

Going South: Implications of Business and Population Migration

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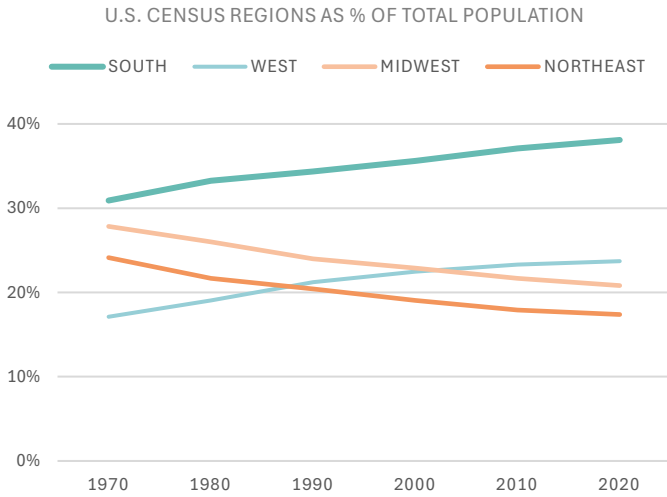
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KEY TAKEAWAYS

- The migration of both businesses and population to the Southern states is a strong trend that shows no sign of slowing down.
- The migratory trend began with the introduction and development of the Interstate Highway System in the 1950s and has only accelerated in recent years.
- There are several major contributors to the migratory trend: abundant land, cheap energy, lower taxes, and pro-growth policies. All these create an attractive business climate.
- The increase in population in the Southern states has many implications for regional service providers such as banks and retailers, as well as builders and materials suppliers.
- The warmer Southern climate has less obvious implications for specialty service providers, retailers, and infrastructure providers.

Part I: Southern Migration Causes and Effects

Exhibit 1: Growing importance of the South

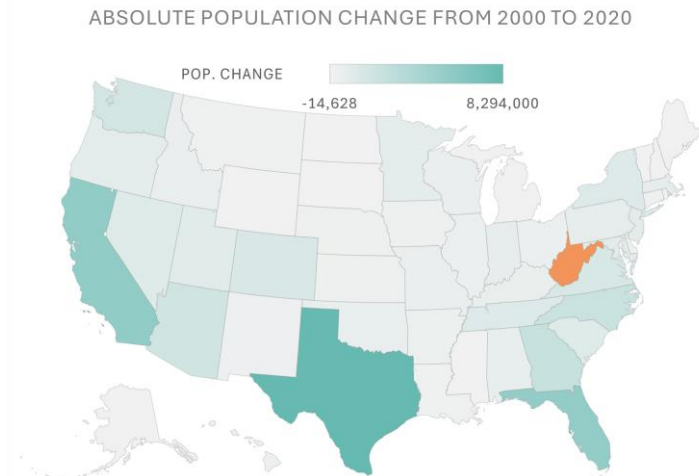


Source: U.S. Census Bureau.

With large numbers of baby boomers retiring every year, many of those who live in the Northern and Midwestern regions continue to choose to retire in the South and Southwest (Exhibit 1). The regional importance of the South has increased continuously since 1970. The milder temperatures and tax burdens are likely the most important factors.

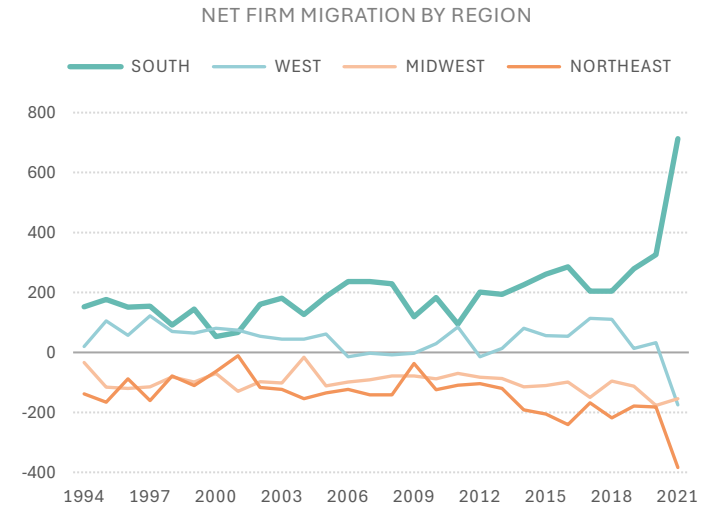
In terms of the increase in absolute population numbers by state, we can see the largest increases in Texas, Florida, and California (Exhibit 2).

Exhibit 2: Two decades of population change



Source: U.S. Bureau of Labor Statistics.

Exhibit 3: Businesses moving to the South, leaving NE and MW...

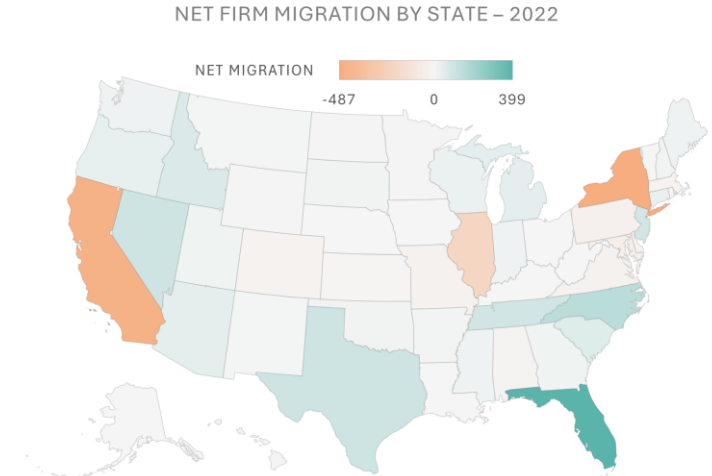


Source: U.S. Bureau of Labor Statistics.

