Second Quarter 2025 Investor Letter

June 30th, 2025

Dear Fellow Investors,

We have now concluded our first full quarter as manager of your funds. We wanted to give you a brief update on how things have developed and a quick summary regarding one of our investments.

Going forward, we will provide you with a short letter after the end of each calendar quarter. In each we will give you a very short summary of macroeconomic developments relevant to your portfolio. In addition, we will also cover one investment or company we think you may find interesting. Finally, we will summarize the performance attribution of your portfolio. Our ambition is to keep the quarterly letter short, relevant and informative. It should take no more than 30 minutes to read, but give you a holistic sense of how your capital is being managed. We know your time is precious, and as with your capital, we endeavor to never use it unwisely.

One exception to this shall be a longer and more thoughtful annual letter, which you shall receive in January every year. There we will describe some broader themes and share more about our investing approach, its rationale and the philosophy behind it. In addition, as this is our first correspondence with you, we have made this initial letter a little longer than future quarterly reports will ordinarily be.

Portfolio Results and Attribution

GROSS RETURNS	Q2 2025[1]	SINCE INCEPTION[2]
MAAT PORTFOLIO	11.32%	10.02%
EUROSTOXX 600 (TR)	3.34%	0.19%

1 Through 30th June 2025
2 Inception Date 26th Feb 2025

Since inception, the portfolio has returned 10.02% in base currency. Kambi Group Plc was the biggest winner in the quarter with a total return of 29.63% while TeamViewer AG was the biggest loser with total return of -19.81%. The remaining positions were roughly flat. In the case of TeamViewer, the shares tumbled on market fears of a near-term slowdown in earnings. This presents an opportunity for the patient investor with a longer time horizon such as Maat. The sell-off allowed us to add to the position on your behalf at extremely attractive prices.

Macroeconomic developments

We are not macro investors at Maat. However, as fundamental investors who are mindful of path risk, one cannot ignore major macro events. Our first quarter managing your money was anything but dull in that regard. Considering the events that transpired, we would be remiss not to make short mention of them.

The second quarter of 2025 was one of the most paradoxical we have experienced over the past quarter century. In less than 3 months, we experienced several severe geopolitical and economic shocks:

- Trump's Tariff 'Liberation Day' on April 2nd,
- Escalating war between Ukraine and Russia, and
- The US-Israel-Iran 12-day war

In the past, any one of these may have caused serious extended market volatility. The confluence of all three in such a brief period was remarkable to behold and difficult to contend with.

However, you would not think it when comparing how markets performed from the end of Q1 to the end of Q2. Over the period the S&P gained 4.2%, the Nasdaq 8.1%, the German DAX 6.0% and the Swedish OMX lost 8.5%. We are always wary of relying on any point estimate, or generic average when analyzing a situation. After all, although each of us were born and raised in different parts of the world it seems our parents all taught us the same lesson: It is possible to drown as a 6ft man crossing a river that is on ***average*** 2ft deep. This quarter in financial markets demonstrated a similar principle. With the exception of the OMX, the quarterly move in indices look benign and positive.

Foreign Exchange	Region	2/28/2025 End of Q1	4/8/2025 Interim Low	6/30/2025 End of Q2	March to July	March to April 8th	April 8th to July	Range
					Percentage Change %			
USD/EUR		1.040	1.091	1.174	**12.9%**	4.9%	8.0%	
USD/GBP		1.258	1.276	1.370	**8.9%**	1.4%	7.5%	
EUR/SEK		0.090	0.091	0.090	**0.0%**	2.1%	-2.2%	
Bond Markets					Change in Yield (bps)			
US 2yr Treasury	US	3.990	3.710	3.720	**(27.0)**	(28.0)	1.0	**29.0**
US 10yr Treasury	US	4.240	4.260	4.240	**-**	2.0	(2.0)	**(4.0)**
US 2-10 yr spread	US	0.250	0.550	0.520	**27.0**	30.0	(3.0)	**(33.0)**
German 10yr Bund	EU	2.390	2.621	2.595	**20.5**	23.1	(2.6)	**(25.7)**
Stock Indices					Percentage Change %			
S&P 500	US	5,955	4,983	6,205	**4.2%**	-16.3%	20.5%	**36.8%**
Nasdaq	US	18,847	15,268	20,370	**8.1%**	-19.0%	27.1%	**46.1%**
DAX	Germany	22,551	20,280	23,910	**6.0%**	-10.1%	16.1%	**26.2%**
OMX 30	Sweden	2,725	2,237	2,493	**-8.5%**	-17.9%	9.4%	**27.3%**
FTSE 250	UK	20,326	18,349	21,626	**6.4%**	-9.7%	16.1%	**25.8%**

Yet, if you look under the cover at how things transpired, and it is clear how wild market gyrations were. The environment went from calm, to panic, to euphoria in a few heady weeks. The 4.2% return for the S&P disguises a range in value over the period of 36.8%. For the Nasdaq that range was 46.1%.

This had echoes of the market experience of 2020:

Foreign Exchange	Region		12/30/2019	3/19/2020	12/30/2020	FY 2020	December '19 to March '20	March '20 to December '20	
			2019	Yearly Low	2020	Percentage Change %			Range
S&P 500	US		3,221	2,409	3,732	**15.9%**	-25.2%	41.1%	**66.3%**
Nasdaq	US		8,946	7,151	12,870	**43.9%**	-20.1%	63.9%	**84.0%**
DAX	Germany		13,249	8,610	13,719	**3.5%**	-35.0%	38.6%	**73.6%**

Perhaps most surprising about this episode is how sanguine markets ended up. While a tentative cease-fire is in place between Israel and Iran, risks there remain incredibly high.

As for the Russia / Ukraine war, it appears to be worsening rather than improving. Finally, with respect to the trade war unleashed by the Trump administration on 'Liberation Day' nothing, as of the time of our writing, has been resolved. We are still in temporary and arbitrary probation periods.

