EMETH VALUE CAPITAL

TO: Investment Partners
FROM: Emeth Value Capital | emethvaluecapital.com
DATE: 07/20/2021
RE: 2021 H1 Letter

Annualized Net Returns to June 30, 2021 (unannualized if < 1 year, inception 12/31/2015)	Emeth Value Capital	MSCI ACWI Index	Delta
6 Months	+29.12	+12.34	+16.78
1 Year	+71.62	+39.32	+32.30
3 Years	+28.41	+14.65	+13.76
5 Years	+26.89	+14.70	+12.19
Since Inception	+24.29	+13.70	+10.59

Calendar Year Net Returns to June 30, 2021	Emeth Value Capital	MSCI ACWI Index	Delta
2016	+9.33	+8.39	+0.94
2017	+39.57	+24.35	+15.22
2018	-17.14	-9.12	-8.02
2019	+87.40	+26.59	+60.81
2020	+8.08	+16.33	-8.25
2021 YTD	+29.12	+12.34	+16.78
Cumulative Since Inception	+230.66	+102.65	+128.01

Foreword

I intend to share the updated results at the outset of each letter. It is worth reiterating that I ascribe little significance to short term results. I look out many years when making investments for the partnership and believe our results are best weighed using a similar time horizon.

Defining Success

Conventionally, two genres of investor return orientation exist within public markets, absolute return oriented and relative return oriented. While the former is commonly associated with hedged strategies seeking to reduce market volatility, I am referring here to investors operating with a benchmark agnostic framework. Necessarily, investment success, or lack thereof, has been viewed in light of one's return orientation. An eight percent annualized return may be highly satisfactory to an absolute return oriented investor but disappointing to a relative return oriented investor. Conversely, a relative return oriented investor may be satisfied with a negative real return, while this could not be the case for an absolute return oriented investor. Presuming sufficient time has elapsed to make an assessment that is signal heavy and noise light, a separate topic altogether, I believe both frameworks in isolation to be flawed. Investing itself is an inescapably relative exercise. An unconstrained fund manager is tasked with selecting a portfolio of assets among tens of thousands of possible candidates. The aim, while perhaps not explicitly considering the market index per se, is to weigh the merits of each asset and select those with the most compelling prospects. Therefore, if over a long period of time an investor continuously falls short of returns set by the market index, an imperfect broad amalgamation of equities, can this ever truly be considered a job well done? As Buffett noted in his 1960 letter to partners, "The important thing is to be beating par; a four on a par three hole is not as good as a five on a par five hole and it is unrealistic to assume we are not going to have our share of both par three's and par five's". Said differently, it would be of little use to be satisfied with a score of sixty-eight only to find that one had been playing a course with an inordinate amount of par three's. While a static figure is often used to approximate long term equity market returns, in other words "par," the truth is that this figure, measured even over very long time periods, has considerable variability. For example, consider the cumulative return by decade for the S&P 500 over the last one hundred years. These totals range between -9.2 percent in the 2000s and 487 percent in the 1950s which results in more than a twenty percent annualized delta. Examining further, we can calculate the rolling ten year returns of the S&P 500 measured at each year end and compare these figures against the long term market average. We find that 84.9 percent of the time annualized returns measured over ten year time frames fall more than 150 basis points away from the long term average and that 68.6 percent of the time they are more than 300 basis points away from the long term average. Lengthening our time horizon to twenty years provides further insight. At the outset, we can note that the range of annualized returns measured over twenty year time frames varies by a factor of nearly six fold, with the highest returning period yielding 17.9 percent and the lowest returning period yielding 3.1 percent. We then find that 80.3 percent of the time annualized returns measured over twenty year time frames fall more than 150 basis points away from the long term average and that 43.4 percent of the time they are more than 300 basis points away from the long term average. Finally, considering returns over thirty year rolling time periods, we still find that 37.9 percent of the time returns fall more than 150 basis points away from the long term average. In other words, the total money multiple differs by 6x or more 37.9 percent of the time when measuring over thirty year intervals. It appears evident that even when measuring results over exceedingly long time periods, context is required to define a job well done. On the other hand, while a fund manager's primary task is the assessment of opportunity cost, it is similarly illogical to make an investment solely on the basis that it is less bad than another. Indeed, sufficiently high absolute returns and a sound process are mutually inclusive for fundamental investors. In this sense, paradoxically, investing is also inescapably absolute. For example, assume a fund manager underwrites investments to an eighteen percent rate of return. If over a suitable time frame these investments prove to return only five percent, irrespective of the manager's relative performance, this is likely to be considered a failure of process. Therefore, when assessing the performance of our own partnership the analysis is not a question of either-or but of both-and. Our aim is to produce long term net returns, which are both attractive on an absolute basis and considerably higher than would have been achieved through investing in a broad market index. While any exact figure is to some extent arbitrary, I believe the higher of ten percent per annum or five percent per annum in excess of the broad market index to be an appropriate starting point. Below I highlight Sonae SGPS, one of our portfolio companies that I believe will handily best this hurdle.

