SPECTRUM UPDATES

August 2025

Thank you for your continued trust and confidence. We would like to inform you that we recently made changes to the Liberty One Spectrum strategy.

Sell - Pfizer, Inc. (PFE)

Pfizer's (PFE) recent earnings show signs of stabilization, with Q2 revenue up 8% year-over-year ex-COVID, and the stock screens cheap on earnings and cash flow multiples. Their COVID franchise now also makes up less than 15% of overall revenue (down from 56% at its peak) and investors are beginning to look past the materiality of that franchise. That said, the primary case for staying invested in PFE would be for a reversion to the mean trade on valuation, not conviction in the underlying business model. That is not how we'd like to invest. We prefer durable businesses with compounding characteristics at fair prices.

Pharmaceuticals are inherently capital-intensive, requiring constant reinvestment to replenish drug pipelines as existing products lose exclusivity. Billions are deployed each year into R&D and M&A simply to offset patent cliffs. Unlike higher-quality compounders, this business doesn't build cumulative compounding advantages. They spend heavily simply to offset lost revenues. Additionally, the regulatory environment is becoming more hostile. The Inflation Reduction Act introduces Medicare price negotiations, reducing the long-tail profitability of blockbuster drugs. Approval hurdles remain high, while payer and political scrutiny further compress returns on capital. These are industry-wide risks, but we see PFE as structurally weaker in navigating them due to its reliance on acquisitions rather than internally developed innovation.

PFE has repeatedly leaned on M&A to fill its pipeline, rather than leading with organic R&D. Its R&D spend as a % of revenue (14-15%) lags key peers like Merck, Bristol Myers, Eli Lilly, and Roche (>20%) raising questions about the sustainability of its innovation engine. This approach introduces the risk of overpaying for external pipelines, often with disappointing outcomes. Their $5.4 billion and $11.4 billion acquisition of Global Blood Therapeutics and Array BioPharma in the last 5 years are key examples of acquisitions that did not live up to expectations, significantly eroding shareholder value.

PFE is also facing patent cliffs for several of their key drugs like Eliquis, Ibrance, Xtandi, and Xeljanz over the next 5 years. Together, these drugs make up 24% of PFE's current revenue base and are expected to increase to 30% of PFE's revenues. This would be approximately $17-18 billion worth of potential revenues lost annually between 2026 to 2028. Management touted that their recent acquisition of Seagen would add $10 billion of additional revenue by 2030, up from $3.4 billion currently. Still much of that revenue would be back-end loaded, not guaranteed, and would still fall relatively short to the loss of revenues from their existing drugs. This illustrates the continued challenge of pharmaceutical companies.

PFE's business is stabilizing ex-COVID, and the valuation looks inexpensive. But the structural realities of its business model: capital intensity, dependence on acquisitions, and regulatory headwinds limit its long-term compounding ability. In our

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opinion, this is not a business that fits our philosophy of owning companies with self-reinforcing competitive advantages at fair prices. Staying invested would be a bet on a temporary multiple rerating, not durable quality. We prefer to exit now and allocate capital toward businesses with stronger moats, better capital discipline, and more consistent long-term growth potential.

Sell - Clorox, Co. (CLX)

Clorox is a well-established household name with over a century of operating history, strong brand recognition, and a proven track record of consistent dividend growth. The company has long appealed as a low volatility, income-oriented stable investment. However, despite these strengths, we believe the investment case for Clorox has weakened considerably.

We acknowledge and continue to like their Health & Wellness segment leadership- where cleaning and hygiene products like bleach and Clorox wipes dominate. Secular tailwinds for the category remain as consumers and institutions have structurally elevated their standards of cleanliness and have shown a higher baseline demand for disinfecting wipes, sprays, and cleaners since the Covid pandemic. Net sales were +3% year over year in their last report, highlighting the only bright spot in what has been an overall weak Clorox portfolio performance. Other Clorox segments like Household (Glad trash bags, cat litter, grilling) and Lifestyle (Condiments, Brita water filtration, Burt's Bees) continue to face significant pressure without much innovation or differentiation to offset the weakness. Clorox's Health & Wellness segments make up 38% of their overall revenue while the other segments make up the remaining 62%.

Household categories like trash bags, wraps, cat litter, and charcoal face intense private label competition and are perceived as commodities with limited pricing power and low differentiation. With inflation being top of mind, retailers have been aggressively pushing private labels and maintaining price pressure on commodity-like categories. This resulted in Household net sales being significantly down -11% year over year, with earnings down -18% in their last earnings report. Consumers have not shown any momentum in switching back to more premium products like Glad or Kingsford Charcoal despite inflation abating over the last several quarters, further challenging Clorox's recovery efforts. Within their Lifestyle category, products have been losing relevance against newer, more innovative brands, and are competing in a mature and slow growing category. For example, Burt's Bees has stalled against beauty challengers that focus on cleaner, healthier, and more prestigious brands. Brita faces newer filtration competitors (ZeroWater, PUR) that offer new formats like subscription filter deliveries and reusable bottles. Smaller, digital-first competitors have also been able to capture consumer niches more quickly by leveraging the internet, social media, and influencer marketing. Consequently, we believe this significantly undermines Clorox's historical advantage of scale and retailer shelf space that used to contribute to their business moat.

The company's IGNITE strategy has delivered cost savings and margin stabilization (10 consecutive quarters of margin improvement) but has not addressed the structural issue of owning businesses in stagnant categories and weak product innovation (ex-Health and Wellness). Without meaningful innovation or portfolio reshaping, the core 62% of revenue in Household and Lifestyle segments are likely to remain challenged. We see limited growth prospects, intensifying competitive pressures, and changing consumer preferences that undermine Clorox's long-term value creation.

