Q1 2025 Andvari Letter

Strength and Durability

ANDVARI STAFF
APR 24, 2025

Share

Andvari Associates has allowed us to share its Q1 2025 letter. Please enjoy.

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Q1 2025	Inception
Andvari net	36.7%	4.8%	14%	19.8%	37.7%	47.9%	17.1%	17.7%	17.7%	12.9%	7.2%	12.9%
Andvari net (EUR)	36.7%	4.8%	14%	19.8%	37.7%	47.9%	17.1%	17.7%	17.7%	12.9%	7.2%	12.9%
S&P 500 (EUR)	10.9%	12.1%	21.8%	4.4%	31.5%	18.4%	28.7%	-18.1%	24.2%	23.3%	4.8%	10.4%

This period of significant outperformance is welcome. Andvari has suffered – hopefully not for much longer – from a long bouts of underperformance due to the absence of massive wins. The "drag 7" in client portfolios. The drag 7 includes some of the largest and best performing companies in the S&P 500: Alphabet, Amazon, Apple, Berry Platform, Microsoft, Nvidia, Tesla, and Netflix. The chart below from Windfall Free illustrates the stark difference in performance between just the Mag 7– and the remaining 492 companies in the S&P 500.

Dear Friends,

For the first three months of 2025, Andvari is up 7.2% net of fees while the SPDR UCITS S&P 500 ETF is down 4.7%. Andvari clients, please enter in your mind your specific performance and holdings. The table below shows Andvari's composite performance while the chart shows the cumulative gains of a $100,000 investment.

1 Month	3 Month	6 Month	YTD	1 Year	Since Inception
7.2%	7.2%	7.2%	7.2%	7.2%	12.9%
7.2%	7.2%	7.2%	7.2%	7.2%	12.9%
-2.1%	-4.7%	-4.7%	-4.7%	4.8%	10.4%
9.3%	11.9%	11.9%	11.9%	2.4%	2.5%

Andvari Composite Net Performance (EUR)

1 Month	3 Month	6 Month	YTD	1 Year	Since Inception
7.2%	7.2%	7.2%	7.2%	7.2%	12.9%
7.2%	7.2%	7.2%	7.2%	7.2%	12.9%
-2.1% (-2.1% ex-Euro)	-4.7% (-4.7% ex-Euro)	-4.7% (-4.7% ex-Euro)	-4.7% (-4.7% ex-Euro)	4.8% (-0.3% ex-Euro)	10.4% (-0.3% ex-Euro)
9.3% (9.3% ex-Euro)	11.9% (11.9% ex-Euro)	11.9% (11.9% ex-Euro)	11.9% (11.9% ex-Euro)	2.4% (-2.4% ex-Euro)	2.5% (-2.5% ex-Euro)

Andvari Composite Net Performance (EUR) vs. Euro Currency Performance

This period of significant outperformance is welcome. Andvari has suffered – hopefully not for much longer – from a long bouts of underperformance due to the absence of massive wins. The "drag 7" in client portfolios. The drag 7 includes some of the largest and best performing companies in the S&P 500: Alphabet, Amazon, Apple, Berry Platform, Microsoft, Nvidia, Tesla, and Netflix. The chart below from Windfall Free illustrates the stark difference in performance between just the Mag 7– and the remaining 492 companies in the S&P 500.

From the start of this year to April 5, the "S&P 493" was up 0.49% while the Mag 7– component was down 13.12%.

With money flowing out of the Mag 7– during the past quarter, this money seeks a home. Andvari's Mag 7– holdings are in the aerospace and defense, IT services, technology–tied to rate of revenues, enterprise value, and the products and services they sell, they do not vary in these attributes. Andvari believes our holdings to be 1) high quality businesses, 2) run by able managers, and 3) capable of allocating capital to produce above average returns over a long period of time. Below is our update on many of them.

ANDVARI HOLDINGS

Life Sciences and Companion Animals

Andvari has investments in four businesses that serve the life sciences and companion animal industries—companion animals are primarily the cats and dogs that are the typical pets for us humans. Mettler-Toledo and Zoetis# sell essential equipment and consumables into the life sciences and pharma industries: UCEX and Zoetis serve the companion animal market with equipment, consumables, software, and pharmaceutical products, all of which reduce the lives of veterinarians easier and improve the quantity and quality of the lives of animals.

