

Annual letter

2024

“Invest in preparedness, not in prediction.”

Nassim Nicholas Taleb.

@ConserValue
28 February 2025



The year in review.

It has been three years since the creation of the ConserValue account and I feel grateful for the joy and lessons that have come with it. First and foremost, it has served as fuel to reflect about life's values and principles, the common traits behind successful business models and the nuances that set high-quality accounting apart. If there is an effect whose impact in everybody's lives is comparable to that posed by luck or compounding, it is that of serendipity: what started as a means to writing and publicly sharing my thoughts has turned out to be a wonderful mechanism to clarify my own ideas and a bridge to connect with other like-minded and more knowledgeable investors from all around the globe.

A special mention this year is due to Andy, a great investor and better person who has taken appreciated efforts in building an "Europoors" community. Many learnings can be derived from following him on X (@evfcaddict).

Last year had interesting developments. After moving to the Netherlands in 2019, I closed the purchase of a house in the early months of 2024, finishing a lengthy search process that started almost a year before. As mentioned in the previous annual letter, the overall net asset value (NAV) of the portfolio was reduced towards the end of 2023 to build cash for the transaction. Part of it was kept as liquidity to fund the purchase and the remainder was deployed back into the market over the ensuing months. Following the transfer date, the renovation jobs began. These have occupied most of my private time since, reducing the activity of this account during the past year. I am however starting to see the light at the end of the tunnel and now aim to complete most of the bulk work in the coming months, freeing some valuable time that I look very much forward to dedicate here.

Market performance.

The portfolio recorded a gain of 1.6% in fiscal 2024. Coupled to a 3.1% appreciation during the first two months of fiscal 2025, the performance since inception (January 2022) has been 45.6%, which in annualised terms corresponds to 13.0%. The S&P 500 index, used as our opportunity cost, returned 32.0% last year and 42.7% since the inception of this account (12.2% annualised).

The portfolio's performance lagged our benchmark by a striking 30.4% in 2024. Despite a forex headwind of 6.2% relative to the index, the market quotation of our companies has outperformed the S&P 500 by 2.9% since inception (or 0.7% per year).

While a sensible investing strategy focused on enterprises with sound business models and corporate cultures tends to work over long timeframes, periods of underperformance are inevitable. Last year has been one of them. One of the many challenges that we investors face is to remain unaffected during the periods when performance stagnates, especially if the market as a whole advances substantially during the same timeframe. Inactivity is likely one of the most difficult aspects of successful long-term investing but, if we are on the right path, the only thing left to do is to keep walking.

The table below compares the portfolio's returns with those of the S&P 500 since inception:

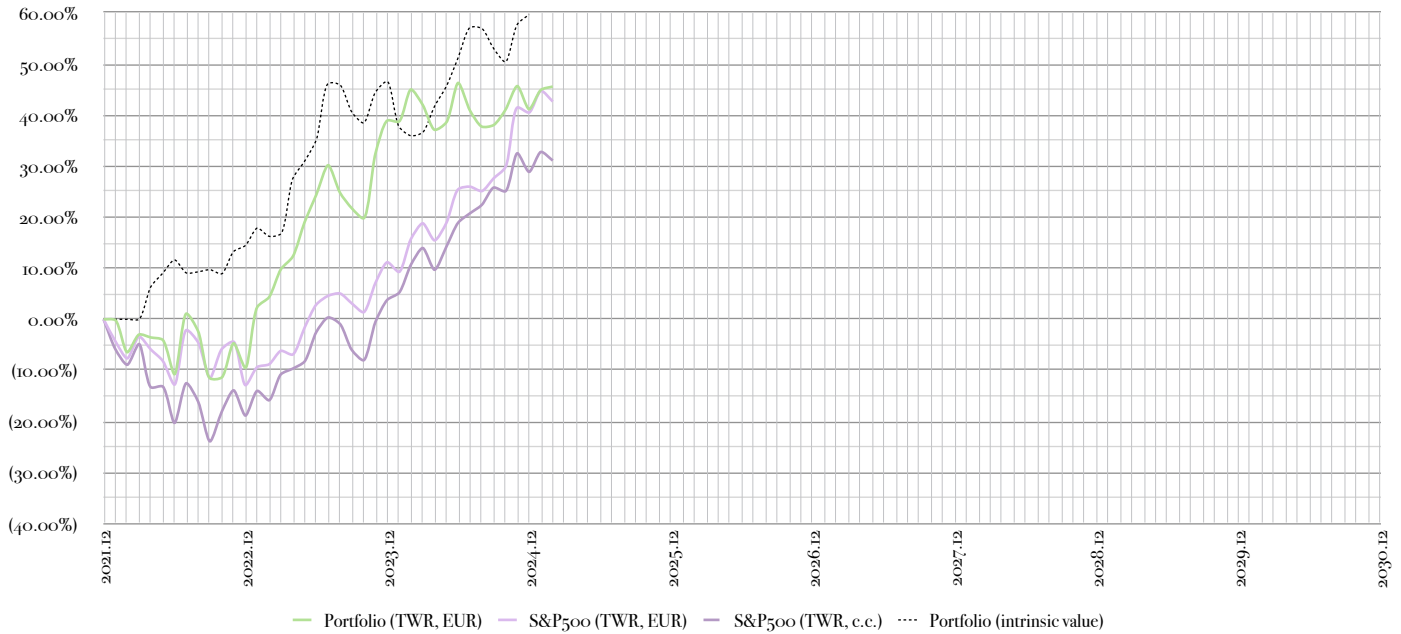
HISTORICAL RETURNS (TWR)								
Period	Portfolio	S&P500	Difference	Currency fluctuations		Portfolio	S&P500	Difference
				Portfolio ⁽¹⁾	USD/EUR			
2022	(9.50%)	(11.24%)	1.74%	(0.40%)	7.37%	(9.10%)	(18.61%)	9.51%
2023	53.51%	22.38%	31.14%	0.73%	(3.88%)	52.78%	26.26%	26.52%
2024	1.61%	32.01%	(30.39%)	1.05%	5.64%	0.56%	26.37%	(25.81%)
2025 (YTD)	3.14%	(0.02%)	3.17%	0.69%	(0.18%)	2.45%	0.15%	2.30%
Cumulative	45.60%	42.67%	2.94%	2.61%	8.82%	42.99%	33.85%	9.15%
Annualised	12.96%	12.22%	0.74%	0.82%	2.78%	12.30%	9.92%	2.38%

Green: market performance (incl. dividends), adjusted to EUR.

Yellow: market performance (incl. dividends) without the impact of currency fluctuations.

⁽¹⁾ Weighted impact of the holdings' currencies, adjusted to EUR.