However, it is not just retirees choosing to migrate south. Businesses have been migrating to the South for many decades. Exhibit 3 shows the net number of firms migrating to different regions. The South has by far been the greatest beneficiary of this migratory trend.

Exhibit 4 shows net firm migration in 2022 by state. California, New York, and Illinois stand out as states with the most firms leaving. Florida, Texas, and North Carolina stand out as states with the highest number of firms entering.

Exhibit 4: Businesses are leaving CA, NY, & IL



Source: U.S. Bureau of Labor Statistics.

Fortune 500 firms moving to the South

Looking more specifically at Fortune 500 firms, there also has been significant migration to the South. Texas bank **Cullen/Frost** touts to investors in their 4Q2023 presentation that 55 Fortune 500 companies are now headquartered in Texas.

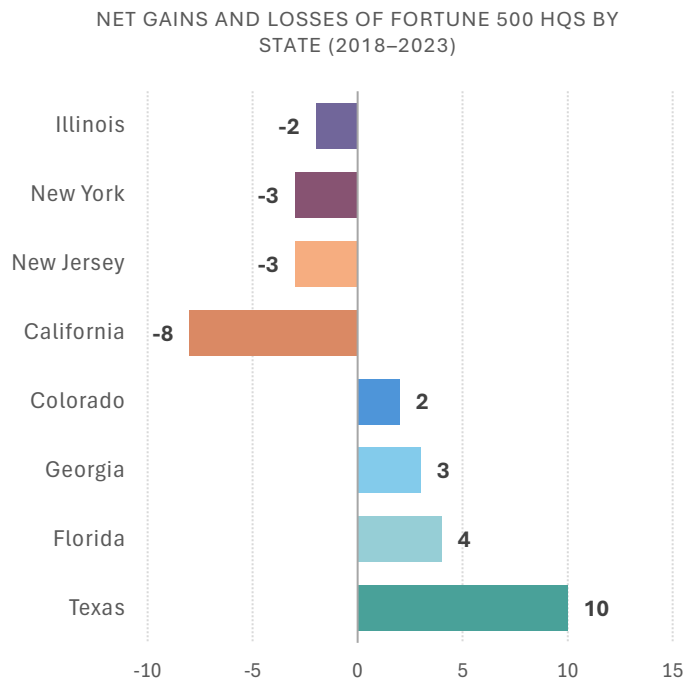
CBRE, one of the largest commercial real estate brokers, has also accumulated data showing the trends of Fortune 500 HQ moves.

“The Shifting Landscape of Headquarters: Change Among the Fortune 500”, CBRE, March 12, 2024. <https://bit.ly/3XiFJKk>

Exhibit 5 shows that between 2018 and 2023, 28 Fortune 500 companies moved their headquarters out of state. The greatest beneficiaries were the Sunbelt states. Seven of California’s eight net losses moved to Texas.

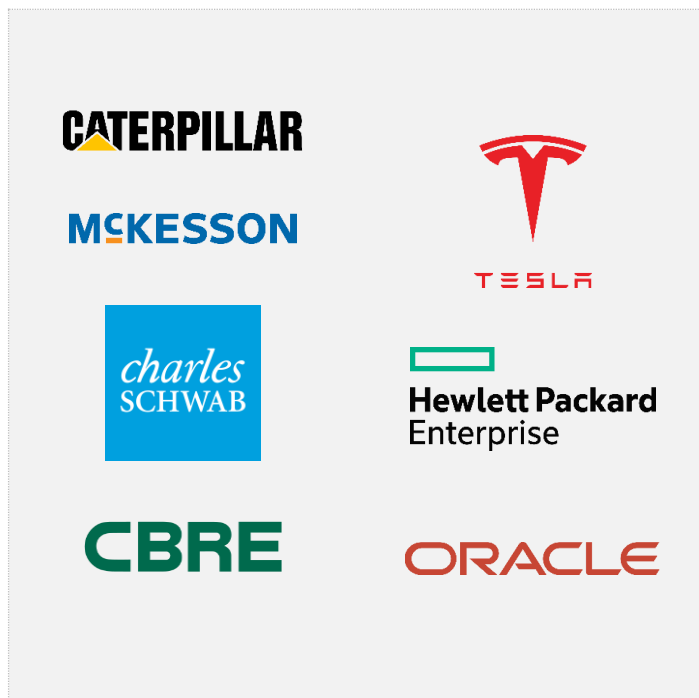
Some specific examples include **Caterpillar** moving from Illinois to Texas, **Oracle** from California to Texas, and **Tesla** from California to Texas (**Exhibit 6**).

Exhibit 5: Sunbelt states have been the choice for Fortune 500 HQ relocations



Source: CBRE Americas Consulting, Fortune.com, Associated Press, 2024.

Exhibit 6: Some firms that have moved headquarters to Texas in the last five years



The reasons for migration?

In addition to nicer weather, the South also has a more friendly business climate. **Exhibit 7** at the bottom shows the tax burdens over time of two of the largest states with businesses *exiting* (NY and CA) compared to two of the largest states to which businesses are migrating (TX and FL).

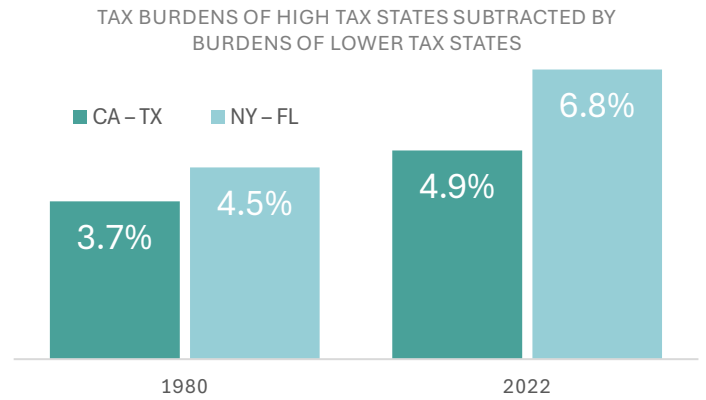
With **Exhibit 8**, we further compare the pair of California and Texas and the pair of New York and Florida. We simply subtract the tax burden of the lower tax state from the burden of the higher tax state in each pair. The result shows the relative attractiveness of one state versus the other. Since 1980, the tax burden gap between these two pairs has only grown wider. This widening gap only makes the choice to migrate easier for individuals and businesses.