Considering this, one must remain concerned about valuations in general, and in the US in particular. Credit markets are also priced for perfection. One can rarely identify what may destabilize credit markets, but when they do get fearful, all other risk markets tend to follow. Though we don't trade these markets actively, we do have experience with them and monitor them.

As it pertains to your investment, we remain vigilant about any potential direct or indirect impacts your portfolio companies may be exposed to. The full weight of tariff impacts tend to come with a lag, both for the economy and for a business. We have been focused on this risk since we founded Maat, and none of your investments have a major direct exposure. Some have a minor secondary exposure, but this is moderate in each instance, and sizing reflects and incorporates that risk.

Overall, in our internal discussions around capital allocation, which we have regularly, we have found ourselves torn at times. The concerns we outline above about markets in general, and valuations overall are clear and present. This would warrant great caution. Or for a simple analogy – it would suggest that the water is dangerous to swim in. Not so dangerous that you cannot enter, but sufficient that only strong swimmers with experience should dare to try.

In our case, we remain close to fully invested. Not because we are ignorant or dismissive of the risks, but rather because we have a portfolio we believe to be incredibly cheap that should deliver outstanding returns over the coming 2-4 years, regardless of what transpires with markets in the coming 6 – 18 months.

Is it wise to forego investing in an asset with an expected 20% IRR over 4 years, with little intrinsic value risk (i.e. risk of a loss at the end of the period) in the hope you can wait and enter at a lower price, and perhaps 25% IRR 3 – 6 months from now? We think not.

Of course, it would be a very different story if we were looking at investments with prospective IRR's of say 5% - 8%. It is the 20% IRR opportunities we are fortunate to have available to us today. In our experience, a portfolio of several such opportunities is a rare and fortuitous event and not one we would risk missing for you.

To that end, you will find that despite us running a remarkably concentrated portfolio, by conventional or any standards, the drawdown was considerably less than the broader benchmarks. Which is even more unusual when you ponder that all are in Small & Mid-caps.

We aren't macro investors, but nor are we so arrogant to believe we can ignore how macro affects all investors and the path risk that comes with it. Feel assured we always have these issues in the back of our mind. But this will never stop us from capitalizing on great investments when we find them.

Investment case study – Mayr Melnhof:

Mayr-Melnhof Karton AG (MMK) is a family controlled mid-cap Austrian company that has been around for 137 years. It has been operating successfully as a leading global producer of cartonboard and folding carton packaging from the 1950's. It slowly but steadily built market leading positions in Europe in recycled cartonboard (#1 in Europe for 40 years) and packaging in the time since. The company operates two synergistic divisions:

- MM Board & Paper (cartonboard and paper production), and
- MM Packaging (conversion of cartonboard into folding cartons).

MMK's Board & Paper unit is the largest cartonboard producer in Europe, while the Packaging division is the European leader in folding cartons, with strong positions internationally and a market-leading share in secondary pharmaceutical packaging. This integrated model allows MMK to serve a broad range of consumer goods industries – from food and household products to healthcare – with sustainable, fiber-based packaging solutions.

Cartonboard production is more commoditized and cyclical. The packaging segment is far more stable and is part of an oligopoly in Europe with superior barriers to entry and economics than cartonboard.

Demand for MMK's products is closely tied to consumer staples consumption, and cartonboard packaging benefits from a sustainability tailwind as an eco-friendly alternative to plastic. In the past 5 years MMK has invested heavily in ESG initiatives (achieving an "AAA" CDP rating), including projects to reduce energy use and emissions in its mills, which bolsters its competitive positioning in an increasingly environment-conscious market.

While MMK is the opposite of a fast-moving start-up and would fail to pass the excitement test for anyone looking for momentum, we believed a sequence of mis-steps by management, compounded by macro-economic shocks created a situation where a solid, necessary and hard to replace business became available at a bargain price. Critically, at a valuation where downside was extremely limited over a 2-4 year period.

Background to Opportunity

2000 – 2020: Ultra Conservative & Simple Strategy

For the ~30 years through 2020, MMK had only two long-tenured CEO's. MMK was a steady business, operating in a cyclical industry. Leadership operated a sensible well executed strategy and eschewed the use of leverage. Indeed, from 2000-2020 leverage was on average a ***negative*** 0.2x and rarely drifted above a positive 0.3x.

The strategy for recycled cartonboard was to continuously improve efficiency and maintain market leadership. For packaging, it was to build by acquisition, though typically with smaller bolt-on deals with lower execution risk and at more attractive valuations.

The result was a stable and growing business with good economics on owners capital. Revenues, EBITDA and Net Income all grew at a CAGR of 4.5% p.a. throughout those 20 years. With an average ROE of 12.3%, and average ROIC of 14.7% over the period. Management consistently returned money to shareholders too, with an average dividend yield of 2.6%. As a result, multiples appreciated.

The Market Cap. grew from €564mm to €3.3bn, for a valuation return of 9.2% per year. and a total return ~12% per year. An excellent result for an unlevered investment in a staid industry.

2020 – 2024: Let's Go Crazy – Revolution in Strategy

In 2020, after 19 years as top dog, William Hörmanseder decided to retire. MMK recruited Austrian Peter J. Oswald, the well-regarded CEO of a larger competitor, Mondi Group as replacement. Mr. Oswald is an industry veteran having spent 30 years in the space, becoming CEO at Mondi in 2017.

His recruitment was seen as a coup at the time. He came from a bigger industry player that had been far more active in M&A. This was a breath of fresh air for investors. Despite excellent long-term performance, they had become restless with the lack of leverage employed while rates were at or below 0% for a decade. Many felt this conservatism had left huge amounts of potential profit on the table, and that a change in both strategy and leadership were required. More leverage, more M&A and more aggression would act as an antidote to the prior 20 years.

Mr. Oswald wasted no time in acting. He pulled on every lever he could. The company over the course of his first three years proceeded to not only engage in its biggest ever CAPEX programme, but also its biggest ever acquisition splurge across both divisions, while also expanding the product coverage in its oldest segment. Despite it being the most competitive industry sub segment it operates in.