Historical market performance



HISTORICAL MARKET PERFORMANCE (TWR)

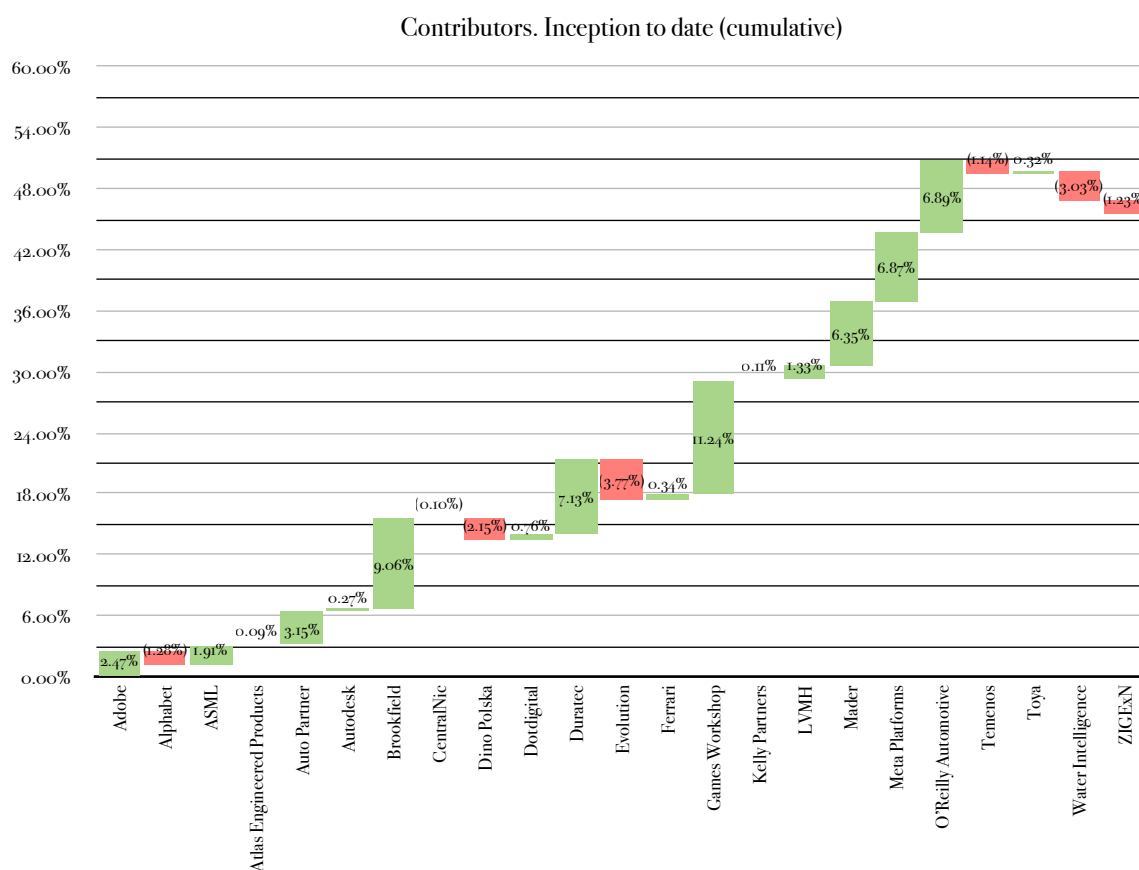
Period	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	(0.18%)	(6.28%)	3.70%	(0.59%)	(0.49%)	(7.00%)	13.29%	(3.42%)	(9.43%)	0.19%	7.56%	(5.04%)	(9.50%)
2023	13.15%	1.89%	5.24%	2.25%	6.00%	4.55%	4.62%	(4.14%)	(2.44%)	(1.61%)	10.60%	4.86%	53.51%
2024	(0.12%)	4.52%	(2.09%)	(3.43%)	1.06%	5.58%	(3.72%)	(2.22%)	0.22%	2.16%	3.29%	(3.10%)	1.61%
2025	2.68%	0.45%											3.14%
ITD													45.60%
CACR													12.96%

Contributors.

The main contributors to market performance last year were Brookfield, Games Workshop and O'Reilly Automotive. Alternatively, our overall returns were mostly detracted by Evolution, Auto Partner and Dino Polska in 2024.

Often, successful long term investing requires an exercise of what I like to refer to as “active inactivity”. Although it may sound contradicting at first, the learning and monitoring of a company’s operations continues more intensely after taking a stake in it, not necessarily because a buy or sell decision has to follow suit but as a means to verify if the underlying economics and future prospects of the business remain in good shape. This period of “active inactivity” is where the true wealth creation takes place. As Charles T. Munger once put it: “The big money is not in the buying or selling, but in the waiting”.

Investing has a qualitative (and hence subjective) side that complicates matters the most, so a feeling of constant alertness characterises this process of active waiting. This is the reason why, in my opinion, there is no replacement to tough work and solitary thinking when it comes to organising ideas or forming our views on the makings of a thriving business and its future development. It is only after this dedication that we are best placed for discussing ideas with other people.



Activity.

Last year we closed the positions in Atlas Engineered Products and in Dino Polska. Neither decision had to do with underlying problems in their businesses but with liquidity reasons on a personal standpoint. In my view and despite Atlas' cyclical, both are great businesses with the right people at the helm that I continue to follow closely.

On the buying side, there were no new outright purchases in 2024.

Owner's earnings.

I do not see stocks as a trading vehicle but as what they truly are: fractional ownership in real companies. I then feel a responsibility to behave as an owner of the firms I invest in. From this perspective, it seems natural to study their underlying economics, the growth and quality of their earnings and their long-term prospects.

As in previous years, the table below shows the weighted growth in the intrinsic value of our holdings and how it compares to their market performance. Such an approach aims to resemble the idea created by Warren Buffet and its flawless application by François Rochon at Giverny Capital: the owner's earnings.

The aggregated increase in owner's earnings in 2024 was approximately 8.9%. Over the last three years, our companies have grown their intrinsic value by a cumulative 53.8%, or 15.4% annually. Comparatively, the S&P 500 is estimated to have increased its intrinsic value by 10.3% (or 3.3% per annum) over the same three-year period.

OWNER'S EARNINGS GROWTH

Period	Portfolio			S&P500		
	Intrinsic value ⁽¹⁾	Market	Difference	Intrinsic value ⁽¹⁾⁽³⁾	Market ⁽²⁾	Difference
2022	10.21%	(9.50%)	(19.71%)	(11.39%)	(18.27%)	(6.88%)
2023	28.08%	53.51%	25.43%	13.09%	26.21%	13.12%
2024	8.94%	1.61%	(7.33%)	10.02%	24.96%	14.94%
Cumulative	53.78%	41.16%	(12.61%)	10.25%	28.89%	18.64%
Annualised	15.42%	12.18%	(3.25%)	3.31%	8.83%	5.52%

⁽¹⁾ Owner's earnings growth, measured as increase in per-share profits plus cash distributions.

⁽²⁾ Market performance (TWR), inclusive of dividends and at constant currency (US\$).

⁽³⁾ Data for fiscal 2024's fourth quarter is estimated. Source: YCharts.

In general terms, fiscal 2024 was marked by an overall slowdown in the growth rate of our companies. Some holdings such as Ferrari, Games Workshop or Water Intelligence managed to increase their intrinsic values by more than 20.0%, while others like Auto Partner, Duratec and ASML came in the lower end with estimated decreases in earning power of 8.2%, 4.5% and 1.5%, respectively.

While the owner's earnings are a useful tool in approximating what the true earning power of a company is and, most importantly, how it evolves over time, they do not necessarily account for the qualitative changes that might be taking place under the surface and whose development might improve (or worsen) the company's future competitive and financial position. Such has been the case of ASML last year.

A decrease in owner's earnings of 1.5% relative to fiscal 2023 should not be construed, in my view, as a deteriorating symptom of its underlying business. A comprehensive understanding of its unit economics, its operating model and the dynamics of its surrounding environment is of utmost importance to assess whether slowdowns and problems might be temporary or structural. In ASML's case, the underlying nature of its industry is highly cyclical, leading to aggressive expansions or contractions in the amount of new litho orders depending on the construction of new fabs and the modernisation of existing ones across the globe. Last year was characterised by a prudent approach to capital expenditures from its main customers.

