Bonsai Partners

August 18, 2025

Dear investor,

For the six months ending June 30, 2025, Bonsai Partners Fund, LP, appreciated 7.3% net of fees and expenses. The S&P 500 Total Return Index appreciated 6.2% during this period.

Bonsai Partners Historical Returns Summary

	2025	2024	2023	2022	2021	2020	2019	2018*	Since Inception*	Annualized *Since Inception*
Bonsai Gross Return	**7.8%**	**10.8%**	**22.7%**	**-26.5%**	**-13.9%**	**277.9%**	**60.3%**	**-17.6%**	**362.8%**	**25.7%**
Bonsai Net Return **	**7.3%**	**9.7%**	**21.5%**	**-27.3%**	**-14.8%**	**247.9%**	**56.1%**	**-17.7%**	**295.6%**	**22.8%**
S&P 500 Return	6.2%	25.0%	26.3%	-15.8%	25.1%	18.4%	31.5%	-8.6%	151.3%	14.8%

The performance data shown represents past performance. Past performance is not indicative of future results. The period October 22, 2018, to April 30, 2021, presents time-weighted returns of a representative Bonsai Partners, LLC ("Bonsai") managed account with the same strategy and risk profile as Bonsai Partners Fund, LP, (the "Fund") which launched on May 1, 2021. Results from May 1, 2021, reflect the time-weighted returns of Class A shares of the Fund.

Gross returns from October 2018 to April 2021 include transaction and commission fees. Gross returns from May 2021 to the present include transaction and commission fees and fund operating expenses, such as administrative and audit fees but do not include management or performance fees.

Net returns reflect the gross returns (as described) reduced by a 1.0% management fee and a 10.0% performance fee above a 6.0% cumulative compounding hurdle

All performance figures are calculated internally by Bonsai Partners and are therefore estimated, unaudited, and subject to adjustment. The investment return and principal value of an investment with the Fund will fluctuate so that an investment, when redeemed, may be worth more or less than its original cost. Actual performance for a particular investor may be lower or higher than quoted performance due to different fee structures, share classes, beginning periods, capital additions or withdrawals, or individual compliance related mandates.

The S&P 500 Total Return index is a basket of 500 large U.S. stocks, weighted by market capitalization, and is the most widely followed index representing the U.S. stock market. The S&P Total Return Index includes the reinvestment of dividends. Benchmarks and financial indices are shown for illustrative purposes only. They provide general market data that serves as a point of reference to compare the performance of other securities that make up a particular market. Such benchmarks and indices are not actively managed and do not reflect the expenses associated with managing an actual portfolio, the cost of investing in the instruments that comprise it, or other fees. No representation is made that any benchmark or index is an appropriate measure for comparison.

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Enduring Economics

Businesses often fail by fixating on competitors instead of customers. Jeff Bezos recognized this early, famously noting that most companies are “competitor-obsessed” rather than “customer-obsessed.” From Amazon’s earliest days, he set out to do the opposite, declaring his aim to “build the world’s most customer-centric company.” This wasn’t altruism; it was a calculated strategy. By taking care of customers, Amazon was taking care of itself, securing its long-term survival in a rapidly changing industry.

For many years, I didn’t fully appreciate the power of Amazon’s approach. Only later did I realize that this same mistake–overweighting competition and underweighting customers–isn’t confined to businesses. It is present in many investors as well.

Investors, like companies, often fall into a state of competition obsession. Far more effort goes into analyzing competitive positions–measuring moats, dissecting defenses, and observing market share shifts–than into understanding how a company sustainably delivers superior value to its customers. Yet it’s the strength and resilience of this relationship, more than any single competitive advantage, that often determines whether a company fades or endures.

Customers aren’t an afterthought of an investment thesis; they *are* the thesis! As I wrote in **Customer Centric** (Q4 2022), every dollar of revenue and profit that drives an investment’s return comes from customers. Investors who overlook the customer introduce significant risks.

What’s missing from much of the investment dialogue is a framework for evaluating whether a company has built unique, durable capabilities that allow it to deliver unmatched value to customers. I refer to this as "**customer advantage**," which, alongside **competitive advantage,** serves as a pillar of enduring growth.