The relative attractiveness of the South for businesses is also due to the higher number of states with right-to-work laws. These laws allow workers to choose whether to join a union and pay dues. Critically, workers cannot be compelled to financially support a union against their will as a condition of employment.

Of the 26 states with right-to-work laws, 14 are in the South. Unions thus have a much smaller presence in the South as well as in other states with these laws (**Exhibit 9**).

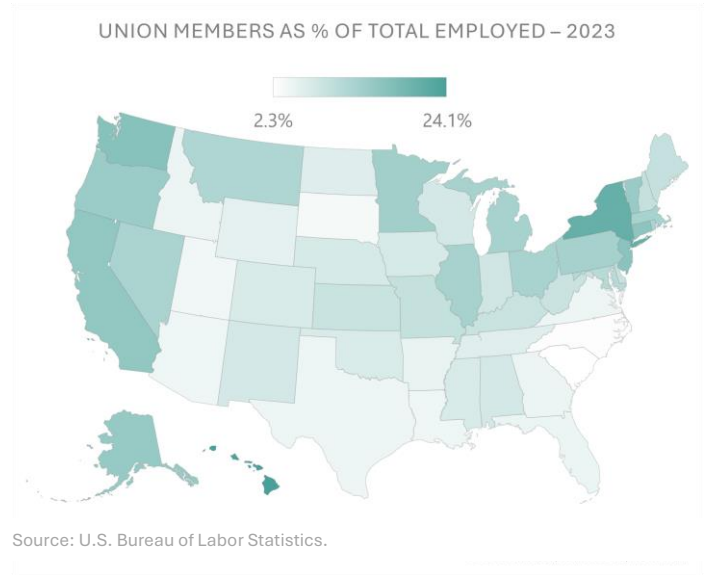
Population and business migration to the Southern and Southwestern parts of the U.S. will continue to have an impact on many industries.

Exhibit 8: The tax burden gap increases among select states...



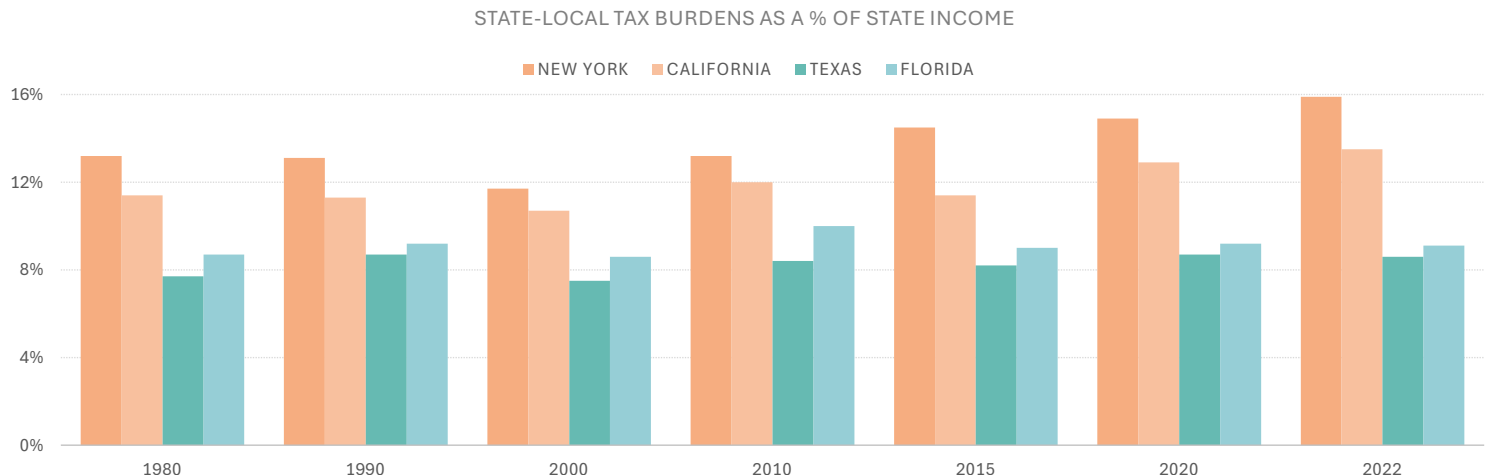
Source: Tax Foundation, April 7, 2022.

Exhibit 9: The South has less union membership...



Source: U.S. Bureau of Labor Statistics.

Exhibit 7: NY and CA tax burdens increase while TX and FL remain low



Source: Tax Foundation, April 7, 2022.

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Cost of living

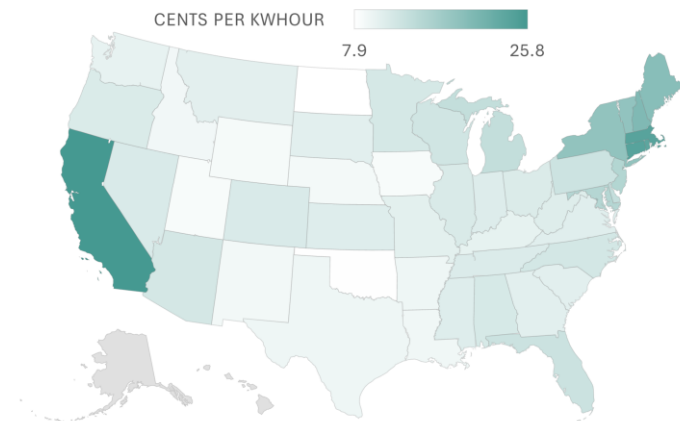
The cost of living is another advantage the South has. For example, most states in the South have cheaper electricity compared to the Northeast and California (**Exhibit 10**). Some of the reasons for cheaper electricity include:

- Greater access to cheaper sources of power like natural gas and nuclear.
- More robust pipeline networks that reduce fuel and natural gas costs.
- Reduced transmission and distribution costs because of more open land and dispersed population.