OWNER'S EARNINGS GROWTH (PER HOLDING)

Name		Cumulative	Annualised	Period		
				2024	2023	2022
ASML	Intrinsic value	40.40%	11.98%	(1.54%)	41.69%	0.64%
	Market	0.49%	0.16%	0.25%	24.92%	(19.76%)
Auto Partner	Intrinsic value	11.89%	3.82%	(8.19%)	8.36%	12.47%
	Market	42.87%	12.63%	(23.12%)	80.37%	3.03%
Brookfield	Intrinsic value	25.81%	12.17%	16.17%	8.30%	
	Market	43.96%	19.98%	43.20%	0.53%	
Duratec	Intrinsic value	53.99%	24.09%	(4.49%)	61.23%	
	Market	149.37%	57.91%	(4.56%)	161.28%	
Evolution	Intrinsic value	99.68%	25.92%	7.78%	29.59%	42.96%
	Market	(31.84%)	(11.99%)	(29.02%)	12.29%	(14.48%)
Ferrari	Intrinsic value	68.45%	29.79%	23.57%	36.32%	
	Market	76.98%	33.03%	22.57%	44.39%	
Games Workshop	Intrinsic value	63.83%	17.89%	29.29%	18.18%	7.22%
	Market	60.71%	17.13%	45.44%	30.55%	(15.36%)
Mader	Intrinsic value	124.39%	30.92%	16.80%	32.53%	44.96%
	Market	156.14%	36.82%	(11.59%)	89.22%	53.11%
O'Reilly Automotive	Intrinsic value	31.52%	9.56%	5.65%	14.32%	8.89%
	Market	74.84%	20.47%	24.81%	14.17%	22.70%
Water Intelligence	Intrinsic value	55.79%	24.82%	22.15%	27.54%	
	Market	(36.64%)	(20.40%)	1.85%	(37.79%)	
ZIGExN	Intrinsic value	82.24%	22.15%	5.30%	44.73%	19.58%
	Market	62.50%	17.57%	(8.95%)	44.81%	23.25%

The table above breaks the weighted increase in intrinsic value of the portfolio as a whole down into the individual businesses for each year since we first invested in them, as well as their cumulative and annualised figures. Similarly, the individual performance in the equity markets is included under the rows labeled as "Market". The goal is to show how even if market returns rarely match the fluctuation in the intrinsic value of any given company in a single year, over longer periods of time a correlation starts to emerge.

Note that, for a like-for-like comparison, the market returns included in this table are the shareholder performance that an investor would have enjoyed in these businesses should he have held onto his shares for each full year, without further activity. Hence, these figures do not necessarily match our market returns in them (e.g., in those cases where additional contributions are made throughout the year).

Since 2022, one of the most striking differences is found in Evolution: while its intrinsic value has roughly doubled, its market quotation has decreased by 31.8% over the same time frame (including dividends). Or ASML, whose cumulative return has stayed flat with an earning power today that is roughly 40.4% higher than three years ago. Another case of market lag is Water Intelligence: a two-year cumulative shareholder return of negative 36.6% for a business whose earning power is today about 55.8% greater than in January 2023.

On the other side of the spectrum, the market has overshoot the quotation of some holdings relative to the value generated by their underlying businesses: Duratec or O'Reilly are good examples. Both of their market quotations have experienced an appreciation of 40.0% in excess of the estimated increase in their intrinsic values.

Gaps like these tend to correct over sufficiently long periods of time (five years or more), making it more interesting for us investors to forget about the ceaseless movement of a stock in the equity markets and focusing instead on the underlying economic reality of its operations.

The makings of market returns.

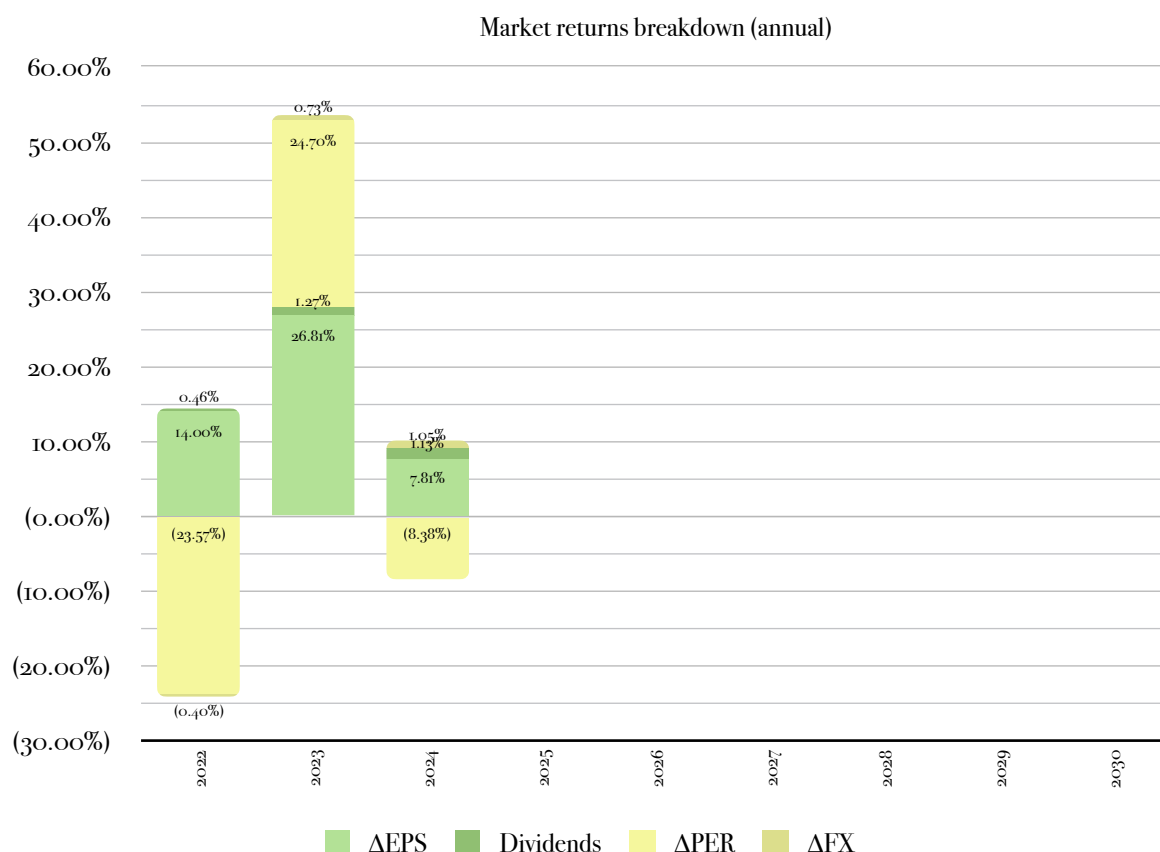
Last year I wrote an brief article titled [Market returns redux](#) covering what the constituents of market performance are, how these behave over time and the insights that can be derived from them. In my view, knowing the distinction between enterprise returns and the speculative side of market performance is pivotal, especially so when navigating periods of distressed environments.

For a company enjoying a superior return on the capital deployed on its ongoing economic activity, having the opportunity to utilise “unrestricted” profits for growth at similar rates over sufficiently long periods of time is what enables compounding at a corporate level. I cannot emphasise this enough. As investors, if we want to enjoy the marvels of compounding we should aim to find companies with the ability to reinvest excess profits at rates above their cost of capital (the larger the spread, the better) over long periods of time.