Sonae SGPS

Overview

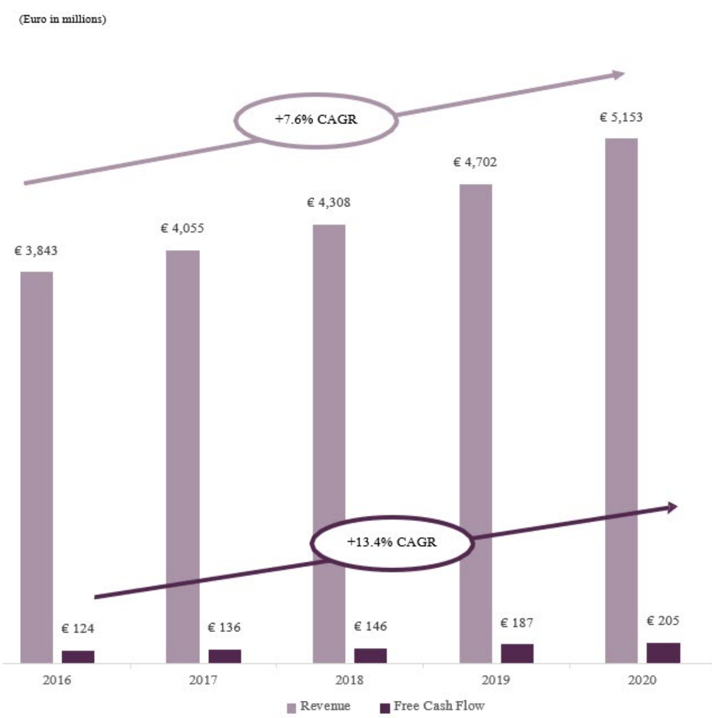
> *"It is clear to see what the future for Sonae will be: an unstoppable, insatiable, and unshakable quest for success based on innovation and sustainable growth. A journey of reinventing today's success to shape tomorrow's world. A journey always rooted in the same corporate responsibility values. A journey always seeking to create a long-living company." (Belmiro de Azevedo)*

Sonae SGPS is a Portuguese holding company that has been controlled by the Azevedo family since 1984. The company was established as an industrial manufacturer of wood panels but expanded rapidly in scope throughout the 1980s under the leadership of Belmiro de Azevedo. Belmiro, the late family patriarch, was a chemical engineer by training and was hired to Sonae in 1965. He became the CEO in 1967 at the age of twenty-nine and led the company through the political turmoil following the Carnation Revolution, which included several attempts to nationalize the company. Belmiro was born to a family of humble origins but became the richest man in Portugal after five decades of excellent capital allocation. Today, the Azevedo family maintains a fifty-three percent ownership stake in Sonae and Claudia Azevedo, Belmiro's daughter, leads the company as CEO. Sonae is currently the largest employer in Portugal and has built dominant positions in food retail, telecommunications, property development, sporting goods retail, electronics and appliances retail, financial services, and investment management. Over the last decade, Sonae has grown its adjusted net asset value at nine percent per annum.

