Fourth Quarter 2025 Investor Letter

December 31st, 2025

Dear Fellow Investors,

We have now concluded the third quarter as manager of your funds. We wanted to give you a brief update on how things have developed over that quarter and for 2025. A few of you have asked our opinion on Artificial Intelligence and its potential impact. We don't claim to be experts on this, but we do have a view and will explain it briefly. As with our prior missives, we will also share an analysis of a company. This one has recently been added to your portfolio.

Before turning to markets and portfolio matters, we would like to briefly update you on the substantial progress made behind the scenes over the past year. While largely invisible externally, these developments are foundational to the long-term durability and scalability of the firm.

During the period, our BaFin license application was approved. The successful culmination of a process that in itself constitutes a full-time undertaking. One that is rarely concluded swiftly. It is a testament to the rigor and professionalism of our co-founder and COO, Patrick that we were able to achieve this in only 6.5 months. In parallel, Dino and Shaun were registered as advisers under FinSA in Switzerland, extending our regulatory footprint. That is not all. Jenny onboarded ACA as our U.S. compliance consultant and made us a member of AIMA. We also relocated our headquarters to Paul-Heyse-Strasse. With this we have laid the groundwork to establish an alternative fund vehicle in either Luxembourg or Ireland.

These achievements are the result of exceptional execution by our team. Much of this work was undertaken quietly, without distraction, and alongside the daily demands of building a firm from first principles.

All of this occurred while we were simultaneously constructing our operational infrastructure. Including moving into our office, with Rahul developing proprietary algorithms and software to support capital allocation, automating elements of the trading process, and continuously researching companies and building your portfolio. None of these efforts are visible in monthly return numbers yet, but all are essential. They reflect our belief that enduring investment results are inseparable from sound process, robust controls, and institutional-grade foundations.

With that context, we now turn to developments in markets and your portfolio.

Portfolio Results

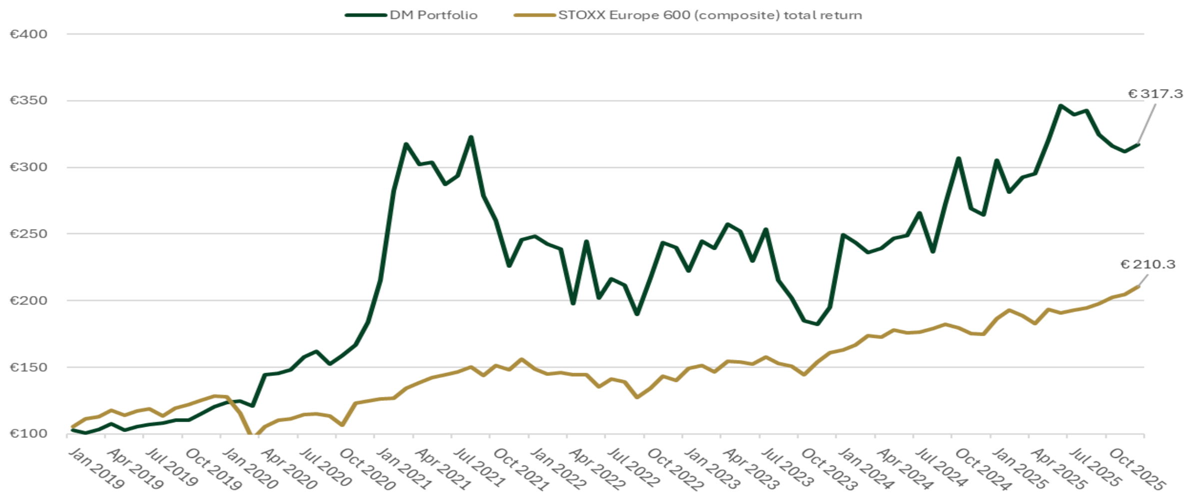
RETURNS	Q4 2025[1]	SINCE INCEPTION[2]
MAAT PORTFOLIO – GROSS	-2.5%	0.9%
MAAT PORTFOLIO – NET	-2.6%	0.2%
EUROSTOXX 600 (TR) – NET	6.5%	9.5%

1 Through 31st December 2025
2 Inception Date 26th February 2025

For Q4 2025 your portfolio returned -2.6%, and for 2025, since inception, your return was 0.2%, net in base currency.