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Buy - McKesson Corp (MKC)

MCK is one of the world's largest pharmaceutical distributors, delivering medicines, medical products, and healthcare services across North America and Europe. The company plays a critical role in the U.S. healthcare system as one of three national drug distributors that together handle over 90% of the market. Its scale, distribution network, and embedded customer relationships make it an essential, recession-resilient business, where volumes are driven by demographics and innovation rather than consumer spending cycles.

We view MCK as a highly defensible, recession-resistant investment with strong secular tailwinds. Demographic trends such as an aging population, coupled with rapid drug innovation, point toward rising prescription volumes that directly benefit distributors. Unlike PBMs, distributors are currently under less political scrutiny, as regulatory and legislative attention is focused more on rebate practices and transparency. This regulatory positioning lowers headline risk and makes MCK's earnings profile relatively more predictable.

Central to our MCK thesis is that the company is increasing its focus on specialty distribution and oncology assets. Specialty medicines (eg: GLP-1 drugs) already account for more than half of U.S. drug spending and are expected to drive the majority of future growth. MCK is the leading distributor in this space, supported by complementary platforms like US Oncology Network (supporting over 2,000 oncologists) and Ontada (leveraging real-world data and tech to improve cancer care). Recent tuck-in acquisitions such as PRISM Vision (ophthalmology) and Core Ventures (oncology) further expand this specialty presence. Specialty distribution carries higher margins, stronger switching costs, and greater defensibility than traditional generics, giving MCK both earnings leverage and a moat as the market tilts increasingly toward these therapies.

MCK also continues to execute well. In FY 2025, the company generated $5.2 billion of free cash flow, returning $3.5 billion to shareholders through buybacks and dividends. ROIC consistently screens at the top of the peer group (24% vs 14% for Cencora and 12% for Cardinal), highlighting efficient capital deployment. The company also extended its distribution agreement with CVS Health through 2027 (continuing their 20+ years partnership), reinforcing stability with one of its largest customers, and secured the OptumRx contract beginning mid 2024 after Cardinal lost it, a major volume win. Both contracts provide visibility into future volumes and earnings durability.

MCK's moat is built on scale, infrastructure, compliance capabilities, and customer stickiness. Drug distribution in the US is an oligopoly, with significant barriers to entry due to capital intensity, regulatory oversight, and the complexity of handling controlled substances and specialty therapies. Beyond pure distribution, MCK's investment in adjacent markets like oncology networks, real-world data analytics, and prior-authorization/access solutions via CoverMyMeds raises switching costs and embeds it further into the healthcare ecosystem. This positions MCK not just as a low-margin distributor, but as an increasingly valuable partner in the specialty supply chain. Their scaled oligopoly business with secular growth drivers, industry-leading capital discipline, and high returns on invested capital makes the company an attractive compounder with durable, recession-resistant cash flows.

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Buy - Unilever PLC ADR (UL)

Staying within the Consumer Staples/ Household products category, we believe that Unilever (UL) is in a stronger and better position than CLX to capitalize on their continued momentum and growth trajectory. UL returned to balanced, volume-led growth and rebuilt their margin profile after years of stagnation. In FY 2024, sales grew by +4.2% (driven by volume +2.9%, price +1.3%), gross margin increased +280 basis points to 45.0%, and underlying operating margin increased +170 basis points to 18.4%. Cash generation stayed robust with $8.2 billion free cash flow and a 106% cash conversion rate, underscoring the quality of their earnings. Leverage finished the year at 1.9x net debt/EBITDA and their dividend looks well-covered and conservative relative to many staples peers that run similar leverage but with less visible cash conversion. The group also maintains large undrawn liquidity lines, preserving flexibility through economic uncertainty.

In the first half of 2025, Unilever kept outperforming in developed markets: Q2 sales growth was +3.8% (volume +1.8%, price +2.0%). Gross margin held at 45.7% while the company stepped up brand investment; the quarterly dividend rose 3% year-over-year and a $1.8 billion buyback was completed. Management is guiding the second half of 2025 for >18.5% operating margins and FY 2025 net sales growth of 3–5%.

The numbers illustrate UL's execution capabilities, and their strategy is working. Four consecutive quarters of >4% sales growth while improving margin is one of the best in the industry, outpacing gold standard Procter & Gamble's >2% organic growth pace. UL's growth in sales and margin expansion are powered by premium innovation and a heavier focus on the U.S. and Europe. The company is deliberately tilting into higher-margin adjacencies (wellbeing, prestige/premium personal care), simplifying lower-return assets (divesting their ice cream business in November 2025), and scaling marketing efforts (brand and marketing investment increased to 15.5% of sales, a decade high). These levers are translating into positive volume growth and share gains while peers in staples are still battling elasticity and category fatigue.

UL offers a clearer, higher-quality earnings stream backed by balanced growth (with volumes and price increases), rebuilt margins, strong free cash flow/dividend cover, and a sharper, more premium-skewed portfolio post ice cream divesture. In a mature category market, the company is simply executing better. Their increasing share with premium platforms and disciplined capital allocation gives us confidence that the company can achieve durable mid-single-digit organic sales growth, steady margin progression, and a reliable dividend growth trajectory from here.

If you have any questions, please don't hesitate to reach out to us. Thank you for your continued trust and confidence.

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