In **Exhibit 11**, we continue to use the two pairs of CA and TX and NY and FL to show the difference in costs, this time with the average cost of electricity. Electricity in California is 2.7x the average cost in Texas and 2.0x the average cost in Florida. New York is 1.9x the average cost in Texas and just 1.4x Florida.

Exhibit 10: Price of electricity is much lower in the South

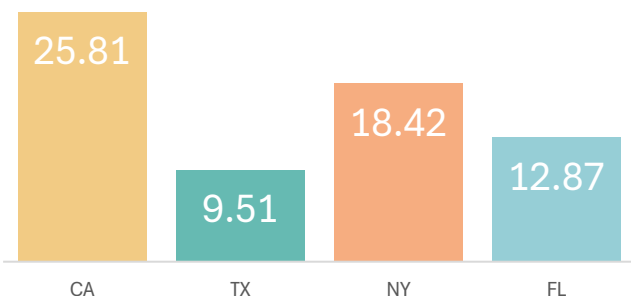
AVERAGE PRICE OF ELECTRICITY TO ULTIMATE CUSTOMERS IN ALL SECTORS IN LOWER 48 STATES – MARCH 2024



Source: U.S. Energy Information Administration.

Exhibit 11: Electricity in TX and FL is much cheaper than in CA and NY

AVG. PRICE OF ELECTRICITY TO CUSTOMERS IN ALL SECTORS (CENTS PER KW HOUR, MARCH 2024)



Source: U.S. Energy Information Administration.

Exhibit 12: It's generally cheaper in the South

INCOME NEEDED FOR SINGLE PERSON TO LIVE COMFORTABLY, BY STATE



Source: MIT Living Wage Calculator and Visual Capitalist, 2/14/24.

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What are regional banks saying?

Another way to confirm the outsized growth of the South is by looking at the regional banks. The language these bank executives use and the trends in their financials both confirm their growth continues to outpace the national averages.

William Rogers, Chairman and CEO of **Truist Financial**, remarking on the fact that 16 of their 20 largest markets are growing faster than the overall U.S. population on Sep. 11, 2023:

“Through the merger of equals, we built a top ten commercial bank that operates and has strong market share in many of the fastest-growing markets in the country, and our diverse business mix extends our reach well beyond our core banking markets.”

Kevin Blair, Chairman, CEO and President of **Synovus Financial**, on Dec. 6, 2023:

“One point of Synovus that shouldn’t be lost is that we’re in a great footprint, the 5-state footprint in which we serve: Florida, Georgia, Tennessee, Alabama and South Carolina. When you look at those states in aggregate, we have a population growth that’s 2x the national average. And I would submit to you that across that 5-state footprint, we have 55 markets in which we serve.... And you can see on the slide that there are some markets in there that we have top 5 market share, which puts us in a very strong competitive position because as I’ve said in the past, we’re not the only bank in the world that knows that the Southeast is growing and they want to be able to participate in that growth.”

John Turner, Chairman, CEO and President of **Regions Financial**, on Mar. 6, 2024:

The states that have no state income tax, Florida, Tennessee and Texas, are all doing very well and that’s where we’re seeing the greatest in-migration of people. I would say North Carolina, South Carolina, Georgia have had very effective economic development efforts. And so jobs are relocating to those markets or being created in those markets, so people are relocating. The more traditional Southern markets, Alabama, Mississippi, Louisiana, Arkansas, are not as strong as Florida, Tennessee and Texas, Georgia. That’s probably not surprising to you. But they’re still good markets, they’re really solid markets.

Ronald Smith, Senior Exec. Vice President of **Regions Financial**, Feb. 21, 2024:

“So I won’t repeat that other than just to say the Sunbelt does give us an advantage. We have both in-migration of population and businesses that are moving in as well. The majority of our book is suburban not urban and so that helps us additionally.”

“I mean, look, the curse of being in like the fastest-growing markets in the country is everybody wants to be there.”

TRUIST 

Michael Maguire, CFO of Truist on Feb. 21, 2024

“[W]e’re not the only bank in the world that knows that the Southeast is growing...”

SYNOVUS[®]

Kevin Blair, Chairman & CEO of Synovus on Dec. 6, 2023

Summary of migration causes and effects

Prior to the Federal-Aid Highway Act of 1956 which gave birth to the Interstate Highway System, states were largely responsible for construction and maintenance of road systems. Because the southern states were economically less well, southern infrastructure was inferior to that in more developed regions of the country, thus limiting investment in the south. With the Interstate, this changed, and the south became economically attractive for major industry.

Exhibit 13 (at the bottom) shows the change in economic fortunes of several states in the South via their growth of per capita income.

Exhibit 14 shows the per capita income of several Southern states compared to the United States over time. In **Exhibit 15**, we divide the per capita income of each state by that of the United States. Arkansas and Tennessee had a significant gap with the U.S. in 1947 which has narrowed considerably over several generations.

Although the South is blessed with a warmer climate, a variety of pro-business and pro-growth policies over several decades have helped the region solidify its position as the migratory choice for businesses and people. States from the South consistently rank in the Top 10 of *Area Development's* annual "Top States for Doing Business" feature.

"2023 Top States for Doing Business Meet the Needs of Site Selectors", *Area Development*, Q3 2023. <https://bit.ly/45oPEjK>

There are also other key factors in addition to weather, taxes, and cost of living. There's availability of water, availability of real estate, real estate site-readiness programs, and logistics and infrastructure. There is not a single state from the Northeast or the West coast ranked in the Top 15 for doing business. Georgia has been the number one state for ten years in a row.