While competitive advantages protect what a company has already built, they do not guarantee continued relevance with customers. Customers act out of self-interest, buying from whoever offers the most value, and so-called “customer loyalty” lasts only as long as that remains true. Companies that sustain profitable growth over long periods often combine competitive advantage with customer advantage–keeping competitors at bay while delivering superior value to customers.

The power of investing lies not only in the rate of return, but in how long those returns can continue. Longevity of compounding often matters more than the rate itself.[1] That insight shifts our focus: not just to companies that generate high returns, but to those built to sustain them. With a longer horizon, endurance becomes a central question of any investment. Our ability to answer this question improves when we evaluate customer advantage and competitive advantage together. Companies that balance their advantages across multiple dimensions are more likely to endure than those that rely on a single source of strength.

At its core, great investing is about owning great businesses. In my earlier years, I defined "greatness" primarily through competitive advantage–the ability to earn and defend high returns on capital. While moats are valuable, I've come to see that they are not enough. A more holistic view that incorporates both

[1]My thanks go to Lar Endersen for emphasizing this important idea in his book: *The Compounder's Element: A Patient Path to Prosperity.*

competitive and customer advantages leads to better decisions. When both elements are present in a business, I call this combination "**Enduring Economics**." It is my benchmark for identifying great companies.

Enduring Economics = Competitive Advantage + Customer Advantage

To evaluate customer advantage, we begin by asking what customers care about most in a specific industry. In most purchase occasions, there are two or three core attributes that matter most. Often, these sources of customer value extend far beyond tangible product features to include social and psychological factors as well. After identifying the key value drivers, we can work backward to see if a company has developed capabilities that deliver leading value in these key areas. Speaking with customers and using the product are especially helpful here.

While competitive advantage exists in many forms–network effects, switching costs, economies of scale, and so on–the sources of customer advantage are equally diverse, but less studied. One powerful form currently represented in our portfolio is what I call "radical customer alignment" (RCA).

Radical Customer Alignment

Radical customer alignment is an operating philosophy designed to deliver superior value to customers. To achieve RCA, a company deliberately builds its business and culture around the attributes customers care most about. Amazon, for example, exemplifies RCA by relentlessly improving in the areas e-commerce customers value most: low prices, broad selection, fast delivery, and frictionless transactions. Amazon's structural alignment with customer needs raises the odds that customers will keep coming back well into the future.

As we noted in **Customer Centric**, putting customers first often conflicts with short-term shareholder interests, even though it can enhance long-term value. I label RCA as "radical" because it requires a deep commitment to overcome the tension it creates with shareholders, something most companies will not or cannot do.

Wise is a company from our portfolio that demonstrates radical customer alignment. Wise recognized early on that its customers care most about low prices, speed, and transparency in cross-border transfers. Consequently, Wise built its entire organization around delivering leading performance in each of these areas. Each autonomous local team inside Wise works daily to improve speed, cost, and transparency of its services, and does not need to ask permission if they're working towards these goals. By designing the company to stay aligned with customers, Wise increases the likelihood of staying relevant with its customers in the future.

In summary, **Enduring Economics** is Bonsai's framework for determining whether a company qualifies as a "great business." This two-step approach assesses whether a company has both a sustainable **competitive advantage** and a meaningful **customer advantage**. Wise exemplifies this framework in that its radical customer alignment creates a sustainable customer advantage, and its scale and unique infrastructure provide a competitive advantage. By focusing on both competitive and customer advantages, we don't just identify companies capable of defending against competition today, we uncover businesses designed to remain relevant in their broader ecosystems for the long term.

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Investment Write-Up: Fever-Tree Drinks (FEVR.L)

Fever-Tree is the global leader in premium mixers, offering tonic waters, ginger beers, and other cocktail mixers.

I've admired Fever-Tree for nearly a decade but held back from investing due to its persistently high valuation. As an anecdote, during the March 2020 COVID sell-off, I put in a standing limit order to buy Fever-Tree shares, but even at the market bottom, my limit price was still below where shares traded, and our order never filled. However, late last year, an attractive opportunity emerged, leading us to initiate a position and eventually increase our investment as the thesis improved.

Fever-Tree's historically high valuation reflected the company's rapid rate of growth, asset-light business model, and sustained high returns on invested capital. However, a recent combination of slowing growth and pandemic-related supply chain disruptions severely impacted Fever-Tree's profit margins, leading to a significant valuation reset. We purchased our position at what I consider ~13x "normalized" trailing earnings, which is well below the company's historical average P/E of about 65x. At our purchase price, the market implied that either the company would never grow again or it would never fix its margin issues. I believed it would do both.