Performance during the quarter was disappointing, and largely a function of one large position that had a substantial drawdown on upsetting operational development news. As we run a concentrated portfolio, any such event will have a large impact on a given quarter or year.

We expect to have the same or better impact on good news. Indeed, for Q1, prior to opening for external clients we had just such a positive outcome for Kambi, which was then the largest position. As you know, Dino has been running a strategy analogous to ours for several years. His (DM) portfolio has seen strong results over the past seven years, albeit with substantial volatility. 2025 was no exception in this regard. We show his track record here as a reminder of both below:



Performance DM Portfolio	2019	2020	2021	2022	2023	2024	2025	Annualized
Annual Return	**20.3%**	**53.0%**	**33.4%**	**(2.4%)**	**(18.7%)**	**35.5%**	**20.0%**	**17.9%**
Best Qtr Return	9.2%	22.5%	72.6%	26.3%	(0.3%)	20.9%	18.5%	72.6%
Worst Qtr Return	2.3%	0.6%	(12.0%)	(15.4%)	(12.0%)	(3.0%)	(6.3%)	(15.4%)
STOXX Europe 600	*29.4%*	*(2.5%)*	*25.8%*	*(9.7%)*	*15.6%*	*9.6%*	*20.5%*	*11.8%*

For 2025, much of the positive result came in the first quarter and first few weeks of the second quarter. Much of that related to a couple of names. You should expect similar volatility and hopefully similar returns into the future.

Market Developments

The fourth quarter appeared calm. Equity markets drifted higher, volatility faded and complacency blossomed. Yet what defined the period was not what happened, but what was ignored. In the equity world, market leadership narrowed further and continued to revolve around AI, defence, and fiscal beneficiaries while execution risk was dismissed.

Cracks in the edifice of the credit markets emerged with the calamitous defaults of several highly leveraged names. First Brands and Tricolor in the US both collapsed and have now been revealed as frauds. Casa in Belgium, a homeware retail chain declared bankruptcy. As did Northvolt in Sweden and Signa in Austria. Indications that underwriting discipline has fallen by the wayside. Despite this, credit spreads remained tight, and issuance substantial. Leverage was treated as harmless. This is not unusual late in a cycle. Nor is it reassuring.

Financial engineering is most popular when it is least necessary and most dangerous.

Meanwhile, the real economy continues to be soft. Consumers are weakened, inventories remain elevated. Developments that attract little attention but matter nonetheless. Geopolitically, nothing is resolved. The war in Ukraine continues. Trade tensions linger. Unresolved, merely deferred. Markets treat this stasis as stability.

We perceive it as risk postponed.

Nevertheless, we remained close to fully invested. We are not invested in the broad market. We run a concentrated portfolio encompassing a few unconventional names already priced as if in a bear market. As long as we can find compelling investments with great risk/reward characteristics, we will continue to invest, even when broader markets appear overvalued.

The idea of concentration makes many investors uncomfortable. That is understandable. But it is worth noting that investors who favour passive indexing are also running concentrated portfolios. Often without realising it. The so-called Magnificent Seven now account for roughly one-third of the S&P 500, the most widely tracked index in the world. More broadly, the Technology, Media and Telecommunications sector now represents a larger share of S&P market capitalisation than it did at its prior peak of 45% in 2001.