While there may be other (and possibly more effective) ways to achieve capital preservation and accumulation, investing in superior businesses that can deploy incremental amounts of capital at high rates of return is a winning strategy over long timeframes. Notwithstanding this, no matter how effective an investment approach is, it will inevitably face periods of underperformance. A sensible investor following such strategy will therefore need to be equipped both analytically and emotionally to resist the temptation of deviating from the original path that will arise during periods of subpar returns. To that effect, something that works in keeping our emotions in check is to revisit and think of each of our companies in terms of their real economics. Bearing in mind how market returns originate and paying attention to its long-term drivers is therefore critical in distressed markets.

Market returns stem from two distinct sources: things which are under the investor's control (enterprise) and things which are not (speculation). The former group accounts for the increase in earnings power (in per-share terms) of the underlying business plus cash distributions, while the second one relates to the changes in market sentiment (multiples of earnings and currency fluctuations). Over short periods of time (one to three years), market-sentiment changes tend to contribute with most of the overall performance of publicly traded securities but, over the longer term, these fluctuations cancel out each other and reveal one of the most important underlying truths about market returns: the total performance follows (almost in a magical way) the increases in economic profits per share plus dividends collected along the process. Reason why, in my view, investors should focus mostly on the things over which they have at least some degree of control. This does not mean that we should ignore the price being paid, as overbidding for a great company could lead to a permanent depression of the starting multiple, making the market-sentiment component a significant brake in future returns or, even worse, materialising as a permanent loss of capital.

The graph below shows the annual contribution of both the enterprise and the speculative returns to the total market performance of our companies since the inception of this journey. The green components (ΔEPS -growth in per-share after tax income; and dividend yield) represent the contribution of the enterprise returns to the total market performance of our portfolio in each one-year period, that is, the annual variations in intrinsic value of the underlying businesses. The yellow constituents (ΔPER -changes in the multiple of earnings; and ΔFX -currency fluctuations) determine the contribution of the speculative returns (i.e., things which are not under the investor's control) to our performance in the equity markets.



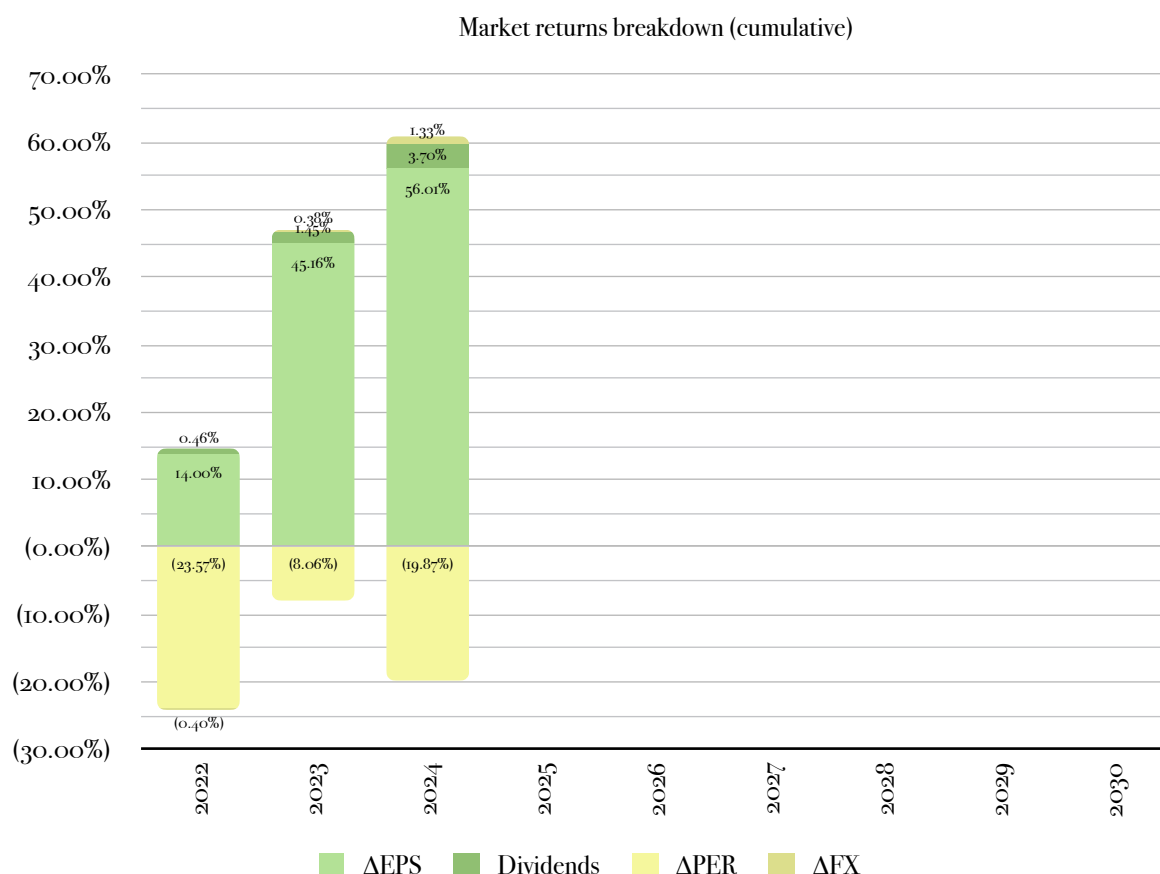
Note how the speculative returns (ΔPER plus ΔFX) have been responsible for at least half of the performance over any of the three one-year periods (65.9%, 47.5% and 51.3% for fiscal 2022, 2023 and 2024, respectively). Volatility is a deeply embedded characteristic of investing in equity markets (especially when done in individual companies) and such variability in stock quotations is heavily influenced by the changes in market sentiment, particularly when we narrow our investment horizon. This does not seem to be something specific to our companies but an intrinsic feature of the broader market.

In light of how much impact speculative movements have on total returns over any single year, one might be tempted to think that a sensible investing approach shall therefore put the forecasting of market-sentiment fluctuations at the front. This, in my view, would be a fatal mistake for the average investor (I have expressed in the past my doubts on the existence of any person able to consistently give accurate forecasts on these matters). Instead, we may invert the inherent volatility on the markets and see it as an opportunity to make the most of unpredictable movements in stocks while maintaining a long term perspective. The header of this year's letter is a quote from Mr. Taleb that resembles this idea best: "Invest in preparedness, not in prediction."

A far more interesting insight comes from the behaviour exhibited by the speculative side of investing over the longer term. Given a sufficiently stretched horizon, contractions in the price that the market is willing to pay for each dollar of profit or in the relational exchange rates of currencies (when applicable) in any single year end up cancelling with expansions that take place in others, leading to a total shareholder performance that is very much in line with the evolution of a business' economic reality.

To put this in numbers, the market reduced the price it was willing to pay for our companies' profits by 19.3% in fiscal 2022 which, added to a further 0.4% detraction caused by the effect of currencies during that year, resulted in a speculative return of negative 19.7%. In fiscal 2023, however, the market sentiment shifted and our companies were benefitted by a 25.4% increase in speculation. In fiscal 2024, speculative performance was again negative at 7.3%.