In the next section, this paper goes into greater detail on three industries: infrastructure, retailers, and homebuilders and the businesses providing services and products to the builders and homeowners.

Exhibit 14: Per capita income of select states over time

	1947	1970	1990	2023
United States	\$1,349	\$4,218	\$19,639	\$68,498
Arkansas	\$740	\$2,915	\$14,621	\$54,347
Tennessee	\$896	\$3,264	\$16,710	\$61,049
North Carolina	\$905	\$3,397	\$17,481	\$60,484
Florida	\$1,195	\$4,131	\$19,765	\$68,248

Source: U.S. Bureau of Economic Analysis.

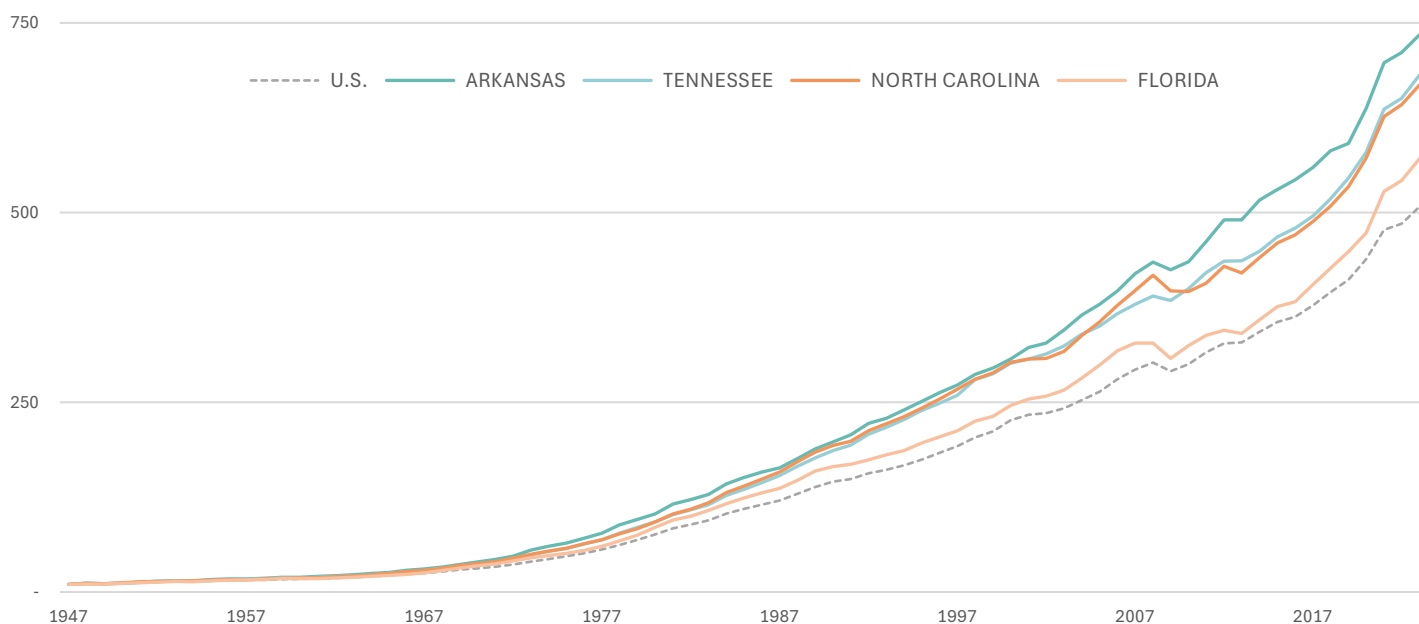
Exhibit 15: State per capita income as a % of the U.S. per capita income has narrowed for many Southern states over time

	1947	1970	1990	2023
United States	100%	100%	100%	100%
Arkansas	54.9%	69.1%	74.5%	79.3%
Tennessee	66.4%	77.4%	85.1%	89.1%
North Carolina	67.1%	80.5%	89.0%	88.3%
Florida	88.6%	97.9%	100.6%	99.6%

Source: U.S. Bureau of Economic Analysis.

Exhibit 13: Growth in per capita income in many Southern states has been faster than the United States as a whole

GROWTH OF PER CAPITA INCOME 1947–2023 (INDEXED TO 10)



Source: U.S. Bureau of Economic Analysis.

Part II: Industry Implications – Infrastructure

Vulcan Materials

Vulcan is the largest and most aggregates-focused construction materials company in the United States with over 15.6 billion tons (~70 years) of reserves. Thomas Hill, Chairman and CEO, on Sep. 29, 2022:

“We’re the largest producer of an essential product that goes into all construction.... We operate in the most attractive markets in the United States. If you think about it, the country is moving to Vulcan-served states. Today, 60% of the population lives within 60 miles of a Vulcan aggregate facility. This addressable market is over \$20 billion. So why is all this important? Because population growth drives aggregate demand. We are where the population growth is.”