Sonae MC

Sonae MC is the leading food retailer in Portugal and is a wholly owned subsidiary of Sonae. The group opened the first hypermarket in Portugal in 1985 and has strengthened its position following more than three decades of sustained growth. Sonae MC's foundational brand, Continente, holds a twenty-four percent market share in domestic food retail and has grown like-for-like sales three percent per annum over the last five years. Its largest competitor is Pingo Doce, which holds a twenty-two percent market share and is owned by Jeronimo Martins. Together, Continente and Pingo Doce account for almost half of the domestic food retail market and have been gaining share organically and inorganically. They are both approximately three times larger than the next competitors, which include Intermarche, Lidl, and Auchan. Notably, Continente's loyalty program is a global benchmark. There are approximately four million households in Portugal and eighty-five percent are active users of the Continente loyalty card. This is more than double the size of Pingo Doce's loyalty program Poupa Mais. Furthermore, Sonae MC is led by a highly experienced management team with a relentless focus on innovation and efficiency. This is evidenced by Continente's seventy percent market share in online grocery, its industry leading margins, and the recent launch of

Continente Labs, the first fully autonomous non-Amazon grocery store in Europe. In 2020, Sonae MC generated €5.1 billion in sales and €205 million in free cash flow. Of this, twenty-five percent of free cash flow was rent Sonae MC paid to itself on its portfolio of owned real estate assets. The group owns over 3.7 million square feet of real estate in prime urban locations which is conservatively worth €785 million using a seven percent cap rate and provides a geographical advantage that is difficult to replicate. Since 2010, Sonae MC has completed €721 million of sale leaseback transactions to decrease its percentage of owned real estate to forty percent currently. Finally, it is important to highlight that Sonae MC has several adjacent growth initiatives outside the core food retail segment. For example, the para-pharmacy sector has been identified as an underpenetrated strategic growth area. Sonae MC's primary brand, Well's, has grown its store count from 167 stores to 281 stores over the last five years with highly attractive like-for-like figures. In addition, the recent acquisition of Arenal provides Sonae MC with a para-pharmacy platform for growth in Northern Spain with the ability to leverage competencies across operators. In Portugal, Sonae MC holds a fifty-seven percent market share in the para-pharmacy market. Finally, other concepts that have witnessed strong traction include Zu, Sonae MC's specialist pet care and veterinary stores, and Dr. Well's, a modern chain of dental and aesthetic clinics.



NOS SGPS

Sonae owns a 33.34% stake in NOS, the second largest telecom operator in Portugal. In 2013, the company was formed through the merger of Optimus, a mobile operator formerly controlled by Sonae, and ZON, previously the largest Pay TV provider in Portugal. The merger delivered significant cost synergies and allowed the combined entity to upgrade its converged multiple play offerings that demonstrate structurally lower churn and have witnessed growing market penetration. The former CEO of Optimus, Miguel Almeida, has led NOS since its inception and has held executive positions within Sonae since 1996. Today, the

Portuguese telecom market is one of the most advanced in Europe marked by extensive ultra-high capacity network coverage, sophisticated offerings, and affordable consumer pricing. Eighty-nine percent of households in Portugal have access to gigabit speed networks and a 3P bundle with nearly two hundred premium channels, and a 500Mbps internet connection cost less than forty euros per month. This is both substantially cheaper than the EU average and the United States. In addition, unlike most developed economies, traditional TV viewing hours in Portugal remains relatively stable. This is largely because there are only four free to air TV channels in Portugal and Pay TV that includes premium sports channels costs less than five euros per month on a stand-alone basis. In this context, NOS has aimed to position its UMA TV interface as the best curator of linear and non-linear multi source content. On balance, the Portuguese telecom market is dominated by three operators, Altice, NOS, and Vodafone. In 2015, Altice acquired Portugal Telecom for €7.4 billion and remains the largest operator with a thirty-nine percent market share. Today, NOS holds a thirty-three percent market share, which has increased steadily over recent years. In 2020, NOS generated €1.37 billion in revenue and €177 million in free cash flow from its core telecom operations. Therefore, at a multiple of fifteen times free cash flow, Sonae's ownership stake in NOS would be valued at €885 million. However, NOS is also a publicly listed company with a quoted equity value of €1.54 billion at mid year (€2.3 billion enterprise value). Open market rates, which I believe are significantly underpriced, value Sonae's ownership in NOS at €514 million. Finally, NOS is the market leading Cinema operator in Portugal with a sixty-one percent market share. Prior to the global pandemic, the Cinema division had displayed steadily increasing profits with €56 million in annual EBITDA.