History is instructive. High levels of index concentration, when combined with elevated valuations and crowded ownership, have repeatedly led to disappointing outcomes. Over the past 60 years, whenever a sector has become highly concentrated and heavily weighted within the S&P 500, subsequent returns have tended to be poor. In most cases, sector returns turned negative over the following three to five years. This pattern was evident in:

- 1968 – Industrials (Go-Go years conglomerate boom)
- 1972 – Consumer Staples (Nifty Fifty)
- 1980 – Energy (Peak Oil / Oil Shock)
- 2000 – TMT (Dot.com)
- 2007 – Financials (pre-GFC)

This time may be different, of course. But we would note that optimism and complacency were at their peaks alongside concentration in each of those sectors. Concentration is neither good nor bad. It is a tool. Used well, it will enhance long-term returns. Used poorly, it will destroy capital. The outcomes depend on price paid, the hardiness of the co-owners in the investments, and the degree of crowding.

We are comfortable with concentration where it is supported by valuation and resilience. We are not comfortable where it relies on optimism, leverage or greater fools coming in to help us exit. We believe your portfolio is an example of the former. We fear the broader pool of passive investors are unwittingly in the latter. Time will tell.

On the Topic of Artificial Intelligence ('AI')

Wall Street has spent 18 months breathlessly discussing AI. We've spent that time thinking about what it means for competitive moats and our attitude towards security selection. We approach the topic as investors, not engineers.

Market beliefs regarding AI seems to rest on a few assumptions:

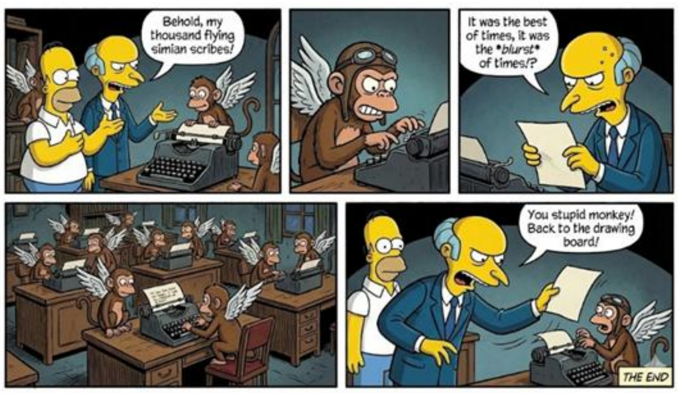
1) Large Language Models ('LLM') will prove similarly disruptive to knowledge workers as the industrial revolution was to farm workers and the Information Technology revolution was to factory workers. This will result in large-scale job losses and societal instability.
2) AI will erode traditional intangible moats, such as brand power, network effects, switching costs and domain knowledge, once it achieves a semi-sentient state due to computational superiority.
3) Most of the value transfer away from these businesses will be captured by existing LLM platforms given the large capital expenditure required to maintain and improve on the leading edge. Some value capture will be redirected to physical resources given the AI revolution requires substantial power and raw material capital investment.

All of these are reasonable conjectures. However, they lack universal reach and are therefore subject to critical analysis. To begin, one must distinguish between knowledge and information. **Information is a piece of data that describes what's happening in the world at a particular moment**, like a newspaper headline reporting an event.

Knowledge, by contrast, **is understanding** why something happened and **how a process works**, so you can make sense of information and use it effectively. A great test of true knowledge is one's ability to explain to another how a process works in an understandable way using lay terms. Anyone who has spent time reading Warren Buffett's letters to shareholders can testify to his true knowledge of business, valuation and accounting.

With respect to AI, we believe LLMs are more akin to smart librarians, not scientists: they retrieve and arrange existing information. Like a magician entertaining his audience, LLMs leverage computational speed to deliver the illusion of knowledge.

However, they don't create any.



We believe 'The Simpsons' foresaw such misdirection three decades ago. Mr Burns explained to Homer in one episode his belief in the "Infinite monkey theorem" which postulates that if you put enough monkeys in a room with enough typewrites, eventually they will create a great literary work.

The aim of the scene was to show the hubris and absurd faith Mr. Burn's had in brute-force productivity without intelligence or judgement. Strikingly similar, in our view, to the debate around LLMs today.