To put this in perspective the comparable figures for both CAPEX and M&A spend for the two periods was as follows:

CAPEX & M&A Spend	2000-2019 20 years	2020-2024 5 years	% of '00-'19
CAPEX	2,104	1,377	**65%**
M&A	506	923	**182%**
Total Re-investment	2,610	2,300	**88%**

Leverage increases

Unlike under prior management, this was funded by debt rather than internal cash flow. Leverage climbed to 2.53x by year end 2021. The largest acquisitions in the company's history, in both segments occurred in this period. All the more remarkable when one considers this was done in the shadow of the first global pandemic in 100 years, followed by the first major European war in 80 years.

False dawn: **2020 - 2022**

Early headline results were strong and the market was euphoric. Up to the outbreak of war, the pandemic had been a benefactor to MMK and the industry. Increased online activity, online food delivery in tandem to large subsidies for employee and energy costs created goldilocks conditions for MMK. Price per ton nearly doubled from 2020 – 2022. The average EBITDA margin in the prior decade had been 13.5%. The average for 2020-2022 was 15.6%. Despite having acquired some packaging businesses that were expected to dilute margins in the short term. The peak came in January / February of 2022, just prior to the outbreak of the Ukraine / Russia war. ***Shares hit a peak of €192*** on January 10th. 18 days later, on February 3rd, Peter Oswald was revealed as the "***Fastmarkets RISI European CEO of the year 2022***" award. For 2022, FY Revenues hit a peak of €4.7bn, and EBITDA of €730mm. Compared to €2.53bn and €399mm in 2020.

Reality bites: 2022 – 2024

From there – it was all downhill. The Ukraine conflict acted as the catalyst for a negative spiral. Cartonboard production is energy intensive. As you may recall, Energy prices in Europe spiked in 2022, and are yet to fully recover. This in combination with high financial leverage sent the Cartonboard segment utilization and profitability into a tailspin.

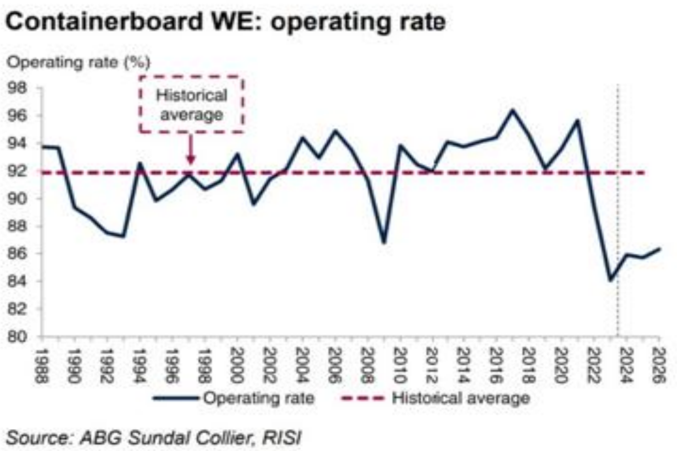
Compounding this, the acquisitions in Cartonboard took MMK into a new area of virgin (non-recycled) product with the addition of two large mills in Poland (Kwidzyn) and Finland

(Kotkamills) for €1.1bn. The latter is close to the Russian border and had relied on Russian pulp as an input as well as cheap energy.

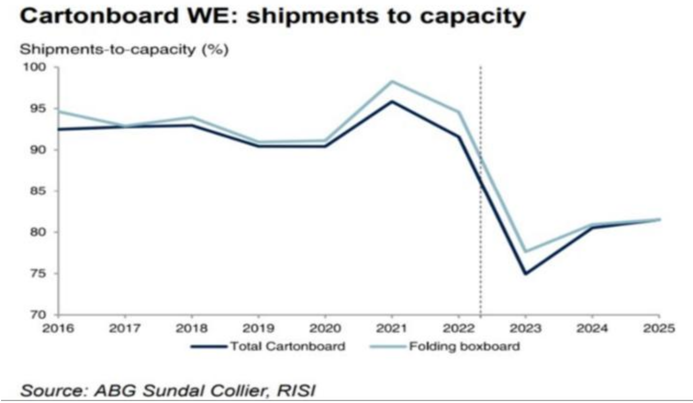
With this they hoped to enter a bigger, albeit more competitive market. In both transactions, the ambition was to improve operations and utilization. Following the outbreak of war, Russia was heavily sanctioned by the west. This was a minor disaster for MMK, as Russia constituted ~10% of demand for the Cartonboard industry in Europe. With the stroke of a pen, 10% of industry demand evaporated.

Some important context is required here: prior to this for ~40 years, no new (net) capacity had been added within the industry due to sustained overcapacity. This was not an acute problem. Rather, a bad starting point in the mid 80's didn't really recover and technological developments allowed for creeping capacity increase over time from productivity improvements.

Can you imagine the impact on utilization from an instantaneous 10% drop in demand to such an industry? In case you can't, let me offer a visual reference:



The chart above shows 40 years of utilization data for Containerboard in Europe (a reasonable proxy for carton board). Prior lows back through 1989 for that series were in the 87%-88% area on utilization, both during the recessions of the early 90's and the GFC. With a milder decline in the recession of 2000-2002. 2023/2024 vanquished those prior dismal figures.



The figure above shows data specific to the Cartonboard industry but zooms in on only the past decade. As you can see this troughed for the industry at ~75% in 2023. MMK did considerably worse in the same short period as utilization in their cartonboard segment fell to 69%.

The cartonboard segment peaked an EBITDA margin for FY 2022 of 18.2%, a figure only exceeded historically in 2001/2002. However, behind that rosy headline, utilization was already falling rapidly. That prior peak in profitability came amidst utilization of ~95%. At the end of 2022 utilization was only 91%. Profitability followed utilization lower, further negatively impacted as subsidies for energy and employees also rolled off. The EBITDA margin troughed at 2.8% on a TTM[1] basis in Q1 2024.