Hopefully the reader sees the point I am trying to make: if we look at the three-year period from fiscal 2022 to fiscal 2024 instead of any single year individually, the cumulative impact of speculation on our market returns decreases relative to the overall performance, as the enterprise components do not fluctuate but contribute positively in most periods (assuming our companies are wisely chosen and continue to flourish). This is best depicted in the following graph, which shows the composition of our returns in a cumulative way rather than annually:



During the same three years, our companies have grown their weighted owner's earnings, that is, the enterprise return, by a cumulative 59.7% (of which 56.0% relate to increases in per-share profits and the remaining 3.7% to dividends). In other words, while the impact of speculative movements in market performance over any single year is often 50.0% or more, when we stretch the time horizon to a three-year period it decreases to 26.2%.

This is in line with the conclusions laid in the aforementioned article and reveals the key takeaway that we should implement in our mental framework: it is a sounder approach to focus on the real development and the underlying economic prospects of the companies we participate in rather than attempting the exhausting (and dangerous) task of chasing trends. Not only this approach is less frenetic and more enjoyable (hence sustainable over long periods of time), but forecasting future earnings is also substantially less complicated than doing so with future levels of inflation, interest rates and the overall mood that the markets will have at a particular point in time.

With this I am not saying that there is no relationship between the expectation that the market has on these topics and its consequent movements, nor that they are not interesting or relevant matters. It is rather their predictability that turns them into noise. For a piece of information to be useful, it not only has to be important but also knowable.

Looking again at fiscal 2024, the weighted increase in per-share profits of our companies was 7.8% and we collected a further 1.1% in cash distributions, leading us to a growth in owner's earnings of 8.9%. This is the enterprise return we had last year. Another way to put it is this: had our companies be privately owned by us during fiscal 2024, we would have enjoyed an 8.9% return on our capital base.

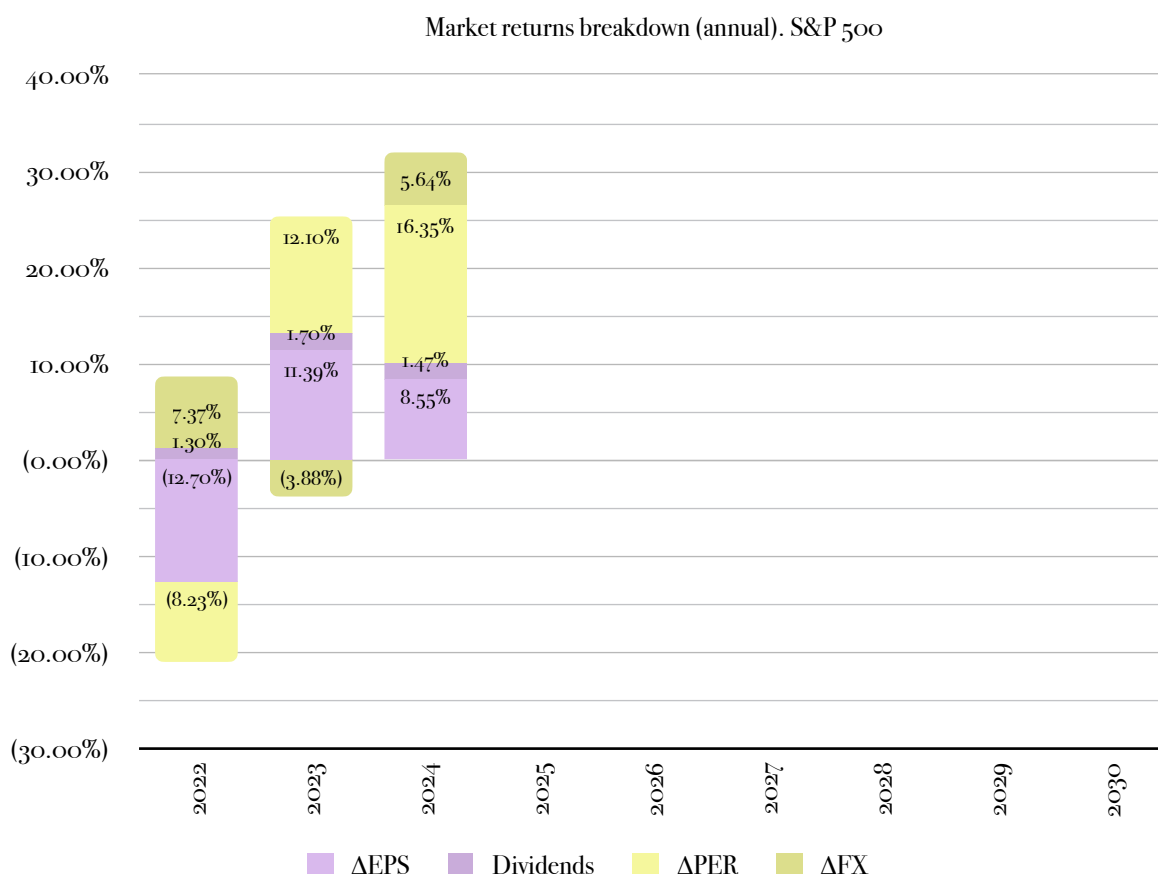
However, the market reduced the price it was willing to pay for each dollar of our holdings' income by 8.9% and we benefited from a 1.1% expansion in currency fluctuations, adding to a total speculative return of negative 7.3%.

The combination of the enterprise and speculative returns gives us the aforementioned result of 1.6% for fiscal 2024.

What about the S&P 500 constituents?

In a year when the index returned 32.0% in euro terms (a considerable outperformance relative to our companies), deviating from the original path might be tempting. To know whether we are being deceived, we could analyse the drivers behind the performance of the S&P 500 not only last year but since the inception of this account.

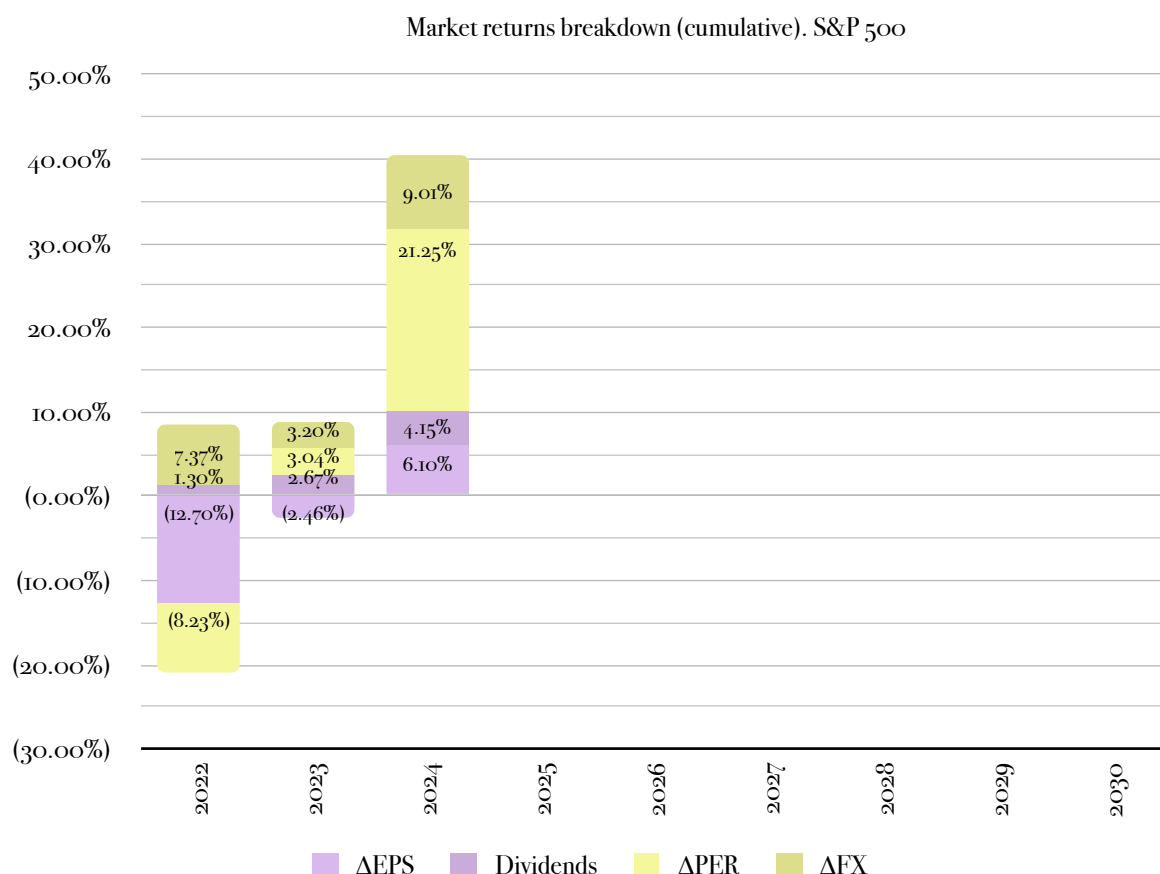
The two charts below contain the same information as presented earlier but this time applied to the S&P 500 index as a whole, both annually and cumulatively:



With a contribution of 22.0%, the driving force behind the S&P 500's performance last year has been the speculative component. A striking 16.4% relates to the expansion of its multiple of earnings and the remaining 5.6% to the relative strength of the U.S. dollar compared to euro. At fiscal 2023's end, the index traded at 24.8 times statutory profits, increasing to 31.2 by the end of last year.

On a weighted basis, the five hundred constituents of the index increased their earning power by 8.6% which, combined with a dividend yield of 1.5%, resulted in an enterprise return of 10.0% during fiscal 2024. In other words, the intrinsic value of the index constituents as a whole in December 2024 was approximately 10.0% higher but 16.4% more expensive (or 22.0% for investors based on euro countries) than a year before.

Historically, these valuation levels have not been sustainable nor healthy in the medium- and long-term. Aside from fiscal 2021, the last time the index reached more than thirty times profits was in the dot-com bubble, leading to flat returns for the next ten years (the so-called "lost decade" of the S&P 500).



For the period between January 2022 and December 2024, the S&P 500's total return has been 40.5%, of which 6.1% has come from cumulative increases in per-share profits and 4.2% from cash distributions (totalling an enterprise return of 10.3%). The remaining 30.3% tailwind is due to the expansion of the multiple of earnings (a contribution of 21.3%) and the strength of the U.S. dollar compared to euro⁽¹⁾ (an additional 9.0%).

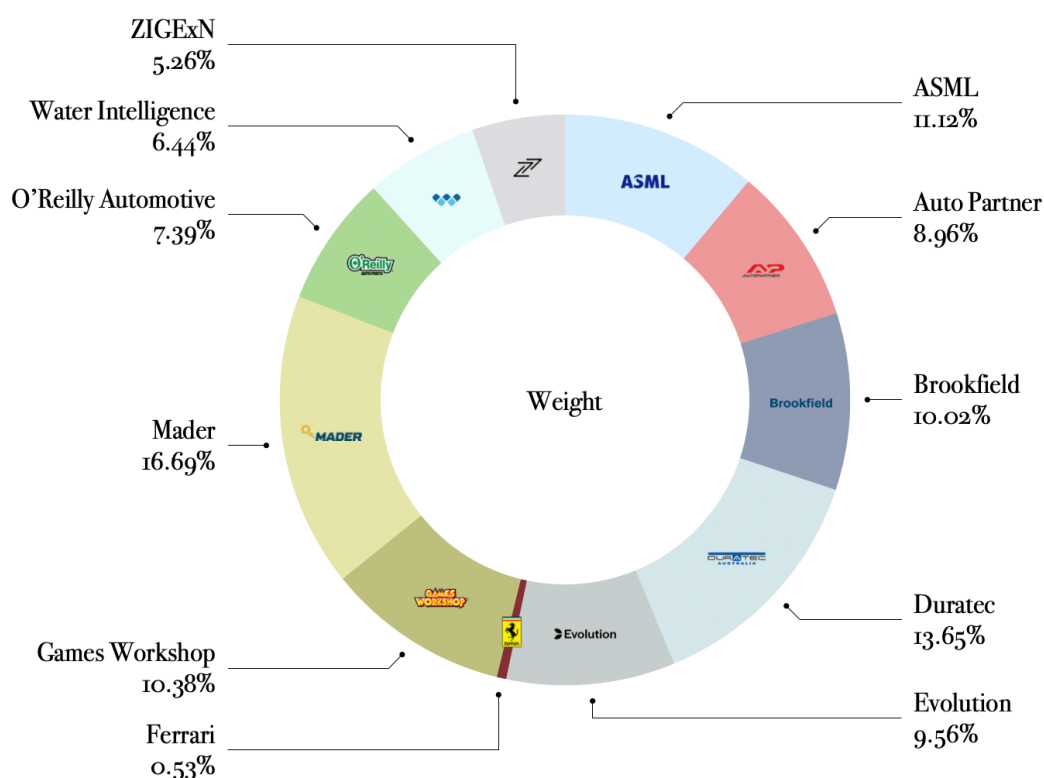
Summing up, the total outperformance of our companies relative to the S&P 500 when it comes to enterprise returns since inception has been 52.1% (or 15.0% annually) and the speculative comparison signals an underperformance of 51.4% (14.8% per year). When combining the enterprise and speculative components, the total shareholder return of our companies has been 41.2%, compared to 40.5% for the index (a cumulative outperformance of 0.7%).

The underperformance in speculation of 51.4% could be indicative of the expensiveness of our companies, but the truth is that as of the end of fiscal 2024 they traded, on average, at 20.3 times statutory profits (a discount of 33.0% relative to the index). Not only that, our portfolio has increased its intrinsic value by 15.4% annually since January 2022, which is substantially above the historical averages of 7.0% to 8.0% of the S&P 500.

⁽¹⁾ S&P 500's performance is converted to euro for a like-for-like comparison with the returns of the portfolio.

Holdings.

Our companies continued to deliver strong results, especially on a comparative basis with industry peers and other benchmarks. As mentioned earlier, the main changes during fiscal 2024 were the outright sales of Atlas Engineered Products and Dino Polska, ending the year with an interest in 11 businesses:



Auto Partner.

Cumulative return: 73.7% (21.5% p.a.).

Last year represented a challenging period for Auto Partner. The normalisation of stock units' prices and the impact of currency fluctuations (strong zloty in recent quarters) pressured the company's profitability, bringing its operating margin down to around 6.7% compared to 8.3% in fiscal 2023 and the 10.0% plus levels in the years ensuing the pandemic. As a consequence and even though sales expanded 12.6% in fiscal 2024, net profits per share decreased by 8.8% last year.

Although profitability levels were certainly inflated in fiscal 2020 through fiscal 2022 following the sharp increase in preference for repairs due to the relative expensiveness of first- and second-hand vehicles, Auto Partner has seen its margins compress further than what could be considered reasonable. The rationale behind this has been a strong zloty in the second half of fiscal 2024, reducing the recognised value of the international stock sales and of those items purchased in euro.