Company and Industry Background

Founded in 2005, Fever-Tree was built on a straightforward insight that is captured well by its slogan: "**If three-quarters of your drink is the mixer, mix with the best."** While such product positioning seems obvious in hindsight, at that time, Schweppes dominated the mixer market with low-cost, artificially flavored, and highly sweetened drinks sold in large plastic bottles. Fever-Tree differentiated itself by focusing on ingredient quality–sourcing premium, natural ingredients, avoiding artificial flavors and sweeteners, and high-fructose corn syrup–qualities that resonated with customers.

Before we continue, it's important to understand a nuance of the mixer industry that benefits Fever-Tree. Two years after Fever-Tree's launch, Cadbury Schweppes decided to break up its business and sell Schweppes' brand rights separately across multiple regions.

As a result, the current geographic ownership of Schweppes is as follows:

1) **Keurig Dr Pepper**: United States and Canada
2) **Coca-Cola**: U.K., South America, and Eastern Europe
3) **Suntory**: Western Europe (France, Spain, Germany, Italy, the Nordics, etc.)
4) **Asahi**: Australia
5) **Swire**: China, Taiwan, and Hong Kong

While this arrangement was financially attractive for Schweppes' sellers, the fragmented ownership structure proved a strategic mistake, preventing cohesive brand management and creating conflicts of interest that discouraged investment in the brand. No company wants to invest in initiatives that also benefit its competition. Ultimately, underinvestment in Schweppes transformed the dominant industry leader into a market share donor to premium brands like Fever-Tree and low-end private labels. Fever-Tree capitalized on this dynamic and is now the largest mixer brand by total value sold, though Schweppes remains the leader by volume.

What Makes Fever-Tree An Attractive Business?

A lesser-known fact outside the beverage industry is that Coca-Cola is an asset-light business, owning minimal manufacturing and distribution infrastructure. Instead, the company uses a quasi-franchise system, granting exclusive territorial rights to bottlers who invest in infrastructure on Coca-Cola's behalf. This structure enables Coca-Cola to generate high returns on equity consistently.

Undoubtedly inspired by Coke's success, Fever-Tree and many other beverage companies also adopt an asset-light approach, outsourcing production and distribution to third parties. However, unlike Coca-Cola, Fever-Tree doesn't solely depend on exclusive partners who manage both manufacturing and distribution. Instead, Fever-Tree often works with independent bottlers and distributors, often without long-term contractual commitments.

Outside the United States, Fever-Tree relies on this non-exclusive outsourced model. In this structure, the company orchestrates all aspects of its supply chain and then takes a hybrid approach alongside distributors to secure shelf space and menu placements with retailers, bars, and restaurants. Fever-Tree earns product margins from each unit sold directly to retailers or its distributors.

In the United States, however, Fever-Tree experienced a watershed moment in January 2025 when it formed an exclusive strategic partnership with Molson Coors. Under this agreement, Molson Coors agreed to take over all manufacturing, distribution, marketing, and selling responsibilities for Fever-Tree in the United States. In exchange for these exclusive rights, Fever-Tree receives a percentage of Fever-Tree USA's profits, resembling a royalty payment. I discuss the Molson Coors partnership in greater detail below. Fever-Tree management indicated interest in replicating similar exclusive partnerships in other regions outside the United States.

Fever-Tree's business model–earning either royalty payments through Molson Coors, or higher-margin, asset-light beverage sales–results in significant cash generation and enjoys notable competitive advantages from its strong brand recognition and established distribution networks.

The strength of Fever-Tree's business is evident in its financial results. From its IPO in 2014 through 2021, Fever-Tree delivered returns on invested capital between 25% and 45%, all while sales grew at a compound annual rate of 27%, expanding by 16 times over this period.

From a customer perspective, Fever-Tree's growth is due to the benefits its products provide to all parties involved–consumers enjoy higher-quality drinks, retailers and bars earn increased profits per sale, and distributors benefit from higher margins per case. Despite recent moderation in growth rates, Fever-Tree's opportunities remain extensive, notably with continued U.S. growth of 9% in 2024, even though most spirit brands faced material revenue declines during this period.