On an EBIT basis, for the TTM period ending Q1 2024 the cartonboard segment lost (€61mm). This compares to an EBIT profit of for FY 2022 of €381mm. To put this in perspective, this downward swing of €442mm in 15 months compares to MMK's consolidated EBIT in 2019 and 2020 of €255mm - €231mm. This was a stunning fall from grace. Worse, this was for a segment that had received just under €2bn of capital investment over the prior 3 years.

With those results in cartonboard euphoria swiftly gave way to anger and despair. MMK consolidated EBIT peaked in 2022 at €510mm, before troughing at €164mm on a TTM basis in Q3 2024. Around the same time, Net Debt was hitting a record ~€1.5bn. As a result, the share price troughed correspondingly after release of the results of in Q3 2024, at ~€66 per share. A fall of 65% in ~2.5 years.

Away from the cartonboard business, MMK also did a couple of large acquisitions in packaging, both in 2022, while the Halo was still firmly in place. They paid a combined €436mm for ESON plc (€71mm) and Essentra packaging (€365mm). The latter is a specialist in pharmaceutical packaging with a large presence in the US market.

With respect to market reaction, the Buffett test applies here.

> *"We test the wisdom of retaining earnings by assessing whether retention, over time, delivers shareholders at least $1 of market value for each $1 retained." – Warren Buffett 1983 letter to shareholders*

[1] Trailing Twelve Months (TTM)

Paraphrasing him, the measure of quality on capital allocation is whether a dollar reinvested in the business ends up being worth more than a dollar in 5 years.

How had MMK done on this test? Not well!

By our estimates, on top of the €1.45bn in total M&A spend, Management spent an additional €800mm in growth / improvement capex, for a total (optional) investment of €2.25bn. The following table shows the Market Cap. and EV for MMK in 2019 vs. Today:

Mayr Melnhof (€mm)	2019	2025	Change %
EV	2,611	2653	**2%**
Mkt. Cap.	2,392	1500	**-37%**

The impact is more pronounced if you adjust the 2019 and add to it the later M&A & CAPEX investments made through 2025. Doing so, the result is even more stark:

Mayr Melnhof (€mm)	2019	2025	Change %
EV (adj. for Investment)	4,910	2653	**-46%**
Mkt. Cap. (adj. for Investment)	4,692	1500	**-68%**

An incredibly disappointing result. However, perhaps the most concerning aspect of the investment case was that by mid-2024 and despite terrible results, neither Management nor the Board had given much indication of a change in strategy away from levered, acquisitive growth. Despite the prior tailwinds supporting such a strategy having turned to headwinds.

This was especially problematic considering leverage had drifted over 3.7x in Q3 2024 (on a TTM Basis). As we researched the company in Q4 last year – a blind adherence to this approach and a lack of a sense of urgency left us cold. How could we assure more money wouldn't be incinerated?

2025 and beyond…

The question then was whether this ~€2bn had been completely destroyed and if the problems were temporary or permanent.

We felt there were 4 critical questions to answer:

- Is the leverage risk potentially terminal?
- Is the capacity utilisation situation for cartonboard a temporary phenomenon?
- Were the CEO & Board too aggressive? Misguided? Or just unlucky?

And assuming we could find comfort with the three questions above:

- What is a reasonable valuation range likely to be applied 3-4 years out?

Is the leverage risk potentially terminal?

No. This is best explained by a brief case-study. As mentioned earlier, the packaging segment had been built by bolt-on acquisitions.

The largest deal done prior to 2020 was in 2018 for the TANN Group. A hodgepodge of packaging sites with a major proportion of the facilities and business in Russia, Eastern Europe and Turkey. MMK paid €268mm EV (EV/Revenue – 1.26x, EV/EBITDA – 7x). for this business at that time.

After the outbreak of war in Ukraine, MMK sold the Russian assets alone in late 2022 for €134mm (EV/Revenue – 1.1x, EV/EBITDA – 7.7x). However, the remaining non-Russian assets were then sold in late 2024 for €360mm (EV/Revenue – 1.6x, EV/EBITDA – 11.25x). Or a combined €494mm, vs. a purchase price in 2018 of just under half that. Though MMK had invested in those assets in the interim.

When that Russian sale closes, leverage should drop well-below 3.0x by YE[2] 2025, and further as Capex and M&A spend is diverted to debt repayment. More important, however, is what these deals represent. Considering that MMK was able to get paid over 1.0x for their Russian assets in late 2022 and over 1.5x for the other TANN assets during a down cycle, then we have here some potential indication of market value of the remaining packaging assets. A valuation of the packaging assets of ~€2bn seems conservative by these yardsticks.

Moreover, the packaging assets, with over 35 plants still operating (post the TANN sale) are not inter-reliant. As with the TANN assets, if necessary, other plants could be sold. Even a partial sale could retire some or all of the debt. Management have shown with these sales that they have the tools to deal with their debt load without resorting to dilution.

Is the capacity utilisation situation for cartonboard a temporary phenomenon?

Yes. We believe it is a temporary phenomenon. As we showed a couple of pages ago utilization in 2023/2024 hit a 40 year low for the cartonboard industry. Historical experience for MMK and the industry is for a recovery to the historical average within 2-4 years. Looking to recessions / economic shocks over the past quarter century is instructive on this point.

For MMK during the 2000-2002 recession, utilization briefly hit 87% (in mid-2001), having been at 97% in 2000 and returning to 93% in 2003.

Things were worse during the GFC with utilization dropping to 86% (and lower in interim periods) and staying lower for longer, before recovering back to the ~96% level over 2010/2011. Meanwhile, EBITDA margin dropped over 300bps and ROCE followed in tandem from 18.8% to 11% from 2007 - 2008.

[2] Year End (YE)

The Euro-crisis was not a major challenge for MMK – with utilization and margins remaining high and stable. Keep this in mind.