	2016	2017	2018	2019	2020
Telco PnL (Euro Millions)					
EBITDA	501.7	526.4	567.2	583.9	573.6
Telco KPI ('000)					
Homes Passed	3,763.9	4,084.2	4,394.5	4,612.6	4,806.7
% Fiber	*15.0%*	*17.0%*	*27.0%*	*31.9%*	*39.5%*
Broadband Subs	1,264.6	1,333.1	1,379.1	1,414.3	1,457.6
Pay TV Subs	1,600.6	1,616.6	1,623.3	1,638.7	1,657.1
Mobile Subs	4,455.7	4,672.9	4,767.7	4,851.1	5,037.7
% Convergent	*45.8%*	*47.4%*	*57.9%*	*59.8%*	*61.7%*
Cinema PnL (Euro Millions)					
EBITDA	50.1	49.0	55.1	56.0	29.6
Cinema KPI ('000)					
Tickets Sold	9,096.9	9,450.6	8,889.1	9,269.4	2,310.4
Market Share %	*61.0%*	*60.5%*	*60.5%*	*59.6%*	*61.2%*

Sonae Sierra

Incorporated in Portugal in 1989, Sonae Sierra is a joint venture owned eighty percent by Sonae and twenty percent by Grosvenor that specializes in the investment, development, and management of shopping centers. The group owns or co-owns fifty-two shopping centers in Portugal, Spain, Greece, Romania, Italy, and Brazil consisting of more than twelve million lettable square feet. These well located properties receive in excess of 450 million visitors per annum, boast occupancy rates in excess of ninety-six percent, and have produced attractive like-for-like tenant sales. Notably, the geographies in which Sonae Sierra operates present materially different market dynamics than those of western economies. For instance, in Portugal ecommerce penetration is less than five percent of total retail sales, there is eighty percent less retail square footage per capita as compared to the United States, and shopping centers have zero exposure to department store formats. In addition, Amazon does not have a Portuguese website and does not have any domestic warehouses. While consumers in Portugal can order from Amazon's Spain website, the language is in Spanish not Portuguese. At year end 2020, an independent assessment by Cushman & Wakefield valued Sonae Sierra's portfolio at €902 million with a conservative twenty-six percent loan to value ratio. Furthermore, Sonae Sierra has a robust services offering, which includes development services, property management, and investment management. In the last two years, the group has set its focus on growing these capital light segments and plans to leverage its development expertise to expand into urban regeneration and mixed-use projects. Sonae Sierra's development arm, recently rebranded Reify, has 200 professionals with extensive expertise in architecture, engineering, development, project management, and licensing who have worked on over 300 projects in more than thirty countries combined. These projects span multiple sectors including retail, hospitality, healthcare, office, residential, student housing, education, and mixed-use. The group also has a particular expertise in sustainable development having received the highest GRESB rating, the leading ESG benchmark for real assets, for ten consecutive years. Within property management, Sonae Sierra manages fifty-eight shopping centers on behalf of third parties, which is an increase of almost three fold over the past three years. These services include property leasing, operations, administration, and marketing. With over thirty years of experience, Sonae Sierra is able to attract the best tenants and brands to a retail asset, advise on the design of captivating spaces, develop a data driven tenant mix strategy, and continuously future proof an asset. Finally, Sonae Sierra manages over €1.5 billion in third party investor capital through a mix of joint ventures, private fund structures, and listed investment companies. The group has built a strong track record and aims to strengthen its position as an institutional investment management company over the coming years. This is a segment that carries attractive economics, is highly scalable, and is in high investor demand. In aggregate, the services division generates approximately €70 million in revenue and €15 million in EBIT.

Iberian Sports Retail Group (ISRG)

In 2018, Sonae established a partnership with JD Sports to create the Iberian Sports Retail Group (ISRG), the second largest sports retailer in Iberia with an estimated eleven percent market share. The company was formed through the merger of Sport Zone, the largest sporting goods retailer in Portugal formerly controlled by Sonae, and the Iberian subsidiaries of JD Sports, Sprinter, and Size?. Sonae owns thirty percent of ISRG with the remainder held by JD Sports and the founders of Sprinter. The transaction was highly accretive and allowed Sonae to increase its exposure to the sports lifestyle and fashion segments, develop stronger relationships with the major brands, and define a clear growth path in Spain. In addition, the combined entity has achieved significant cost synergies, benefited from leveraging expertise and know-how across operators, and allowed the group to effectively segment store formats. Today, ISRG has a combined 361 stores, of which approximately half are Sprinter, one quarter are JD Sports, and one quarter are Sport Zone. The group generates approximately €700 million in revenue with eleven percent EBITDA margins, which reflects strong absolute and like-for-like growth and a three fold increase in profitability. The primary competitor in the Iberian market is Decathlon, which has €2 billion in sales and has been a consistent share donor to ISRG. Sonae targets €1 billion in sales and 500 stores in the medium term for ISRG.