In short, there is an enormous difference between information and knowledge. This is important to highlight because it serves to differentiate between automation vs. knowledge creation. Here's a short excerpt from the blog Technically[1] that we wholeheartedly agree with:

"Let me start by saying that I do not think AI is going to put massive swaths of people out of work. But that's only going to be true as long as we are smart, adaptive, and embrace these new tools to make us all more productive and more creative. The problem is that there are tons of lazy people out there who are using AI completely carelessly, with such minimal oversight such that they are essentially writing their own pinkslips.

If you carelessly offload the core and soul of your job to AI, you cannot be surprised when someone decides AI can do it instead of you."

As a corollary to that, we also believe that human beings are resilient and adaptive and will recognize the dangers of automation and embrace this new paradigm of knowledge creation. This runs contrary to the fearful conclusions we hear from most on the potential societal upheaval from AI and threat of mass unemployment and discontent.

History refutes the pessimists. In 1798, the English economist Thomas Malthus observed that population grows geometrically while food production grows only arithmetically. He concluded this mismatch would inevitably lead to mass starvation, disease, and war as population outstripped food supply. Moreover he believed those things would happen in the near future. However, the Malthusian prophecy underestimated human ingenuity. The resultant growth in knowledge means today food production more than compensates for population growth from ~1 billion at that time to ~8 billion today. Just a century later the 'Great horse manure crisis of 1894' led experts to believe that NYC would soon become a stinking mess, buried under several feet of horse dung. That dire prediction failed to allow for the impact of the automobile and streetcars. The lesson from both is that linear extrapolation fails when innovation intervenes.

This dovetails into a discussion on the value of intangible moats at a company level. One way of thinking about intangible moats at companies is that they are either a representation of accumulated knowledge or a manifestation of lack of requisite knowledge. Brand, process efficiency and distribution networks would fall in the former category while switching costs and non-regulatory barriers to entry would fall in the latter. So when someone says it's hard to switch out of a general purpose database such as SAP, they are just highlighting a lack of present capacity to do so in a cost-effective manner. **There is little doubt that LLMs will increase automation by making it easier to do things that once required specialized know-how.**

However, we believe they will also reinforce barriers built on the importance of accumulated knowledge. As the celebrated physicist David Deutsch says in his book Beginning of Infinity, **everything that is not forbidden by laws of nature is achievable, given the right knowledge**.

Which leads us to the last point. **Capital intensity doesn't create moats. Railroads, automobiles, and airlines all transformed society, yet investors in these industries lost money anyway.** As Warren Buffett put it, aviation destroyed so much capital that a rational

[1] https://read.technically.dev/p/ai-will-replace-you-at-your-job-if

investor at Kitty Hawk would have been better off shooting down the Wright brothers' plane than investing in what came next. **This time won't be different.** Unless AI companies build knowledge-based moats, aggregate returns will disappoint. The same logic applies to AI's suppliers. Power companies and materials extractors have poor track records of turning demand into shareholder returns. Structural demand doesn't guarantee pricing power.

Maat's modus operandi is similar to that of Jeff Bezos at Amazon – focus on things that do not change rather than try to ride the waves of things that do. Uncertainty and risk of disruption are ever present. Hence we proceed with an open mind and an agile, iterative investment process that allows us to adapt whenever we must.

High Quality / High Multiple

This is our third letter to you. In many western cultures, three is considered a lucky number. However, on the flipside you may also have heard the old saw that 'bad luck comes in threes'. In Korea, there is a superstition that a photo taken of three people is unlucky and that it is likely the person in the middle will be the next to die.

Which is true? That is a matter of perspective. But prior association will often prejudice judgement subconsciously. Ask an Irish or a Korean person about how they feel about having three people in a photograph and you will get strongly contrasting answers, despite all conditions otherwise being the same. We love investing because we are curious and competitive. However, passion mixed with prejudice can lead to terrible mistakes. We work hard to counter our own biases. We *try* to separate facts from preconceptions. As it relates to luck, make no mistake, we always hope for good luck with investments we make on your behalf. However, we prepare for the worst.