Martin Marietta

Martin Marietta is another aggregates-focused construction materials company in the United States. Howard Nye, Chairman and CEO, on Oct. 29, 2020:

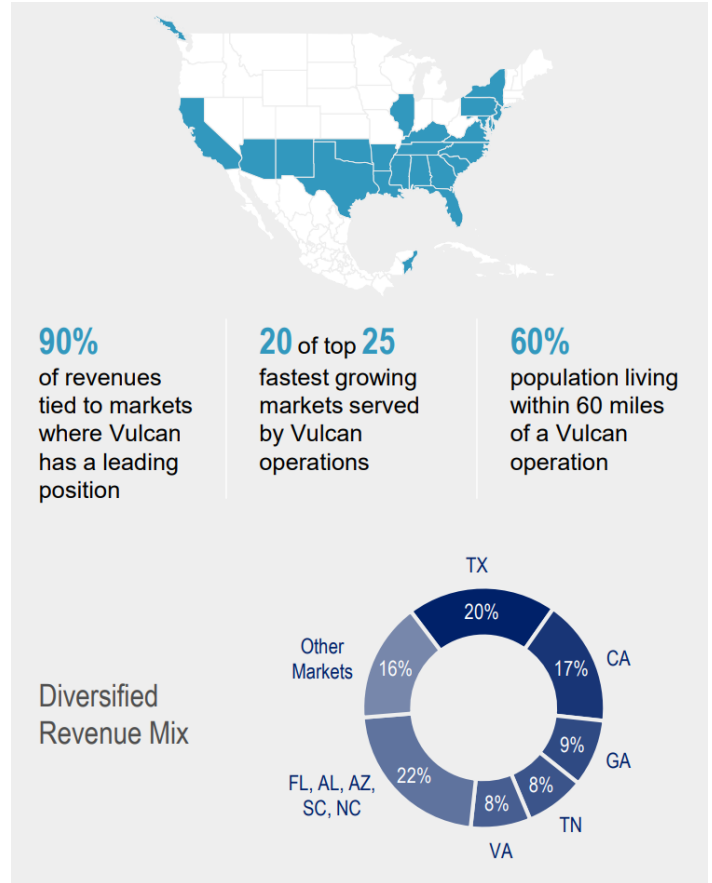
“Recently, North Carolina, our third largest state by revenues, was identified as a top migration destination, ranking #7 among states that experienced the most inbound moves from March through August of this year, according to data from United Van Lines. These trends extend beyond those moving from one state to another. They also include existing residents opting to move farther out from city centers. Across our Southeastern and Southwestern footprint, underbuilt conditions and favorable population and unemployment dynamics provide Martin Marietta with a distinct competitive advantage for outsized secular growth in single-family housing development.”

Construction Partners

Construction Partners is a civil construction firm focused on the southeast US. Here is what Fred Smith, President and CEO, said on Oct. 4, 2023:

“[W]e’re ... in the Southeast, and for us, we think that’s a tremendous advantage. It’s the fastest-growing part of the country with the strongest economy. And there’s two really big drivers of that. And first is residential migration.... [B]ut we also have business migration.... We see a lot of reshoring businesses that want to strengthen their supply chains, moving back to the United States. And when they look at the map, they’re making the same calculation as the residents are. They’re saying, where can we go that has low taxes, good weather, and in the case of businesses, nonunion labor force?”

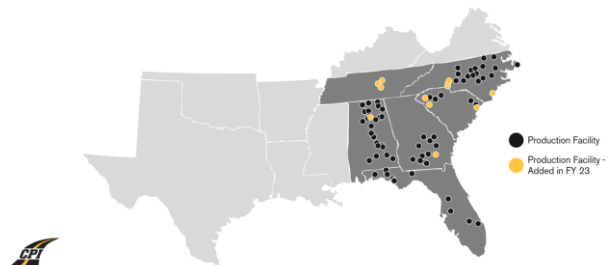
Exhibit 16: More than 2/3 of Vulcan’s revenue comes from Southern states



Source: Vulcan 2022 Fact Sheet, page 2.

Exhibit 17: Construction Partners is focused on the South

Asphalt-centered Infrastructure Company



Source: Construction Partners 10/4/23 presentation, page 15.

Rayonier

Rayonier is a timber REIT with 69% of its acreage based in the South (**Exhibit 18**). Their southern acreage stretches from Texas to South Carolina to Florida. Compared to other timber regions, the South also stands out as having the lowest average production costs.

Mark McHugh, President and CEO, on Mar. 5, 2024 confirmed **Rayonier** continues to benefit from migration to the South:

“We also see very favorable migration and demographic trends that are benefiting our development projects in Northeast Florida and Southeast Georgia. So as these trends are really reshaping our industry, they’re also reshaping how we think about our business. Increasingly, we’ve come to see ourselves as not just a timber company, but really more of a land resources company.”

When asked by an analyst on the same call which region of their timberlands was the most attractive opportunity, McHugh said it was the South:

“I mean, look, ... we are all about maximizing the value of land through optionality. And clearly, we’re seeing the most optionality in the south today. So I mean, I think that this is a story that’s been playing out for a better part of a decade now. We’re really seeing this optionality that we’ve always believed to exist in the south start to materialize and kind of very meaningful value creation opportunities.”

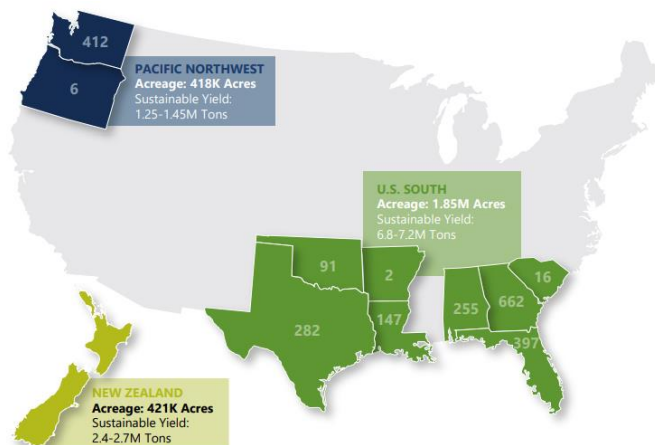
Louisiana-Pacific Corporation

Louisiana-Pacific is North America’s largest producer of engineered wood siding. William Southern, Chairman and CEO, on migration trends in the United States on Feb. 8, 2024:

“Secondly, it’s important point to make is that as we get migration internal to the U.S. from the West Coast, the Northeast into the South, that sets us up very well for Siding. Our strong lap Siding markets are from basically the smile in the Southern states.

And so as we have relocation in the U.S. into Texas, in the South Central region, those are really, really good Siding markets that we’re positioned well to take advantage of as well.”