Worten

Worten is the leading electronics and appliances retailer in Portugal and is a wholly owned subsidiary of Sonae. The group was founded as the appliances department within Continente but spun-off as an independent company in 1996. Today, Worten has a dominant thirty-seven percent market share in consumer electronics and appliances in Portugal, almost double its nearest competitor, fnac, and generates over €1.1 billion in revenue across more than two hundred stores. Remarkably, the group has delivered online sales growth of fifty percent per annum over the last five years underpinned by the recent launch of the Worten marketplace. This platform allows the group to expand its product offerings in a capital light fashion, increase customer transaction frequency and convenience, and ultimately transition from a physical electronics retailer to a broad omnichannel platform. Notably, the Worten marketplace platform is a highly attractive proposition for resellers. Portugal is a significantly underpenetrated ecommerce market, fifty percent of the Portuguese population shops at Worten each year, and Worten.pt is the most visited ecommerce website in Portugal. In fact, with two million unique monthly visitors, or approximately twenty percent of the Portuguese population monthly, Worten.pt has over three times the domestic traffic as Amazon. In addition, resellers benefit from Worten's expansive store network, which is enabled to sell third-party products, provide return logistics, and offer post-sale services. In two years, the Worten marketplace has attracted over one thousand resellers and accounts for twenty percent of total online sales at Worten. In 2020, Worten generated €73.9 million in EBITDA, which increased seventeen percent per annum over the last five years.

Sonae IM

Sonae IM is the corporate venturing arm of Sonae that invests in sectors where the group has decades of practical experience. These areas of focus include retail technology, cyber security, and digital infrastructure. The core team is nine investment professionals with an additional three investment professionals dedicated to Sonae IM's studio builder, Bright Pixel. The group has assembled a world class track record supported by the unique ability to leverage the broader Sonae organization as a customer and expert advisor on product strategy. Over the past five years, Sonae IM has deployed €125 million across thirty-nine portfolio companies, which have produced €115 million in partial exits and have a continuing net asset value of €275 million. Approximately eighty percent of the total portfolio value consists of holdings in four companies, which are Outsystems, Feedzai, Arctic Wolf, and Maxive Cybersecurity. As of December 2020, Sonae IM held a €77 million position in Outsystems, one of the fastest growing low-code application development platforms. The investment was held at a 12.5x revenue multiple, which would indicate a valuation of roughly $3.9 billion. On February 17, 2021, Tiger Global and Abdiel Capital led a $150 million Series E that valued Outsystems at $9.5 billion, a significant increase over Sonae IM's internal marks and a nearly seven fold increase over the Series D. While Sonae IM does not plan to write up its investment given the small dollar amount of the financing round, doing so would lead to €100 million or more in gains. In addition, Sonae IM holds a €27 million position in Feedzai, one of the leading AI fraud detection platforms for financial institutions. Sonae IM has its investment marked based on the latest transaction occurring in early 2019 when Feedzai had raised a modest amount of capital with no blue-chip investors in the capital stack. On March 24, 2021, KKR led a $200 million Series D that valued Feedzai at well over $1 billion. While we don't know Sonae's exact ownership percentage, this is likely to generate considerable gains. As of December 2020, Sonae IM held a €46 million position in Arctic Wolf, one of the fastest growing managed cybersecurity providers. Prior to year end 2020 on October 22, Viking Global led a $200 million Series E that valued Arctic Wolf at $1.3 billion and created a nearly one hundred percent write-up for Sonae IM. In May 2021, Sonae IM sold half of its position in Arctic Wolf for additional fifty percent premium on the Series E that delivered a €36 million partial exit. Finally, Sonae IM holds a controlling position in Maxive Cybersecurity, one of the largest managed cybersecurity providers in Europe. The company was built through acquiring four providers across Iberia and the Benelux, and Sonae IM intends to continue its bolt-on strategy in this highly fragmented market. Today, Maxive Cybersecurity is growing double digits organically and has over €60 million in revenue. Sonae IM holds the investment at a discount to market comparables such as F-Secure and NCC Group.