Just how different has the past 3 years been compared to the prior 20 years? Hopefully the following gives some idea.

Year	2021	2022	2023	2024 TTM
Segments - Operating KPI's				
Cartonboard / MM Board & Paper (from 2021)				
# of Mills	6	6	6	6
Capacity ('000) calc'd / implied	**2,133**	**2,674**	**2,818**	**2,818**
Change YoY	*21.0%*	*25.3%*	*5.4%*	*0.0%*
Capacity Utilisation	**97%**	**91%**	**69%**	**78%**
Tonnage Sold ('000)	2,092	2,389	1,948	2,185
Tonnage Produced ('000)	2,069	2,433	1,945	2,215
Tonnage per mill	344,833	405,500	324,167	364,167
Tonnage sold internally	236	264	234	
% sold internally	***11.3%***	***11.1%***	***12.0%***	
Employees	4,787	4,776	4,579	4,579
Revenue per Employee ('000)	**326**	**576**	**419**	**421**
Change YoY	*-25.0%*	*76.6%*	*-27.2%*	*0.5%*
Production per Employee (tons)	432	509	425	484
Revenue per Ton ('000)	**746**	**1,151**	**985**	**883**
EBITDA per Ton ('000)	**89**	**209**	**32**	**26**
EBIT per Ton ('000)	**51**	**159**	**(26)**	**(25)**
Price Δ Change YoY	*21.0%*	*54.3%*	*-14.4%*	
Volume Δ YoY	*22.8%*	*14.2%*	*-18.5%*	
Revenues	**1,561**	**2,750**	**1,919**	**1,929**
Growth YoY	*48.6%*	*76.2%*	*-30.2%*	*-7.6%*
EBITDA	**185**	**499**	**62**	**56**
EBITDA margin %	11.9%	18.2%	3.2%	2.9%
EBIT	**108**	**381**	**(51)**	**(55)**
EBIT margin %	6.9%	13.9%	-2.7%	-2.9%
EBITDA - Capex	**119**	**429**	**(23)**	**(81)**
EBITDA - Capex margin %	7.6%	15.6%	-1.2%	
ROCE	**11.00%**	**24.00%**	**-1.10%**	
Total Assets	2,748	3,045	3,130	3,157
Total Assets (excl. Goodwill)	2,308	2,611	2,672	2,699
Capex	66	71	85	137
Capex % of Sales	4.2%	2.6%	4.4%	
Capex % of Total Assets (excl. Goodwill)	2.9%	2.7%	3.2%	

This gives some idea, but while YE 2023 was the low point on utilization it has not been for margins. A much better impression of just how ugly this has been for the company comes from looking at TTM figures from 2020 onwards (shown in the table below):

TTM Figures Overall CartonBoard	2020 Q1	2021 Q1	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1
Sales	**1,080.5**	**1,048.7**	**1,946.0**	**2,386.7**	**2,699.2**	**2,750.0**	**2,614.9**	**2,387.1**	**2,088.2**	**1,919.1**	**1,881.4**	**1,886.0**	**1,928.7**	**1,954.3**	**1,980.8**
EBITDA	**47.5**	**150.2**	**247.9**	**379.2**	**457.0**	**499.3**	**457.9**	**317.8**	**189.6**	**92.7**	**51.8**	**63.4**	**56.2**	**90.3**	**110.7**
EBITDA Margin %	**4.4%**	**14.3%**	**12.7%**	**15.9%**	**16.9%**	**18.2%**	**17.5%**	**13.3%**	**9.1%**	**4.8%**	**2.8%**	**3.4%**	**2.9%**	**4.6%**	**5.6%**
EBIT	**117.3**	**72.4**	**158.0**	**276.4**	**351.6**	**381.0**	**338.6**	**197.2**	**67.2**	**(19.8)**	**(60.8)**	**(48.8)**	**(55.3)**	**(19.2)**	**-**
EBIT Margin %	10.9%	6.9%	8.1%	11.6%	13.0%	13.9%	12.9%	8.3%	3.2%	-1.0%	-3.2%	-2.6%	-2.9%	-1.0%	0.0%
Tonnage sold ('000)	**1,728.0**	**1,692.0**	**2,317.0**	**2,518.0**	**2,566.0**	**2,389.0**	**2,205.0**	**2,068.0**	**1,940.0**	**1,948.0**	**2,039.0**	**2,123.0**	**2,185.0**	**2,534.0**	**2,765.0**
Cartonboard	1,728.0	1,692.0	1,896.0	1,941.0	1,937.0	1,803.0	1,684.0	1,582.0	1,478.0	1,476.0	1,540.0	1,622.0	1,688.0	1,734.0	1,745.0
Kraft Papers	-	-	157.0	221.0	241.0	220.0	196.0	181.0	252.0	342.0	427.0	501.0	497.0	800.0	805.0
Uncoated Fine Papers	-	-	264.0	356.0	388.0	366.0	325.0	305.0	210.0	130.0	72.0	-	-	-	-
PULP	-	-	-	-	-	-	-	-	-	-	-	-	198.0	438.0	664.0
Tonnage produced ('000)	1,728.0	1,685.0	2,318.0	2,568.0	2,619.0	2,433.0	2,262.0	2,060.0	1,931.0	1,945.0	2,033.0	2,148.0	2,215.0	2,560.0	2,564.0
Capacity	1770	1770	2818	2818	2818	2818	2818	2818	2818	2818	2818	2818	2818	2818	2818
Capacity - Cartonboard			2163	2163	2163	2163	2163	2163	2163	2163	2163	2163	2163	2163	2163
Capacity - Kraft Papers			245	245	245	245	245	245	245	245	245	245	245	245	245
Capacity - Uncoated fine papers			410	410	410	410	410	410	410	410	410	410	410	410	410
Capacity Utilization %	**98%**	**96%**	**82%**	**89%**	**91%**	**85%**	**78%**	**73%**	**69%**	**69%**	**72%**	**75%**	**78%**	**90%**	**98%**
Utilization - Cartonboard			*88%*	*90%*	*90%*	*83%*	*78%*	*73%*	*68%*	*68%*	*71%*	*75%*	*78%*	*80%*	*81%*
Utilization - Kraft Papers			*64%*	*90%*	*98%*	*90%*	*80%*	*74%*							
Utilization - Uncoated fine papers			*64%*	*87%*	*95%*	*89%*	*79%*	*74%*							
Utilization - Kraft and Uncoated combined			*64%*	*88%*	*96%*	*89%*	*80%*	*74%*	*71%*	*72%*	*76%*	*76%*	*76%*	*122%*	*123%*
Price per Tonne	625.3	619.8	839.9	947.9	1,051.9	1,151.1	1,185.9	1,154.3	1,076.4	985.2	922.7	888.4	882.7	771.2	716.4

