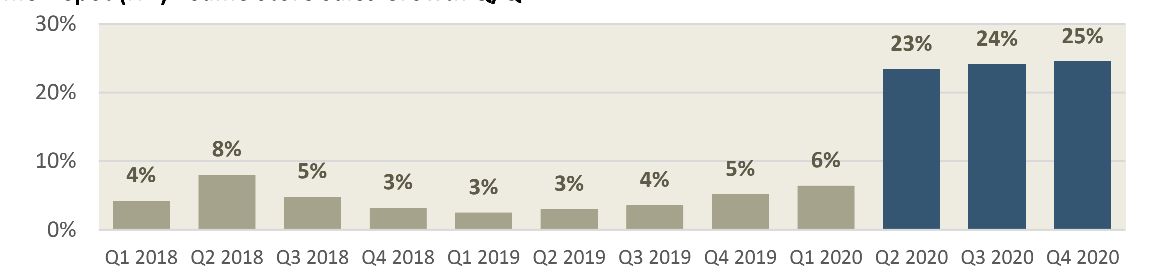
"Do not take yearly results too seriously. Instead, focus on four- or five-year averages."
- Warren Buffett

A fitting adjective for the last year could be "volatile": emotionally, politically, and, as it pertains to investors, financially and economically. While we are used to big swings in the stock market, we have never witnessed such rapid changes to the economy and the fundamental performance of businesses.

Consider results from a few of our portfolio companies in 2020, all a result of the pandemic:

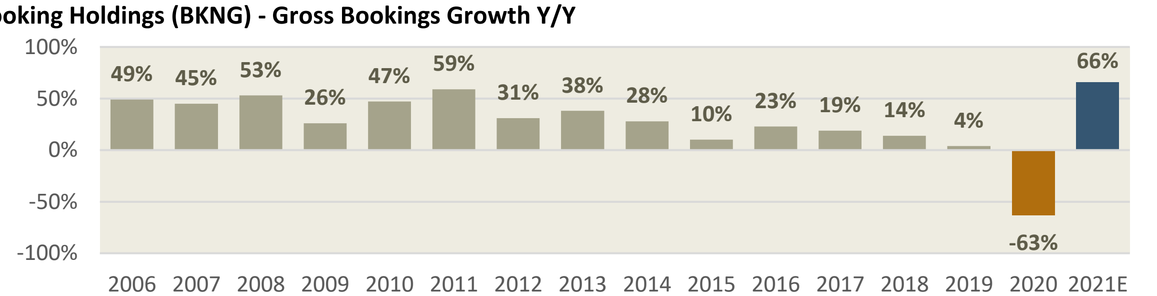
- After averaging 5% same-store sales (SSS) growth over the last 5 years, Home Depot (HD) reported more than 20% SSS growth during the last three quarters of 2020. HD had not generated 20% sales growth since the late 1990's when it had one-third the number of stores it has today.

Home Depot (HD) - Same Store Sales Growth Q/Q



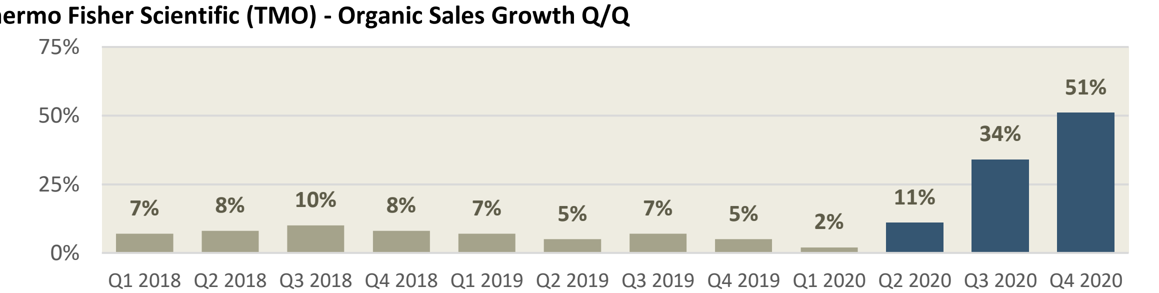
- In the past 15 years, Booking Holdings (BKNG) had never experienced a single quarter of negative growth in gross bookings. In the second quarter of 2020, gross bookings declined 91%; they were down 63% for the year, as the chart below shows.

Booking Holdings (BKNG) - Gross Bookings Growth Y/Y



- After averaging slightly more than 5% organic sales growth the past 5 years and never more than 10% in a single quarter, Thermo Fisher Scientific (TMO) reported 34% and 51% growth for the last two quarters of 2020.

Thermo Fisher Scientific (TMO) - Organic Sales Growth Q/Q



These are just a few of the seemingly endless number of unprecedented results brought upon by COVID-19. As vaccines become widespread, we will move to reopen the economy, schools, and society, lapping these once-in-a-lifetime results. While some of the results were positive, for much of the economy the results were painfully negative. Abnormal comparisons will lead to abnormal results, creating challenges for businesses and investors who need to weigh near-term performance gyrations against long-term potential.

Lapping COVID

Looking at the examples above, consider that if BKNG were to generate gross reservations at half the level of its second quarter of 2019, it would mean approximately 450% growth in this year's second quarter, a number as astonishing as the previous year's 91% decline. Beginning in the third quarter of this year, Wall Street expects TMO's sales, which received a tremendous boost from Covid tests and drug development products last year, to decline by 11% over the next twelve months, nearly three times the decline experienced during the Financial Crisis.

How should investors interpret these results? Is 450% bookings growth unassailably good? Is an 11% sales decline patently bad? We believe that the sheer magnitude, volatility, and anomaly of these numbers will render them less useful to long-term investment analysis. Investors will need to carefully interpret (or potentially misinterpret) these types of results through 2021 and beyond as companies operate through the aftermath of COVID-19.

Volatile Results, Volatile Stocks?

In more settled times, the market is known to overreact to even minor departures from expectations about business outcomes. How will it react now in the face of such extreme results brought upon by COVID-19 comparisons? We know that the market bottomed in late March 2020 before we had any idea about the severity of the virus, its death toll, the length of the global shutdown, etc. But after rising 79% through March 2021, it is unclear how the market will judge new incremental data points.

Part of the reason we think the next few months could be particularly interesting is that we have already experienced a significant rotation in the market's focus away from "COVID-beneficiaries" (i.e. Zoom Media, Peloton, Moderna, Teledoc, and Amazon), and toward "re-opening beneficiaries", particularly companies in the travel, leisure, financial, and industrial segments of the market. At this juncture, stock prices for many of these businesses have moved so far, so fast, that their prices may be getting ahead of themselves and the market may turn its attention back to the consistent growers that have moved out of favor. These factors, in combination with the year-over-year distortions we will see across the corporate landscape, seem likely to add to price movements in 2021. However, while unnerving to some, volatility can create opportunities for long-term investors.

Long-Term Focus

At Aureus, we believe a long-term focus is required to achieve superior investment results over time. We build conviction around the durability of a quality business and its long-term growth prospects. Those views are expressed in years, not quarters.

That was never more true than last year in the face of extraordinary dislocations across virtually every sector of the economy. We believe a similar approach will prove just as valuable in 2021 and beyond.