Other Segments

Sonae also has several non-core segments, two of which include Sonae Fashion and Sonae Financial Services. Sonae Fashion is a portfolio of four retail brands (Salsa, MO, Zippy, and Losan) that produce almost €400 million in revenue across more than 5,000 points of sale. The group has achieved profitable growth and is led by executives with prior experience at internationally recognized fashion retailers such as Zara, Farfetch, Cortefiel, and Tommy Hilfiger. Sonae Financial Services is the youngest operating division at Sonae, which successfully leveraged the group's brand to create a digitally native financial services platform. Sonae Financial Services' core product is the Universo card, which has become the second largest credit card issued in Portugal in less than five years. Universo offers innovative features such as native installment options, multiband loyalty, and instant transfers, and it is the number one ranked credit card in Portugal by net promoter score. Finally, Sonae has leveraged the success of Universo to build a broader financial ecosystem that includes personal loans, insurance, and POS terminals. The group has witnessed strong growth and currently produces almost €40 million in revenue and €10 million in EBITDA.

A Culture of Capital Allocation

As a holding company with numerous outlets for deployment, fostering a culture of capital allocation is essential to sustaining long term intrinsic value growth. In this respect, Sonae has both a celebrated history of intelligent capital allocation and is well positioned to continue its tradition under the leadership of Claudia Azevedo. Prior to being named CEO in 2019, Claudia led Sonae IM for the previous eighteen years, where she interfaced with many of the world's most impressive entrepreneurs while building a top decile track record in venture capital. In essence, the entirety of Claudia's prior role was focused on effective capital allocation and innovation. As a result, there are several instances over the last five years where active management at the holding company level has been highly accretive. Some examples include the formation of Sierra Prime, the opportunistic purchase of an additional seven percent stake in NOS, the closure of Worten Spain, and the formation of the Iberian Sports Retail Group. In February 2020, Sonae Sierra sold half of its ownership in six flagship Iberian shopping centers by creating the Sierra Prime joint venture with Allianz, Elo, and APG. The transaction generated €262 million in proceeds for Sonae Sierra, of which €73 million were gains, and allowed the group to retain its position as property manager and become the investment manager of the enlarged group. Funded in part by these proceeds, in August 2020 Sonae purchased an additional 7.38 percent stake in NOS at a forty percent discount to the previous year's high. This transaction allowed Sonae to secure a controlling position in NOS at a compelling valuation. On a different note, in early 2021 Sonae decided to close all of its physical Worten locations in Spain. Unlike its dominant position in Portugal, Worten was the challenger brand in Spain and failed to achieve the required economics after several years of iteration. Finally, 2021 marks the fourth year since the creation of the Iberian Sports Retail Group. The transaction aligned Sonae with a globally leading sporting goods retailer, increased its exposure to the high growth categories of sports lifestyle and sports fashion, and more than tripled group profitability since inception.

Valuation

For many value investors, "sum-of-the-parts" is a dirty four [word] word. What on paper can appear to be a sure bargain can endure years of apathy from Mr. Market. Then, too often, investors find that not only has the discount not closed several years later, but intrinsic value per share growth has been nil. Mr. Market, it appears, is not always as dumb as he looks. The value of any company is a function of the *free cash flow* it will produce for its *shareholders*. A company with a stagnant intrinsic value mathematically has either (a) no free cash flow or (b) is reinvesting its free cash flow at a zero percent rate of return. Along those lines, if management continues to incinerate shareholder capital through operational incompetence and poor capital allocation, the securities of the company are either worth less or, perhaps, worthless. As Monish Pabrai has noted before, "There is no such thing as a value trap. There are investing mistakes." On the other hand, the rare holding company endowed with an aligned and gifted capital allocator inevitably proves to be worth multiples of its simple sum-of-the-parts. At the risk of being cliché, witness Berkshire Hathaway. I present the analysis below with the full confidence that Sonae falls into the latter bucket, where a sum-of-the-parts estimate likely understates the intrinsic value of the whole. We can assess various operating scenarios for each unit of the company to come up with a range of intrinsic values. The analysis below indicates a base case scenario of €1.93 per share, or 140.9 percent upside to intrinsic value. In addition, the bear case equates roughly to a return of principal, while the bull case indicates a fair value of €2.63, or a more than tripling of the €0.80 share price at mid year. Finally, it is worth noting that at €0.80 per share Sonae trades at a 6.4 percent dividend yield which it has committed to growing at five percent per annum.