Exhibit 18: Rayonier’s timber acreage is heavily skewed to the South



Source: Rayonier 2/28/2024 Investor Day presentation, page 17.

Part II: Industry Implications – Retailers

The Kroger Co.

Kroger is a food and drug retailer with over 2,700 stores in the United States. Rodney McMullen, Chairman and CEO, on the earnings call on Dec. 2, 2021:

“And when you look at overall in Florida, one of the reasons why we announced the two additional facilities in Florida is obviously the connection and the growth that we are achieving.... And as everybody knows, the population growth in Florida and the economic growth in Florida is just mind-boggling relative to an awful lot of the country. So it’s an incredible opportunity for all grocery retailers in Florida.”

Tractor Supply Company

Tractor Supply operates as a rural lifestyle retailer in the United States with over 2,400 stores. Kurt Barton, CFO, on June 7, 2022:

“To your point about migration, I mean, we’re seeing strong migration out of some of the bigger cities or the states with big cities, and you’re seeing that migration to the south, there’s a Southeast where we have a really strong presence. And so all of those factors ... continue to get solid tailwinds.”

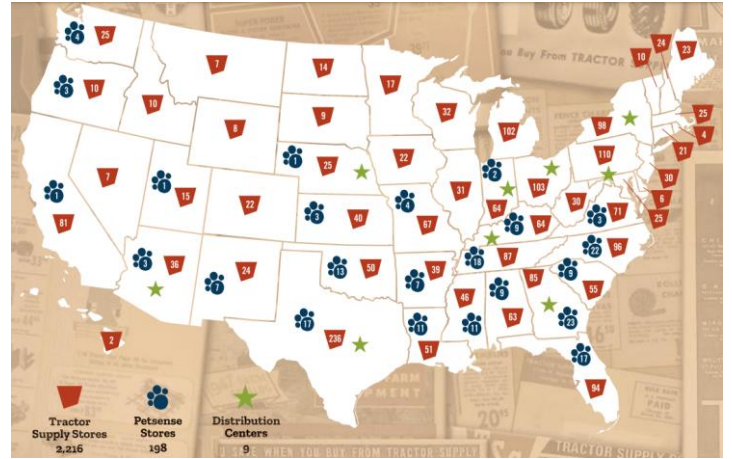
Kurt Barton, CFO, on Sep. 12, 2023, responding to a question about increasing the long-term target of new stores:

“And to your other questions, it’s a mixture of markets where there’s just been a tremendous influx of new consumers in Southeast, in particular, where we’ve got a heavy presence of stores. But there’s many states where it’s just continuing to grow, and we’re able to put in store 20 miles away from an existing store and still be able to hurdle a pretty sizable hurdle rate that we expect out of our new stores.”

Harry Lawton, President and CEO, on migration patterns on Apr. 25, 2024:

“To start by the highest level, ... I think rural America is doing very well right now. We see our highest performance across our store base in rural America right now. If you look at the national statistics, you see net urban migration out—kind of more migration coming out of cities than in. And you see that migration going to rural America. I think there’s a variety of drivers for that, but that trend benefits us.”

Exhibit 19: Tractor Supply’s rural store base has a strong presence in the South



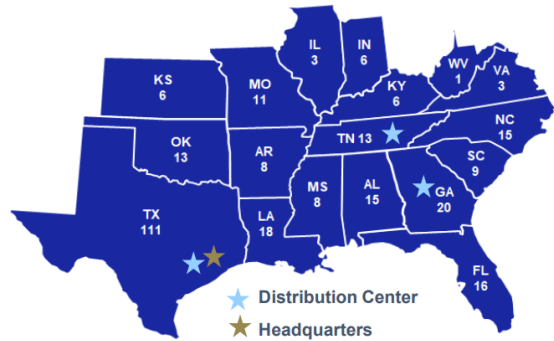
Source: Tractor Supply’s 2023 Annual Report.

Academy Sports

Academy Sports is a sporting goods and outdoor recreational retailer in the United States. Kenneth Hicks, Chairman and CEO, on Dec. 7, 2022:

As a reminder, the majority of our customers are in the middle 3 quintiles ranging from \$50,000 to \$150,000 in annual household income. There’s also an ongoing population migration to our base in the South and Southeastern United States. We currently operate in some of the fastest-growing markets in the country, such as Austin, Texas; Atlanta, Georgia; and Raleigh, North Carolina.

Exhibit 20: The South is an opportunity for Academy Sports



282 Stores	Underpenetrated in existing markets
18 States	With opportunity to expand contiguously
3 DCs	To support store growth
2x	Population growth rate vs. U.S. average
~40M Customers	And growing every day
6 of 10	Fastest growing MSAs
29%	Of stores are in the top 5 growing MSAs

Source: Academy Sports’ 3/25/24 Investor Presentation, page 11.

The Children's Place

The Children's Place operates an omni-channel children's specialty portfolio of brands in North America. Seamus Toal, COO and CFO, on Aug. 17, 2023:

"Throughout our decade-long fleet optimization initiative, the company has been laser-focused on the significant shifts taking place with respect to demographics. Birth rates have been on a decline for 15 years. And over the last decade, population shifts out of the Northeast and Midwest and into the markets in the Southeast and Southwest have been significant. It is important that our brick-and-mortar stores are positioned in markets with a population to support our product."

Starbucks Coffee Company

Starbucks is an international retailer of coffee and food with over 9,600 stores in the United States and over 19,000 worldwide. Laxman Narasimhan, CEO, on Dec. 5, 2023:

But even though we were international, we were frankly not fully tapped, let alone—especially in the U.S. If I look at what's going on in the South or the Southeast and our businesses in many of these places, Tier 2, Tier 3 towns, the potential for this brand is actually really quite large.

"If I look at what's going on in the South ..., the potential for this brand is actually really quite large."



