet remains the largest and most profitable digital advertising business in the world, anchored by Google Search. Google continues to innovate in search, launching several new features, including AI Overviews, a search format that provides increasingly detailed and conversational search responses. AI Overviews has become one of Google's most popular search features, with more than one billion users. We see Google continuing to leverage its technical talent, data and deep industry expertise to make search more valuable for users and advertisers. At 16x 2026 P/E, we believe the market is undervaluing Google's competitive position and earnings growth.

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.