This was unlike anything the company had experienced before. Having pushed pricing far too high during 2020/2021 in response to COVID increased demand, substitution began to occur. This mixed with rising energy and labor costs, as subsidies for both were being eliminated created a toxic cocktail. Russian demand withdrawal was the Coup de Grâce!

As the table above shows, things got very ugly. However, it also shows that recovery is already in motion. This is abundantly clear for utilization which is back above 80%. However, for pricing, that continues to decline. Though we are now only 12% above 2018 levels on that variable.

Could utilization fall again? It is certainly possible, but I should add that capacity additions within the industry announced in 2020 and 2021 have mostly been cancelled. For those being completed, they are planned to replace obsolete existing plant which will be shuttered. Moreover, major competitors in paper and pulp such as Reno Di Medici and Stora Enso are struggling due to an over-levered balance sheet and have been shutting down capacity to conserve cash. MMK with a well-invested asset base is well placed to benefit given the competitive landscape

Were the CEO & Board too aggressive? Misguided? Or just unlucky?

Yes, Yes and Yes!

The company was far too aggressive in the scale, scope and speed with which it engaged in transformative M&A. Though there was long experience with bolt-on acquisitions, these had always been small and done at a cadence where integration was feasible. A single larger deal is usually far more challenging to integrate. Especially when one enters a new field, as MMK did with virgin cartonboard.

Doing several such deals over 30 months is a monumental challenge in the best of times. If one then adds substantial leverage on top – it is akin to searching for a banana skin to slip on. I find it hard to argue that doing so many deals, in such a short timeframe with leverage, was anything but misguided. Though I may be guilty of judging with hindsight.

Finally, when one considers the impact of the Ukraine war, and the withdrawal of Russian demand (10% of the market) and the subsequent stunning inflation in energy and labour prices; MMK was remarkably unlucky.

Nevertheless, while one can factor in bad luck – there is no debating that under the old structure and approach MMK would have been fine. Their decisions on strategy and leverage left them wide open to any major event risk.

At this point, it is important to mention that family foundations established by the Mayr Melnhof family owns (and has done for decades) 58% of the shares outstanding. The dividends paid by MMK matter to them as does the survival of the company. It seems unlikely to us they would ever let the company get close to default and risk their control. In addition, it seems equally unlikely they would enable anyone to take the company private at an unreasonably low valuation. We feel the risk of management being allowed to run the business into the ground is remote, at best.

With this in mind, while corporate governance is not ideal, and capital allocation in the past 5 years has been poor, we believe the chance of a repeat of such mistakes is close to nil in our holding period. Especially considering the change in strategy in Q4 2024.

In Q4 2024, the board and management announced a pivot in strategy. Both M&A and growth CAPEX were to be de-emphasised for the foreseeable future. Focus was now to:

- Improve operational performance,
- Retire debt and reduce leverage (the TANN sale was announced simultaneously)
- Buy-back up to 5% of shares at prices from €10-€80 per share during 2025

On that last point, keep in mind that free-float is only 42% of the shares, so the buyback is equivalent to ~12% of the shares available for sale. This was only the second buyback from the company in its long history, with the first having happened in 2009. This placated our concerns around the Board and Management.

Which brings us to the final question:

What is a reasonable valuation range likely to be applied 2-4 years out?

Given all of the above, we see no event risk that could knock-us out before a recovery in the underlying market is complete. As a result, we don't contemplate any form of fire-sale of certain assets or the whole business.

We hope the brief aside on the TANN asset sales in combination with a control shareholder with a long-term focus gives you the same comfort.

We mentioned earlier in discussing that asset sale that we believe the packaging assets alone are likely worth more than €2bn. This would suggest that unless the cartonboard assets are worth less than €650mm, then there is no downside at the current price.

Replacement Cost & Comparable multiples

For the sake of space, we have omitted listing detailed transaction history across the history of the Industry. Both for cartonboard and packaging. We have this and are happy to discuss if you are interested to do so.

Starting with **cartonboard**, MMK now has extremely well invested and located assets, whether in the recycled or virgin space. MMK has 2,818 tons of installed capacity of cartonboard machines. A wide but reasonable range of replacement cost per ton is €500 - €970. Which implies a replacement cost value for the cartonboard segment of **€1.4bn - €2.7bn.** Inverting the problem to the above, for these assets to be worth less than €650mm, then the value per ton would have to be below €233. There is no such precedent for such well invested assets. Even at €355 per ton, the cartonboard assets would be worth at least €1bn.

Recall that nearly €2bn was invested in acquiring the 2 mills in 2021 as well as massive CAPEX upgrades for the rest of the business. It is possible this is now worth 50% of that investment, but unlikely. Below that level seems an incredibly remote possibility.