	BEAR (€ M)	BASE (€ M)	BULL (€ M)
(a) Sonae MC (Retail)	1,500.00	1,800.00	2,100.00
(b) Sonae MC (Properties)	687.50	785.71	916.67
(c) NOS	499.50	649.35	909.09
(d) Sonae Sierra (Properties)	502.32	645.84	717.60
(e) Sonae Sierra (Services)	120.00	144.00	168.00
(f) Sonae IM	173.25	247.50	371.25
(g) ISRG	120.00	192.00	288.00
(h) Worten	150.00	300.00	525.00
(i) Sonae Fashion	-	70.00	140.00
(j) Sonae Financial Services	-	100.00	200.00
HoldCo Opex	(120.00)	(120.00)	(120.00)
HoldCo Net Debt	(960.00)	(960.00)	(960.00)
Contingent Tax Liabilities	(1,000.00)	-	-
NAV	1,672.57	3,854.40	5,255.61
Upside to IV	*4.5%*	*140.9%*	*228.5%*

KEY INPUTS

BEAR

*(a) Free Cash Flow at 10x multiple / (b) Net Operating Income at 8% Cap Rate / (c) €1.5bn market cap * 33.3% ownership / (d) €897mn NAV * 70% adjustment * 80% ownership / (e) EBIT at 10x multiple * 80% ownership / (f) €275mn NAV * 70% adjustment * 90% ownership / (g) EBITDA at 5x multiple * 30% ownership / (h) EBITDA at 2x multiple / (i) write-off / (j) write-off*

BASE

*(a) Free Cash Flow at 12x multiple / (b) Net Operating Income at 7% Cap Rate / (c) Free Cash Flow at 10x multiple * 33.3% ownership / (d) €897mn NAV * 90% adjustment * 80% ownership / (e) EBIT at 12x multiple * 80% ownership / (f) €275mn NAV * 90% ownership / (g) EBITDA at 8x multiple * 30% ownership / (h) EBITDA at 4x multiple / (i) EBITDA at 2x multiple / (j) EBITDA at 10x multiple*

BULL

*(a) Free Cash Flow at 14x multiple / (b) Net Operating Income at 6% Cap Rate / (c) Free Cash Flow at 14x multiple * 33.3% ownership / (d) €897mn NAV * 80% ownership / (e) EBIT at 14x multiple * 80% ownership / (f) €275mn NAV * 150% adjustment * 90% ownership / (g) EBITDA at 12x multiple * 30% ownership / (h) EBITDA at 7x multiple / (i) EBITDA at 4x multiple / (j) EBITDA at 20x multiple*

Risks

While Sonae is conservatively leveraged, it has material risk in the form of contingent tax liabilities. These tax claims approximate €1.1 billion and are a result of a dispute with the Portuguese tax authority regarding appropriate VAT treatment for the Continente loyalty program and supplier discounts. When a customer shops at Continente using their loyalty card, they accumulate reward points that can be redeemed on a future purchase. Portuguese tax authorities claim that the company should pay VAT on the undiscounted value of goods when a sale is made, while Sonae holds that VAT is owed when reward points are redeemed. The liability arises in that different product categories have different VAT rates varying from twenty-three percent to six percent. As non-essential items with higher VAT rates are more frequently and heavily discounted, a difference in tax payable arises. Notably, Tesco successfully defended itself from a similar dispute with HMRC in 2017 with respect to its Tesco Clubcard. Regarding supplier discounts, the Portuguese tax authority argues that Sonae should have invoiced VAT related to volume based rebates granted by suppliers. In this instance, case law on VAT pertaining to contingent discounts appears rather clear. For example, Kumon Education successfully defended itself from a similar dispute with HMRC in 2015. These uncertain tax positions have been recognized by Sonae for over seven years and are currently being disputed in tax courts. The disclosed liability is not recognized on the financial statements, but rather as a footnote, as both Sonae and its auditor PwC believe the probability of payment is low.