Laxman Narasimhan, CEO of Starbucks on Dec. 5, 2023

Part II: Industry Implications – Homes

Dream Finders Homes

In its 2023 10-K filing, **Dream Finders** lists all the reasons why it focuses on building homes in the South:

“We select the geographic markets in which we operate our homebuilding business through a rigorous selection process based on our evaluation of positive population and employment growth trends, favorable migration patterns, attractive housing affordability, low state and local income taxes and desirable lifestyle and weather characteristics.”

Exhibit 21: Markets described by Dream Finders Homes as “high-growth, low-cost”



Source: Dream Finders Homes, May 2024 presentation, page 20.

Toll Brothers

Toll Brothers is the 5th largest home builder in the United States by revenue. Douglas Yearley, Chairman and CEO, commented on the trends favorable for the company on May 24, 2023:

“In addition to the underproduction of new homes in this country and the low level of resale inventory, there are many other factors that continue to support the housing market. These include favorable demographics with millions of millennials and baby boomers on the move. Millennials, in particular, are buying their first home later in life when they have higher incomes and accumulated wealth. Migration trends are driving the population south and west, which not only increases demand in these markets, but alleviate some of the affordability pressures as buyers move from high-cost to low-cost markets. More flexibility in the workplace also supports this migration and the housing market in general as buyers place a greater emphasis on their homes. These trends have staying power that we believe will continue to support housing demand for years to come.”

Pool Corporation

Pool Corporation distributes swimming pool supplies, equipment, and related leisure products in the United States and internationally. Peter Arvan, President and CEO, on Mar. 8, 2022:

“So long term, trends and outlook. The housing market, rising home values and increased home investment, those are very common themes that we see today. The favorable U.S. population migration trends. I was reading an article coming down here yesterday ... basically says there’s 1,000 people a day moving to the state of Florida.... Texas has a very similar number, right? ... The migration pattern is—the joke in our industry is now moving vans go North, right? They go North with oranges, South with furniture.”

Peter Arvan, President and CEO, on Mar. 19, 2024:

“But those of you who’ve been tracking the company for quite some time have seen how Florida is closing the gap on California. California still has the largest installed base of pools, fact. But Florida is growing faster. Florida eventually is going to pass California ... as the population growth in Florida continues. Texas is a great market. Arizona is a great market. At one time, we used to say it was about 50% of our business. Now those four states make up about 54%.”

Advanced Drainage Systems

Advanced Drainage makes thermoplastic corrugated pipes and related water management products. These are essential products in civil, residential, and commercial construction.

Scott Barbour, President and CEO, on May 18, 2023:

“Non-residential and residential construction activity was resilient in areas like the Southeast Atlantic Coast and Southern United States, where we have focused resources over the last 5 years as a part of our key states sales strategy. The Northeast, Midwest and Western United States remain challenged.”

Roy Moore, Exec. VP, speaking on Mar. 10, 2022 as to why **Advanced Drainage** is advantaged with migration to the South:

“54% of all Infiltrator wastewater system sales are in the southern crescent of the U.S. So in the U.S., population is slowly migrating from urban to suburban and rural areas. We benefit from this migration trend with most of it occurring—most of the migration coming to the Southern crescent, where there is the higher septic utilization of 35%. [W]hen these folks leave one area at a lower utilization rate for septic systems and move into the southern crescent with a higher utilization rate, we benefit from that.”

Rollins, Inc.

Rollins is one of the largest companies that offers pest control services under a variety of brand names to residential and commercial customers. Pest control services are a necessity particularly in the South due to the higher heat and humidity (**Exhibit 22**).

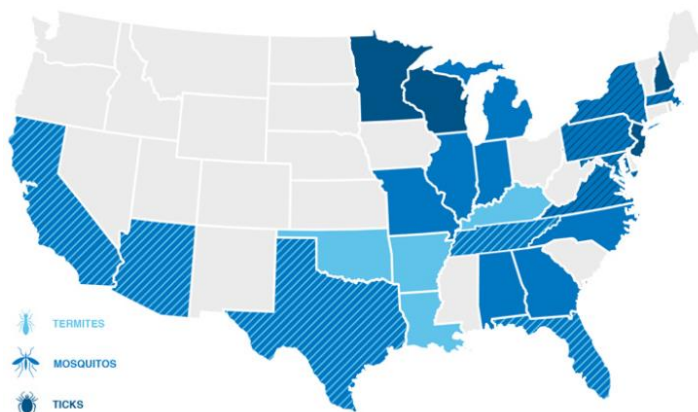
Kenneth Krause, CFO, on Sep. 19, 2023:

“So you don’t see much do-it-yourselfer risk with respect to pest control. [Y]ou talk about ... migration to warmer states, Florida, Texas, Tennessee, the Carolinas, Georgia, a lot of port states in very warm climates that are seeing a net positive migration with population.”

Kenneth Krause, CFO, again named migration as one of several positive trends for **Rollins** on Mar. 14, 2024:

“[Y]ou’ve got warmer climate, you’ve got southern migration, you’ve got do-it-yourself, to name three of many secular tailwinds that come together to give me confidence in our ability to see a market that continues to remain very healthy.”

Exhibit 22: Most common pests by state



“Pest control statistics 2024”, *Consumer Affairs*, March 8, 2024.
<https://bit.ly/3xknk5j>

Part III: Summary

For many reasons—pro-business policies, improved infrastructure, and a milder climate—the South has enjoyed strong economic growth. The region has absorbed a large population influx from 1) simply less fortunate states and 2) states with policies inimical to business growth and productivity. This trend has persisted for several decades, and it shows no signs of abating.

The long-term shift of businesses and people to the South has real implications for major industries at the national and regional level. Because of this, we believe it is important for investors to factor this major secular change into their analysis of industries and of specific companies.

A logical follow-up would be the implications for those regions hemorrhaging businesses and population, but that will be the topic of a subsequent paper.

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