An Unusual Dynamic: Contractual Earnings Growth Guarantees

The Fever-Tree-Molson Coors agreement features guaranteed minimum royalty payments from 2025 to 2030–an uncommon contract clause that sharply improves the investment's risk-reward profile. Covering 90 percent of the royalties projected in a high-growth and margin-improvement scenario over the next five years, these guarantees offer Fever-Tree strong earnings visibility and bind Molson Coors to executing an ambitious growth plan. These "minimum guaranteed payments" are not a worst-case-scenario safety net, but rather an incentive Molson Coors used to secure the partnership.

Per company materials, if we assume Fever-Tree's U.S. business earned a 6% adjusted EBITDA margin in 2024, the guaranteed minimum royalty payments through 2028 will increase U.S. adjusted EBITDA by ~5.8x, representing a 55% CAGR.

If Fever-Tree's non-U.S. operations grow revenues just 2% a year with some modest margin improvement, consolidated EBITDA will compound ~20% per year from 2024 to 2028. Approximately 75% of that growth is locked in through Molson Coors' guaranteed payments, giving Fever-Tree high earnings growth visibility. Any outperformance–whether faster international growth or U.S. results above the guaranteed plan–could lift profits further. I believe the market does not fully appreciate the high likelihood of Fever-Tree's profit growth.

Why Distribution is Essential in Beverages

In the beverages industry, securing a top-tier distribution partner can be a significant competitive advantage. Distribution is a key chokepoint in this industry because liquids are heavy, bulky, low-value, and high-turnover, making consistent availability nationwide difficult to achieve. In the United States, which is quite spread out, only five beverage companies achieved enough scale to build out high-volume distribution networks. Further, the constraints of limited delivery truck space, priority given to distributor-tied brands, and category-exclusive agreements reduce the number of beverage companies that can achieve national distribution.

Coca-Cola, Pepsi, Keurig Dr Pepper, Anheuser-Busch, and Molson Coors control the five high-volume U.S. beverage distributors. For mixer brands evaluating national distribution options, Keurig Dr Pepper and Coca-Cola pose conflicts because each owns Schweppes in other regions, and Pepsi generally avoids alcohol-adjacent products. That leaves Anheuser-Busch and Molson Coors as the logical nationwide options. At the same time, only two mixer brands, Fever-Tree and Schweppes, are large enough to matter to these large beer networks. Between them, only Molson Coors has demonstrated a strong commitment to diversifying beyond beer and even renamed itself the Molson Coors Beverage Company in 2020 to signal its bigger ambitions. Fever-Tree found an ideal partner for its aims.

After studying the beverage industry, I believe the three elements that increase the odds of lasting success are: a unique and desirable product, a highly recognizable brand, and a strong distribution advantage. Fever-Tree now holds all three keys, particularly in the U.S. market, strengthened by its partnership with Molson Coors.

Molson Coors Partnership

In January 2025, shortly after our initial investment, Fever-Tree signed an exclusive partnership agreement with Molson Coors. The partnership excited me because other exclusive distribution deals have unlocked significant shareholder value for beverage brands, such as Monster Beverage's 2014 tie-up with Coca-Cola and Celsius's 2022 agreement with Pepsi. While Fever-Tree's arrangement was structured similarly to these deals, it also had the added benefit of resolving its margin issues.

Under the agreement, Molson Coors gains exclusive U.S. rights for Fever-Tree's product range, taking complete control of manufacturing, distribution, and sales. In return, Fever-Tree will earn royalties linked to Fever-Tree USA's profits. Molson Coors further aligned interests by acquiring an 8.5% equity stake in Fever-Tree.

The partnership reshapes Fever-Tree's outlook by resolving its margin and operational issues by transitioning to Molson's manufacturing for U.S.-sold products, while simultaneously accelerating growth in its largest market, the United States. On this latter point, Molson Coors maintains more than 500,000 sales accounts, compared with the roughly 70,000 that Fever-Tree accessed through its earlier distributor: Southern Glazer's Wine & Spirits. A sevenfold expansion is unlikely, yet doubling or even tripling Fever-Tree's footprint–particularly in convenience stores and outlets without spirits licenses, where Southern Glazer's did not have a presence–is plausible. Longer term, the partnership can unlock additional growth via new product categories such as launching ready-to-drink cocktails, mocktails, and adult soft drinks, which all leverage Molson Coors' manufacturing and distribution expertise.