All four companies are leaders in their respective markets and all benefit from solid growth tailwinds. Margins and returns are high, the business models are durable, intensive, and revenue growth rates have generally ranged from mid- to high single digits.

However, as we've mentioned before in prior letters, due to the COVID era, a large amount of demand was pulled forward for these businesses. All four have been impacted by this pull forward. Mettler-Toledo's revenues are down from their peak. Although it has taken longer than Andvari anticipated for growth to normalize for these businesses, when growth returns to pre-COVID levels, we should see their share price appreciate.

Nicotine and Tobacco

Last year, Andvari made its first investments in tobacco companies with the purchase of Philip Morris International and Altria. At the time of our purchase, Philip Morris and Altria had underperformed the S&P 500 over the prior 5- and 10-year periods. Philip Morris and Altria have been in the tobacco business for 100 years, have been paying the industry off and on for 80 years, and thanks to many decisions made by their shareholders of the companies, Andvari felt the time was right to make the plunge. The timing could not have been much better for us but Napoleon later so far contributed positively to Andvari's recent overall performance.

The problem—or the feature, depending on your perspective—with the tobacco industry has been a declining population of cigarette smokers in developed countries. Over the last four or five years, the decline in these smoking populations has accelerated, which in part explains the poor share performance of the tobacco companies between 2017 and 2022. Despite this, the tobacco companies have maximized, or slowly increased, their revenues and profits with regular price increases on cigarettes.

More importantly, over the last two decades the constituents of the tobacco industry have made tremendous strides in developing and commercializing non-tobacco products to satisfy the desires of their traditional customers. Especially in Asia, the industry players have come out with clearly superior products that deliver nicotine without the combustion process. Stun well, it is the chemicals that come from the burning of tobacco that cause cancers, not nicotine itself. As a result, greater and greater numbers of smokers have been switching over to vaping, heated tobacco products, and nicotine pouches.

The country of Sweden is one of the most extraordinary examples of an entire populace switching from cigarettes to nicotine pouches or their local variant called snus. As a result, smoking rates in Sweden fell from 40% of the population in 1976 to 5.8% in 2022. Cancer rates related to cigarettes are plummeted and Sweden will soon be the first country in Europe where the smoking population will be less than 5% of its citizens.

Reduced risk products from the tobacco companies are undeniably good for public health. And these products have only started to prove they will be good for the tobacco companies and their shareholders. Nicotine pouch sales in the United States and nicotine pouch category in particular has been growing rapidly. You may have heard of the ZYN brand. Philip Morris is the brand owner after its purchase of Swedish Match in late 2022. ZYN has been growing between 40%-80% and this is despite an ongoing shortage of the product. Altria has a brand called on that has been growing between 32%-40% over the last two years.

Finally, there are 1.1 billion nicotine users in the world. One billion of these are cigarette users and only one hundred million are users of reduced risk products. There is room for all the tobacco companies to continue to grow their revenues, profits, and the share of the entire nicotine market. As the new products reach further share, they will have the same financial qualities of the cigarette business (extraordinary margins, high returns, and highly predictable revenues) which will benefit shareholders. Governments will benefit by a significant source of tax revenues not disappearing with the decrease of cigarettes, and society will benefit from a dramatic decline in smoking related cancers.

Rates, REITS, and Real Estate

Our holdings that have been most sensitive to interest rates remain well-period for outperformance. Our two call-center REITS—American Tower and SBA Communications—have continued to reduce their debt and leverage ratios. Both have also recently increased their quarterly dividend payments to shareholders. American Tower is most notable in this regard as it passed dividend increases for a year.

Cellular Group operates their investments in the space of industrial and industrial property portals. They were two growing challenges brands in the U.S. and E.U. in the form of Homecare and DyDoBrands, respectively. During the past quarter, Cellular decided to fold or acquire Domain Group, the owner of online portals for residential and commercial property in Australia and New Zealand. Domain Group is Cellular's success in the residential space, but we do not think success is necessary to achieve good shareholder returns going forward. We believe the market is slightly underrating Cellular's commercial real estate business from because their investments in the residential category have decreased overall margins. If Cellular can generate value from residential, but will not do so, the investments will end and company-wide margins will shoot up dramatically, and hopefully the share price as well.