Looking at peers trading multiples confirms this view. Revenues in cartonboard for 2026 are expected to be €1.9bn. The following table gives a list of comparable companies from December 2024 and how multiples looked at the time. Most have a mixture of cartonboard and packaging, though most below have been considerably more cyclical than MMK over the past 40 years (excepting the past 5 years):

Comparable Table	Financial Items (TTM €mm)							Multiples		
Company Name	Mkt Cap.	EV	Revenues	EBITDA	EBITDA %	EBIT	EBIT %	EV/Rev	EV/EBITDA	EV/EBIT
DS Smith Plc (LSE:SMDS)	9,025	12,046	8,049	1,057	13.1%	554	6.9%	1.50x	11.40x	21.73x
Stora Enso Oyj (HLSE:STERV)	7,833	11,410	8,901	694	7.8%	423	4.8%	1.28x	16.44x	26.97x
UPM-Kymmene Oyj (HLSE:UPM)	14,592	17,945	10,238	1,686	16.5%	1,185	11.6%	1.75x	10.64x	15.14x
Holmen AB (publ) (OM:HOLM B)	5,592	5,903	2,035	359	17.6%	248	12.2%	2.90x	16.46x	23.83x
Nine Dragons Paper (Holdings) Limited (SEHK:2689)	1,799	9,638	7,834	801	10.2%	364	4.6%	1.23x	12.03x	26.49x
Smurfit Westrock Plc (NYSE:SW)	26,681	40,193	15,852	2,315	14.6%	1,329	8.4%	2.54x	17.36x	30.24x
Arctic Paper S.A. (WSE:ATC)	269	340	809	81	10.0%	54	6.7%	0.42x	4.20x	6.32x
Altri, SGPS, S.A. (ENXTLS:ALTR)	1,110	1,450	842	193	22.9%	144	17.1%	1.72x	7.52x	10.09x
Norske Skog ASA (OB:NSKOG)	172	488	936	55	5.9%	18	1.9%	0.52x	8.87x	27.71x
Lee & Man Paper Manufacturing Limited (SEHK:2314)	1,225	3,742	3,130	184	5.9%	168	5.4%	1.20x	20.35x	22.34x
YFY Inc. (TWSE:1907)	1,432	2,693	2,280	146	6.4%	20	0.9%	1.18x	18.43x	132.89x
Metsä Board Oyj (HLSE:METSB)	1,621	2,131	1,921	70	3.6%	(34)	-1.8%	1.11x	30.57x	-62.12x
Shandong Chenming Paper Holdings Limited (SZSE:000488)	782	5,273	3,517	340	9.7%	36	1.0%	1.50x	15.49x	146.27x
Mondi plc (LSE:MNDI)	6,156	8,268	7,188	886	12.3%	493	6.9%	1.15x	9.33x	16.77x
MM Group	1,520	2,946	4,037	387	9.6%	36	0.9%	0.73x	7.61x	81.71x

Even taking the lowest measure on EV/Revenues at 0.5x, MMK's cartonboard assets would be worth at least €950mm. At 1x EV/Revenues, we are near the middle of the replacement cost range. We believe a safe range of value is **€1.4bn - €2bn** for the assets.

Moving on to **Packaging,** we can't unfortunately look to capacity or replacement measures on the same basis as the above. We do however have a number of decent comparable companies we can point towards, as well as the transactions done by MM in the past few years themselves.

First let's list the comparable companies below:

Comparable Table	Financial Items (TTM €mm)							Multiples		
Company Name	Mkt Cap.	EV	Revenues	EBITDA	EBITDA %	EBIT	EBIT %	EV/Rev	EV/EBITDA	EV/EBIT
DS Smith Plc (LSE:SMDS)	9,025	12,046	8,049	1,057	13.1%	554	6.9%	1.50x	11.40x	21.73x
Stora Enso Oyj (HLSE:STERV)	7,833	11,410	8,901	694	7.8%	423	4.8%	1.28x	16.44x	26.97x
Smurfit Westrock Plc (NYSE:SW)	26,681	40,193	15,852	2,315	14.6%	1,329	8.4%	2.54x	17.36x	30.24x
Metsä Board Oyj (HLSE:METSB)	1,621	2,131	1,921	70	3.6%	(34)	-1.8%	1.11x	30.57x	-62.12x
Mondi plc (LSE:MNDI)	6,156	8,268	7,188	886	12.3%	493	6.9%	1.15x	9.33x	16.77x
Graphic Packaging Holding Company (NYSE:GPK)	7,637	12,718	8,266	1,611	19.5%	1,100	13.3%	1.54x	7.89x	11.56x
Amcor (NYSE:AMCR)	13,072	20,283	12,498	1,756	14.1%	1,226	9.8%	1.62x	11.55x	16.54x
MM Group	1,520	2,946	4,037	387	9.6%	36	0.9%	0.73x	7.61x	81.71x

MMK packaging has Revenues of ~€2.3bn - €2.5bn, and EBITDA of €330mm to €360mm. The table above corroborates the rough prices paid by MMK for Essentra (0.9x EV/Revenue, 9.4x EV/EBITDA) and Eson (1.24x EV/Revenue, 8.9x EV/EBITDA). While the recent sale of the remaining TANN assets in Europe (which are high quality and had been upgraded and invested in since their purchase in 2019) went for multiples of 1.6x EV/Revenue, 11.25x EV/EBITDA.

We don't believe a price below 1.0x EV/Revenue is reasonable here. If we take it from an EBITDA angle, under 9x also seems unreasonable. Even at the lower end of EBITDA, at 9.0x that implies an EV of €3bn for the packaging assets alone, which equates to an EV/Revenue of 1.26x. Entirely reasonable.

If we were to push things to say 12x EBITDA and use the upper end of €360mm, then this suggest an EV of €4.32bn just for the packaging assets, and an EV/Revenue of 1.73x.

Is this aggressive? Perhaps, but out of context for the comparables above? Certainly not. Again, these packaging assets have not had the troubled recent past of the Board and Paper division. Also, compared to the TANN assets sold at 1.6x Revenue, this seems reasonable.

On a comparable basis then, or looking to past transactions both in and out, then I think a fair range for the **Packaging assets is €3bn to €4.2bn**.