Conclusion

While we own a collection of outstanding businesses, our strongest asset remains the quality of our investor base. The central activity of our partnership is predicated on the notion that quoted prices and the fundamental reality of a business can diverge and, sometimes, materially. Our portfolio companies are not immune to this dynamic. At times we will appear foolish. However, our ability to focus on the elements that we deem relevant over our own time horizon, rather than the need to speculate on those of others, will prove to be an immeasurable competitive advantage. As always, I am happy to speak with you at length about any of our companies, and I remain grateful for your trust and partnership.

Appendix A: Realized Investments

Ticker	Company	IRR*	MSCI ACWI	Delta
-	-	94.69%	17.29%	77.39%
-	-	3.19%	13.84%	-10.65%
-	-	46.07%	14.10%	31.96%
-	-	37.70%	17.21%	20.49%
-	-	3.29%	8.86%	-5.57%
-	-	28.08%	14.16%	13.92%
-	-	10.00%	2.09%	7.91%
-	-	38.91%	21.19%	17.72%
-	-	20.01%	14.81%	5.20%
-	-	27.84%	17.45%	10.40%
-	-	29.94%	14.95%	14.99%
-	-	18.71%	16.74%	1.97%
-	-	37.17%	15.28%	21.89%
-	-	42.56%	-2.85%	45.41%
-	-	93.23%	3.95%	89.28%
-	-	25.79%	5.39%	20.40%
-	-	152.89%	8.50%	144.39%
-	-	30.52%	6.80%	23.72%
-	-	-45.74%	6.17%	-51.91%
-	-	-27.90%	8.14%	-36.04%
-	-	52.40%	12.64%	39.75%
-	-	1.79%	-9.64%	11.43%
-	-	-27.62%	0.00%	-27.62%
-	-	-47.93%	0.00%	-47.93%
-	-	-23.85%	-5.67%	-18.18%
-	-	7.17%	-6.36%	13.53%
-	-	-14.32%	27.25%	-41.58%
-	-	67.27%	33.60%	33.67%
	Average	24.35%	9.85%	14.50%

**Table above reflects the IRR of realized portfolio investments (unannualized if < 1 Year), and the equivalent IRR that would have been achieved had each invested dollar been allocated to MSCI ACWI.*

*** Full Disclosure Available Upon Request*

Appendix B: Unrealized Investments

Ticker	Company	IRR*	MSCI ACWI	Delta
-	-	28.77%	20.76%	8.01%
-	-	120.48%	43.32%	77.15%
-	-	14.98%	9.65%	5.33%
-	-	67.05%	22.99%	44.05%
-	-	47.31%	15.81%	31.50%
-	-	-34.85%	6.97%	-41.82%
-	-	25.51%	3.03%	22.47%
-	-	70.88%	24.31%	46.57%
-	-	1.29%	-0.91%	2.19%

**Table above reflects the IRR of unrealized portfolio investments (unannualized if < 1 Year), and the equivalent IRR that would have been achieved to date had each invested dollar been allocated to MSCI ACWI.*

*** Full Disclosure Available Upon Request*

Disclosures

Investment in Emeth Value Capital are subject to risk, including the risk of permanent loss. Emeth Value Capital's strategy may experience greater volatility and drawdowns than market indexes. An investment in Emeth Value Capital is not intended to be a complete investment program and is not intended for short term investment. Before investing, potential clients should carefully evaluate their financial situation and their ability to tolerate volatility. Emeth Value Capital, LLC believes the figures, calculations and statistics included in this letter to be correct but provides no warranty against errors in calculation or transcription. Emeth Value Capital, LLC is a Registered Investment Advisor. This communication does not constitute a recommendation to buy, sell, or hold any investment securities.

Performance Notes

Net performance figures are for a typical client under the standard fee arrangement. Returns for clients' capital accounts may vary depending on individual fee arrangements. Net performance figures for Emeth Value Capital, LLC are reported net of all trading expenses, management fees, and performance incentive fees. Reported returns prior to January 1st, 2021 reflect the personal account performance of Emeth Value Capital, LLC's sole managing member, and therefore represent related performance. All performance figures are unaudited and are subject to change.

Contact

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