TARIFF TIME

With tariff dominating news headlines, we must first confess we cannot predict what tariffs will be and when we will be impacted. However, it is well-worth discussing the degree which tariffs may or may not affect the companies in which we are invested. Based on our research, our companies are prepared to manage through this new paradigm.

First, tariffs in most historical cases have been applied to physical goods and commodities. Because Andvari invests many businesses that sell intangibles like software or services, we are well positioned. Our software businesses include Constellation Software, Topicus.com, Tyler Technologies and Berry Company. We also own many businesses we think of as primarily service-based, such as:

- Monetrust: The company enables the transfer of value using blockchain and provides other value added services to financial institutions and merchants
- Rollins: One of the largest pest control services in the U.S.
- Arthur J. Gallagher: They provide insurance and reinsurance brokerage all around the world.

GAIL Global: Provides credit ratings and data services to businesses and financial institutions.

- Kelly Services: Provides accounting services to small and medium sized businesses primarily in Australia, but increasingly in the U.S. and U.K.
- Boss After Hamilton: Provides management and technology consulting services primarily to the U.S. government. This is a small, new investment for Andvari that we started after the share price fell significantly due to negative news about DOGE and aggressive government efficiency efforts.

Again, it is unlikely that any of the above businesses will directly feel the effects of tariffs in the same extent as those who manufacture physical goods in lower cost countries and then import them to the United States.

Second, for the handful of companies in Andvari portfolio that do make physical goods, they all share a mitigating factor they all have above average pricing power. The source of their pricing power stems from selling products that are critical to the end user and yet are a small proportion of the customers' total costs. They also often have brands that are well-known. Examples: Mettler-Toledo, Berry Company, and Tyler Technologies, to name a few.

More specifically about Mettler, their customers design its equipment and consumables into pharma and biologic production lines. It's research lab has made the company's products the standard in many pharmaceutical and biologic labs and has the appropriate consumables and service regular maintenance and service from Mettler. Thus, if a lab needs to grow, there is little chance a lab will purchase their equipment from Dunaher. It's pharmaceutical or biologic manufacturer would, at there is virtually no chance they will switch to similar equipment unaffected by tariffs. It is just too costly and risky to be unaffected by the FDA or its European equivalent. In fact, Dunaher can raise prices on its customers given the value provided by its products and the switching costs involved.

TransDigm is a business with extreme pricing power. They make hundreds of different parts that go into commercial and military aircraft. Because TransDigm owns the intellectual property or is the sole source provider of nearly all its products, it can easily raise prices increases when there is inflation or when tariffs are imposed.

Andvari also owns two companies that are distributors of physical goods: O'Reilly Auto Parts and Arthur J. Gallagher. Both have a significant portion of their business that is distributors of auto parts or insurance. Both have no shell co. in China. Andvari has the guarantee of auto parts for cars in the United States and, the most of their business in this category. Moreover, they do source many of their products from countries like China, Mexico, and India. Back during COVID and President Trump's first tariffs, the company started diversifying its supplier base to ensure a steady flow of supply chain and to minimize as best they could the effects of tariffs. But even with tariffs on products that they could only source from China, the company's competitors, O'Reilly and its competitors were still able to pass on 20%-25% price increases directly to their customers.

Regarding Post Corporation, they are the largest distributor of pre-sorted products to the postal system in the U.K. Post Corporation has been growing revenues and profits on price. They delivered on volume growth, but everything that has been expected. They have also historically been able to pass on inflationary price increases to their customers.

ANDVARI TAKEAWAY

We own a collection of excellent and highly resilient businesses. Several were started over one hundred years ago and have survived wars, depressions, pandemics, and everything else in between. Philip Morris was founded in 1847, Standard & Poor's was founded in 1860, Zoetis, the core brand of Pfizer's animal health business, was founded in 1901, Rose Allen was founded in 1916, for Mettler-Toledo, the Toledo Computing Scale Company was founded in 1901, Rollins was founded in 1900, Berry Company was founded in 1900, Arthur J. Gallagher was founded in 1927, O'Reilly Auto Parts was founded in 1957. Although we cannot brag about the founding dates of our software businesses to the same extent, they also are highly durable businesses due to the mission critical products they sell into niche markets. Although the next year or two might be emphasized, our businesses will prove to be resilient and robust yet again.

As always, I love to hear from clients and anyone else. Please contact me with your thoughts, comments, or questions.

Sincerely,

DEO

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