The company's operations present certain operating leverage in both of its verticals. In my view, stock units' prices have already absorbed most of the deflationary effects posed by the normalisation of the automotive industry and earnings should start expanding faster than sales in fiscal 2025.

Since we first invested in the company in May 2022, we have obtained a total shareholder return in Auto Partner of 73.7% (21.5% per year). Being valued at around 13.0 times its fiscal 2024's earnings, I feel enthusiastic about the future prospects and the creation of shareholder value that Auto Partner moving forward.

Brookfield. Brookfield

Cumulative return: 104.3% (47.7% p.a.).

Together with Apollo and KKR, Brookfield is the biggest asset manager worldwide which, due to the nature of the industry, is a competitive strength on its own. The ability of an asset manager to raise funds for sizeable opportunities with a global reach reduces competition drastically, so these three players enjoy a sound position in the sector.

To get a sense for Brookfield's size, as of the end of fiscal 2024 the group had over US\$1.0 trillion in assets under management (the equivalent to Denmark and Norway's gross domestic products combined!), from which roughly US\$155.8 billion are own funds.

During fiscal 2024, Brookfield increased its own capital base by 18.2% and its distributable earnings per share before realisations (a proxy for the true normalised unrestricted profits generated by the business) by 16.2% when compared to fiscal 2023. In my view, there continues to exist a significant gap between the intrinsic value of the holding and its quotation in the equity markets.

Duratec. DURATEC AUSTRALIA

Cumulative return: 45.3% (30.2% p.a.).

Some delay in the signature of a handful of projects towards the end of fiscal 2024 made Duratec's order book decrease by 11.6%. As these were confirmed over the ensuing summer months, the company's backlog has recovered nicely in the first half of fiscal 2025.

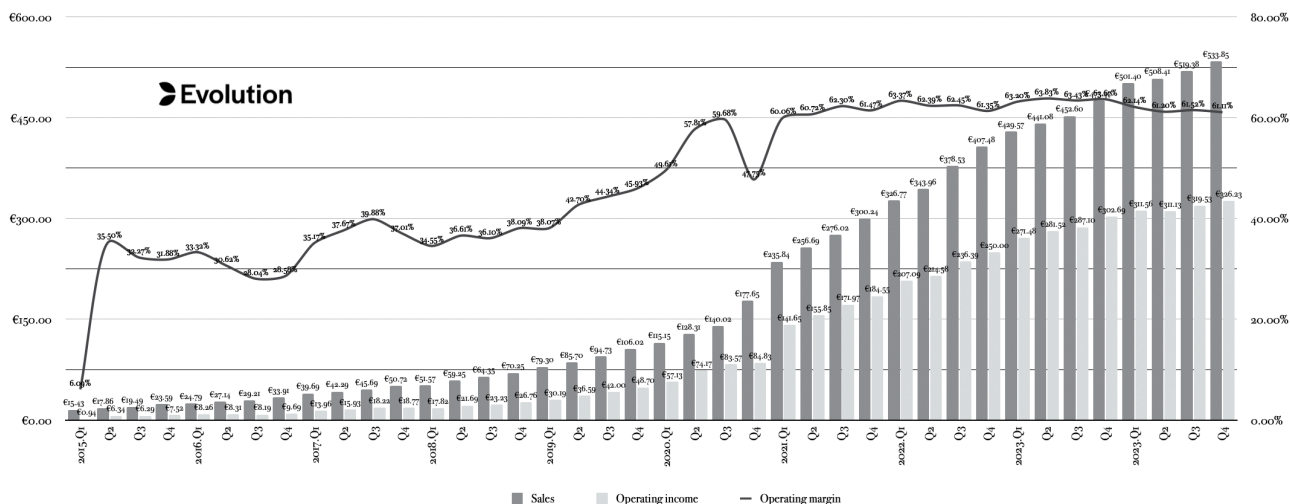
For the past twelve months, our Australian provider of engineering and remediation services for infrastructure across the country has decreased sales and per-share profits by 0.9% and 6.7%, respectively.

In my view, fiscal 2025 should be a period of continued expansion for Duratec. Customers can only postpone the maintenance of their infrastructural assets for so long and, after a fiscal 2024 marked by low activity, it is inevitable that new projects start populating the company's order book. Duratec is often classified as part of the E&C industry (Engineering & Construction) and, in my opinion, this is the reason why many investors oversee the quality of its business. Not without reasons, the C of E&C possesses certain traits which make it unappealing: companies whose activities revolve around the construction business typically involve considerable leverage and an arguably dangerous working capital structure (payment of regulatory licenses, materials, equipment and labour are required upfront and often enabled by issuing large amounts of debt). However, most of Duratec's operations fall under the engineering side of the industry (the E in E&C), whose unit economics are far more interesting.

Evolution. Evolution

Cumulative return: -10.4% (-3.8% p.a.).

The group increased revenues by 14.7% and earnings per share, after adjusting for the reduction in earn-out liabilities from the acquisitions of BTG and NLC, by 5.4% in fiscal 2024 (including a share-count reduction of 4.1%).



The decrease in profitability had two components: (a) a tax-rate hike from around 7.0% to 15.0% and (b) a slight decrease in operating margins.

The former is a one-off event due to its qualification for the minimum corporate tax rate of 15.0% approved by the E.U. Council in late 2021 that took effect in January 2024. Such directive targets businesses considered “large multinational groups”: those whose annual turnover exceeds €750 million. Had the tax rate remained constant, per-share profits would have advanced 11.9% in fiscal 2024.

Evolution is a good example on the significance of understanding the underlying reality of the business and letting go what its market quotation does over the short- and middle-term. Since we invested in the group in June 2022, our cumulative return has been negative 10.4% (shy of negative 3.8% per year). However, Evolution’s true earning power has advanced 99.7% over the same period. That is an annual growth rate of 25.9%! As a consequence, although the group’s share price remains today at similar levels, its price per dollar of profits has decreased from 31.9 to 14.1 times over the past three years. A figure that, in my view, should prove to be disproportionately low in the future.

In recent months, I have been surprised to see many investors dump their hopes in the company (and their shares along with them). It continues to amaze me the influence that market sentiments, expressed through the movement of stock quotations, have on the opinion that most institutional and private investors hold about public businesses.

In a sense, Evolution today reminds me of Meta Platforms not so long ago: a supposedly “uninvestable” enterprise whose destiny is doomed. With the latter, it was TikTok and a self-imposed Capex structure for the development of the well-acclaimed “metaverse” that would burn the business and its competitive stand down to its foundations. Or at least that was what the media tried to remind us on a daily basis. With the former, today is the regulation of markets worldwide that poses the biggest threat. I could not disagree more.

The hegemonic opinion about an asset will always follow what its stock price has done in recent months. We like to dress our decisions (especially the purely emotional ones) with rationalised arguments that sound thoughtful. This happens while we are surrounded by an incessant flow of news specifically designed to catch our attention but of little value.

Only time will tell whether our assessment of the company’s operations, in their real sense, is right. With Evolution, as with our other holdings and at the risk of being wrong, my aim is to continue to be permanent owners until we notice an irreversible deterioration of its drivers or the surrounding environment.

Games Workshop.

Cumulative return: 131.8% (33.4% p.a.).

As a vertically integrated business, Games Workshop designs, manufactures and sells plastic and resin miniatures, paints, books and other digital content revolving around the fantasy universes of what in my view is one of the world’s most valuable intellectual properties: Warhammer.