Company Valuation

Aggregating the two divisions, this suggests a valuation for MMK group as a whole in the range of **€4.4bn to €6.2bn from replacement cost.** This range implies valuation multiples of 1.1x EV/Revenue and ~10.5x EV/EBITDA vs FY 2024 results at the low end. 1.52x EV/Revenue and ~14.8x EV/EBITDA at the high end.

Bear in mind, that FY 2024 EBITDA margin was only 10.3%, compared to the 14.2% average from 2000 – 2020. If we used that historical average as normal, EBITDA for 2024 would have been €579mm, and the respective EV/EBITDA multiples would then be 7.6x – 10.7x.

As an aside, at the peak share price, the EV at that point was €5.3bn, right in the middle of our posited range. Compared to the current €2.63bn EV. Again, if we took €579mm in EBITDA as normalized, then vs. the current EV MMK is available for just 4.54x EV/EBITDA.

Of course, the above is just an amalgam of comparable past transactions, peer group multiples, and looking at sum of the parts. But I think it is still instructive and likely to have given us a solid range of fair value.

DCF & Exit Multiples

We have built a detailed model, with plenty of flexibility. For the sake of space here, outlining the parameters and sensitivity would be overkill. Though again, we are happy to go through this with you in detail in person or over video call if you are a willing victim!

In our **Base Case,** we assume pricing per tonne in cartonboard recovers by 2030 to 10% higher than in 2024, and that capacity utilization recovers to 93%. Further, we assume no additions (or subtractions) to capacity and that the EBITDA margin stabilizes at 13.4%, which is the long-term average from 2000 – 2024.

Our DCF model implies a current fair value per share of €146 per share (95% upside) with these assumptions. With an 8% discount rate, and 2.5% perpetual growth. One would have to move the discount rate to 11% on the same assumptions, ceteris paribus, to justify the current share price.

Assuming an exit multiple on 2030 of 8x EV/EBITDA yields a fair price per share today of €167 (122% upside). While a NOPAT + Yield calculation suggest a long-term total return of 15.6% at the current price. One has to be draconian on discount or growth rates to think current valuation is fair.

In our **Bear Case,** we assume pricing per tonne in cartonboard declines back to levels from the mid 2010's at €620 per ton. This hurts top-line Revenue and absolute profit measures. We keep capacity utilization at 93%. However, the impact of pricing coming down, compounded by cost inflation knocks EBITDA margin down to 11% by 2030. This equates to an EBIT margin of 6% by 2030, compared to an average from 2000-2024 of 9.1%, and 4.7% and 4.1% respectively in 2023 and 2024. We believe this is punitive and exceedingly unlikely.

Our DCF model, using the same discount and perpetual growth rates implies a current fair value per share of €60 per share (20% downside) with these assumptions. For an EV of €2.35bn.

Assuming an exit multiple on 2030 of 8x EV/EBITDA to these bearish assumptions yields a fair price per share today of €79 (5.3% upside). While a NOPAT + Yield calculation suggest a long-term total return of 10.6%. Not wonderful, but not terrible.

Nevertheless, we believe replacement cost for the group as a whole supersedes the lower end value estimates in the bearish case.

We of course have a **Bull Case** too, but I won't bore you hear with the details. Suffice it to say, the assumptions are not egregiously optimistic and the same assumptions on valuation levers suggest a value per share north of €200, for upside of over 170%.

Conclusion

MMK is far from a wonderful business. It is, however, a good one. Albeit, a good business that after a long history of steady performance, made some major mistakes.

The company built its dominant position over nearly four decades of conservative management, establishing itself as the number one supplier of recycled cartonboard in Europe. However, under CEO Peter Oswald, MMK pursued aggressive expansion through major acquisitions and capacity investments, financed with significant leverage, just as the Ukraine war devastated European cartonboard demand by approximately 10%.

The execution of a strategic pivot, to take advantage of a ZIRP world, just as inflation and interest rates were poised to explode higher proved misguided, at best. As did trying to do a decade of strategic change in 3 years.

Poor investor communications as things unravelled as well as an impression of stubborn disregard of reality from Management until the end of 2024 lead many investors to exit and give up hope. There is no argument Management have done a poor job this past 5 years and put the company in a tough position.

However, the board has stepped in, and the strategy has now changed 180 degrees. The company is controlled by a long-term focused family who has more than a financial interest in MMK's continued success.

Meanwhile, we have an asset with a value that it is hard to conceive is worth anything less than €3bn . Indeed, the packaging segment alone is likely worth more than this. If this were to prove to be ultimate value, and the cartonboard assets were valued at zero, we would still have upside of 23% from the current share price.

More likely is a much higher value for the company and shares. In addition, we have a control shareholder who is incentivized alongside minority shareholders and who has demonstrated they will stop the value destruction of the strategy employed the past half decade.

In short, we have little to no downside here over 2-4 years, with potentially very large upside. In what is an under covered company, in an unfashionable space.

We don't know if the recovery in profitability will come in 12, 24 or 36 months, but we think it shall come. If so, we will do very well. Should it not? The packaging assets provide a bulwark of security.

Indeed, we will end our summary with this point. We believe that MMK is being valued at current prices at less than 5x EV/EBITDA. Yet, in the past 6 months, it sold packaging assets 11.25x EV/EBITDA.

What did it announce it is doing with the cash that will now not be spent on M&A or growth CAPEX?

Debt pay downs, and more importantly for us, share buybacks. We are fans in general when a company can sell assets for 11.25x and buy back shares at less than half that value, while a recovery unfolds. That is quite the arbitrage!

These are precisely the types of investments we love to find. We hope the brief exposition on the idea above gives you some idea of how we research, think and invest in practice.

We hope our first quarterly letter has been satisfactory to you. Please let us know if you have any feedback. We are eager to improve in every way possible. We wish you and your families a wonderful rest of the year and we look forward to updating you again next quarter.

Best Regards,

Shaun Heelan,

Chief Investment Officer

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