Although I viewed Fever-Tree's partnership with Molson Coors as a watershed moment, its share price after the deal remained largely unchanged. The agreement elevated Fever-Tree's future growth rates, fundamentally improved the odds of margin recovery, and lowered risk through its contractual payment terms. Yet, sell-side analysts mainly demonstrated skepticism for the deal since it wouldn't contribute to incremental profits until 2026. While the market yawned, we substantially increased our position.

Understanding Fever Tree's Past Margin Struggles

This may surprise you, but most Fever-Tree products sold in the U.S. today are manufactured in Europe. In other words, Fever-Tree fills its bottles and cans in Europe, loads them onto shipping containers, and transports them across the Atlantic to reach customers in its largest market. While centralized European production simplified supply-chain management, this arrangement ultimately created substantial operational challenges.

When COVID struck, transatlantic freight costs surged. Coupled with rising energy prices, driven by the war in Ukraine, glass and aluminum producers also passed through substantial price increases. Fever-Tree was particularly vulnerable to these changes, as nearly half of its cost of goods sold was made up of U.S. logistics costs, glass bottles, and aluminum cans. As a result, the company's gross margin fell sharply, from 50.5% in 2020 to 32.1% by 2023, compressing its ~20% adjusted EBITDA margin to just 5.7%, erasing most of its profitability. While Fever-Tree's revenue grew by 45% during this period, its earnings declined by -45%.

Note: While I generally avoid "adjusted EBITDA" as a profitability measure, it is the metric referred to by management. In Fever-Tree's case, it is also a relatively reasonable metric given the company's asset-light model, no debt, few one-time adjustments, and negligible stock-based compensation expenses.

Over the past few years, Fever-Tree restructured and hedged its aluminum and glass contracts, secured lower freight rates, developed new supplier relationships, and raised prices, all of which have begun to improve margins. We estimate Fever-Tree's U.S. business was roughly breakeven in 2023, and adjusted EBITDA margins improved modestly to mid-single digits in 2024. If accurate, this implies that the non-U.S. business currently generates an adjusted EBITDA margin in the mid-teens.

If Fever-Tree can fix its U.S. margins, it resolves most of its profitability concerns, and the Molson Coors partnership offers a clear solution. By assuming all U.S. production, Molson Coors eliminates transatlantic freight costs and third-party bottling fees, while leveraging its scale and supply-chain expertise to reduce material costs like glass and aluminum. These changes will significantly improve Fever-Tree USA's profitability.

Although Fever-Tree USA is shifting to a royalty model–with Molson Coors retaining a portion of the profits–the partnership's significantly improved profitability will allow Fever-Tree to earn a royalty approaching 20% of each bottle's sale price, which is equivalent to the 20% adjusted EBITDA margins it earned pre-COVID. This setup allows Fever-Tree to achieve higher returns on capital than it did historically because the deal eliminates all working capital investment required to run its U.S. operation. Fever-Tree will instead focus its investments in new product development, brand-building, and marketing.

Risks and Conclusions

When evaluating the risks of this investment, my primary concern centers around broader demographic shifts rather than operational factors, particularly uncertainty around the long-term impact of declining alcohol consumption on Fever-Tree's terminal value. Despite recent industry challenges in this regard, Fever-Tree has continued growing, driven by trends such as the premiumization of spirits, preference for longer drinks, and increased demand for higher-quality ingredients. Additionally, Fever-Tree's popularity in mocktails and non-alcoholic contexts provides resilience amid evolving consumer preferences. Given Fever-Tree's strong medium-term earnings growth visibility, I can monitor these trends and determine if a change is necessary. While substantial uncertainty remains, today's pessimism about alcohol consumption trends could prove overstated.

If Molson Coors continues to be creditworthy and Fever-Tree's non-U.S. business continues to improve its margins, Fever-Tree's EBITDA will likely double over the next three years. At our average entry price, our investment was purchased at a mid-to-high single-digit multiple of adjusted EBITDA, compared to the company's historical average LTM EBITDA multiple of 40x. The risk-reward of this investment is skewed in our favor.

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Bonsai Partners

Concluding Thoughts

As always, thank you for your partnership.

Please don't hesitate to contact me with questions or comments.

Fondly,

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