The underlying business continued to perform pleasingly during the second half of fiscal 2024 and the first half of fiscal 2025 (the company’s fiscal year ends in May), delivering increases in revenue and per-share profits of 20.3% and 25.1% over the previous twelve months.

Mader.

Cumulative return: 111.4% (36.3% p.a.).

Our Australian provider of maintenance and remediation services for heavy machinery and infrastructure continued to deliver results in line with our expectations, growing sales by 15.8% and net profits per share by 15.7% during the second half of fiscal 2024 and the first half of fiscal 2025 (Mader’s fiscal year ends, in line with the Australian tradition, in June).

O’Reilly Automotive.

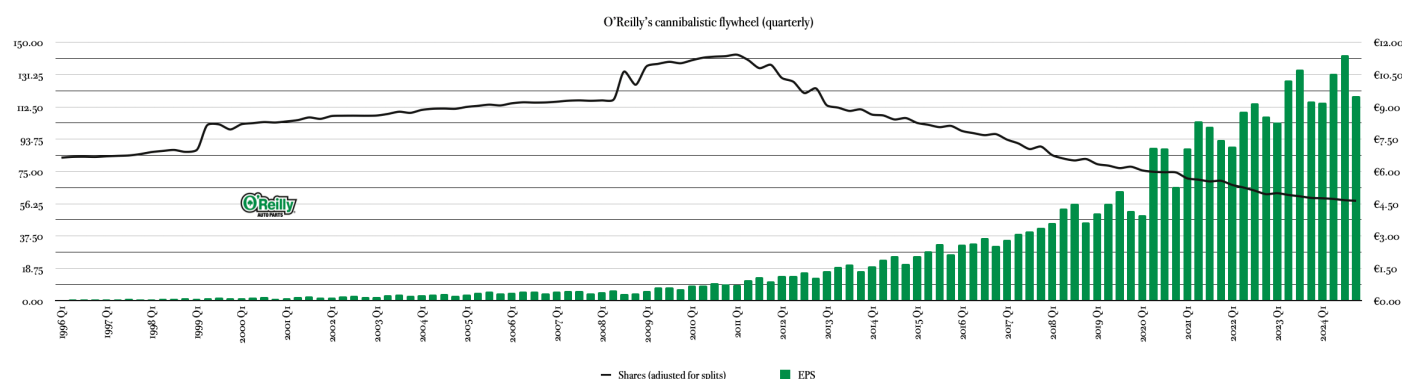
Cumulative return: 122.5% (33.8% p.a.).

O’Reilly repurchased another 1.7 million shares last year -a reduction of 2.8% relative to fiscal 2023’s end. Both sales and per-share profits increased by 5.7%.

In my view, the deceleration in growth relates to the relatively unsustainable rates that both O’Reilly and AutoZone had experienced in recent years, especially when comparing them with historical levels. Both companies benefited

from the sharp increase in first- and second-hand vehicles following the supply chain constraints caused by the pandemic, which made the repairing a more appealing option for car owners and insurers worldwide. AutoZone (O'Reilly's closest peer) delivered growth in sales and earnings per share of 3.5% and 7.5% (respectively) which, after adjusting for the 6.1% reduction of the shares outstanding, are in line with those of the former.

Since the adoption of a capital allocation strategy based on share repurchases back in fiscal 2010, O'Reilly has cannibalised 91.0 million shares (almost two thirds of its original stock pool) which alone accounts for 178.4% of cumulative returns for the investor who sat tight until present days. Additionally, sales have advanced another 215.0% while bottom-line profitability has doubled over the same time frame. Given that the multiple of earnings is similar to its fiscal 2010's levels, the three factors above combine to a cumulative 17.5 bagger for the past fifteen years (an impressive 21.0% return per year).



Water Intelligence. 💧

Cumulative return: -45.6% (-24.5% p.a.).

The company celebrated the 50th anniversary of its core business (American Leak Detection) in October. Despite its relatively small size, it is the only water-leak detection organisation with national presence across the U.S., making it the preferred alternative for incumbent insurance players as a means to decrease the administrative burden related to the management of jobs and associated costs.

After the deployment of around £2.50 million in the implementation of a corporate-wide Salesforce software and its complete integration in the North American stores, profitability levels have started to recover to historical levels during the second half of fiscal 2023 and the first six months of fiscal 2024 (data for the full year is not public yet): with sales growth of 5.9% over the previous corresponding period, the group's net profit per share advanced 22.1% as bottom-line margins expanded from 5.0% at the end of fiscal 2022 to 6.1% in June 2024.

Prior to the implementation of the aforementioned productivity software, net profitability was around 7.0%. In my view, the main lever within Water Intelligence's margins is the reacquisition of franchising locations: on average, when the group converts a franchise into a corporate store net profitability for the company multiplies eight to nine fold. When combined with the positive effect that the automation of job management brings to its operations, I expect the overall profitability levels not only to recover to around 7.0% but to expand further over the coming years. Leaving aside future revenue growth, the normalisation of bottom-line margins from 6.1% to 7.5% in the ensuing two years gives visibility to an after tax income increase of 23.0% (10.9% annually).

Depending on market conditions, growth might continue to stagnate as long as interest rates remain relatively high. Estimating what I consider a conservative annual growth of 8.0% in sales during the same period and skipping other avenues for the creation of shareholder value that management has started to utilise recently (such as buybacks), Water Intelligence could be generating £0.37 in per-share earnings in fiscal 2026, which corresponds to a 50.8% increase over the last twelve months (a shareholder return of 22.8% per year assuming that today's valuation of 16.5 times profits remains constant).

Since we invested in Water Intelligence in January 2023, its market quotation has decreased from £5.77 per share to today's £3.78 (a contraction of 34.5%) while I estimate the group's earning power to be nowadays 62.7% higher.



Cumulative return: -4.3% (-1.4% p.a.).

Our Japanese search aggregator continued to deliver good results, with increases in sales and per-share profits of 10.5% and 4.1% over the previous twelve months (ZIGExN's fiscal year ends in March).

The group creates value through the operating excellence of its subsidiary brands, together with a capital allocation based on opportunistic M&A, share repurchases and cash distributions. With returns on invested capital consistently above 40.0% and a typical reinvestment rate of around 25.0%, ZIGExN is able to grow the business by 10.0% per year while keeping the remaining three-quarters of "unrestricted" profits available to shareholders.

Readings.

For the curious reader, below is the list of books that I found most enjoyable last year:

- Capital allocation (David Giroux).
- Capital allocation (Jacob McDonough).
- Common sense (Thomas Paine).
- Diamonds in the dust (Saurabh Mukherjea).
- Factfulness (Hans Rosling).
- Focus: the ASML way (Marc Hijink).
- How the rubber meets the road (Dick Erickson).
- How to get lucky (Max Gunther).
- I've decided to live 120 years (Ilchi Lee).
- Junk to gold (Willis Johnson).
- Lessons from century club companies (Vicki Tenhaken).
- Never split the difference (Chris Voss).
- Outliers (Malcolm Gladwell).
- Quality investing (Torkell T. Eide).
- Same as ever (Morgan Housel).
- The everything store (Brad Stone).
- The great crash 1929 (John K. Galbraith).
- The investment checklist (Michael Shearn).
- The John Deere way (David Magee).
- Think straight (Darius Foroux).
- Who moved my cheese? (Spencer Johnson).

Wish you a great 2025,
ConserValue.