As with before, we are going to describe a company, the issues affecting it and our take on valuation and opportunity. We hope it will prove instructive for you as to how we evaluate companies and invest. This is a company we have followed for years, but only invested in this the past quarter for the first time. It's business model is very different to the last two companies we discussed.

Some headline figures first. This business saw its revenues and EBIT grow at over 9% a year for the prior decade. All while paying a healthy dividend, and without incurring onerous levels of debt. It had an average EBIT margin of ~31% during that period. By the end, it had revenues of €2.5bn and EBIT of €706mm.

Even better, the business produced this while employing less than €1bn in average tangible capital, over that period. Indeed, that is only one of several attributes many investors of any creed would salivate over. The most notable being, in no particular order:

- High return on tangible capital (ROTCE), with..
- Large runway of adjacent markets to reinvest for growth
- Inflation protected revenues
- Large (and growing) zero cost Float, with…
- Upside to any increase in interest rates

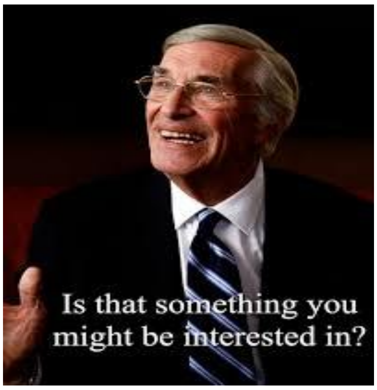
- Local market share dominance
- Diversification of exposure to ~45 countries, in..
- Oligopolistic markets with rational competitors
- Large and growing closed network (effects) providing a large moat
- Conversion of an analogue logistics business to a SaaS provider

All of that could be had at a valuation of 14.5x EV/EBITDA for the company in whole or for the equity alone at a P/E of 28x. Those aren't cheap multiples on a headline basis, we agree. But keep in mind, net income had also grown at high single digits over that prior decade, in tandem to an average dividend yield of 2.5%. All in, investors in that period had earned a return in the double digits, having started out at higher entry multiples than the ones shown above.

The prospects for growth in the coming decades looked even better and more assured than they had 10 years prior as the move from a logistics business dealing with paper items to a digital service provider was nearly complete.

Moreover, this is a business that has substantial float[2]. This can be a wonderful thing. However in this business, for much of the 2010's it was an afterthought, as interest rates in most of the markets it served had been at or below zero. With inflation sparking interest rates back to more normal historical levels post 2021, perceptions changed. Investors now projected the next 10 years would deliver higher interest rates, so any company with float would start pumping out a gusher of cash.

The final cherry on top was the ease of passing through inflationary price increases. As the lack of tangible capital would indicate, the subsequent increase in revenue requires little to no incremental tangible capital. The move to a digital SaaS model reduced cost and changed the cost structure such that a higher proportion, ~60% was fixed. This meant that during inflationary times, there would be strong operating leverage. Or in terms we care about, margins should expand, and more quickly than in the prior decade.



Considering all of this, a prospective annual return better than the ~12% of the prior decade was seemingly very possible. Here we have a high quality business, by the numbers, with clearly able management. The business has pricing power, a large and growing moat, and plenty of runway left to grow into. ***Is that something you might be interested in?***

For many investors who spent time on the company, the answer was: Hell Yes! Understandably so when things are laid out as above. Of course, as with any business and industry, there were some clouds on the horizon.

[2] Float is a concept made popular by Warren Buffett and Berkshire Hathaway. He has utilised it brilliantly to fund growth in Berkshire through their insurance operations. Float is money that is received and held by a company before obligations are paid out. For example, with your car insurance premium, the insurance company invests this money and earns interest on it.

As you know, we have a risk first attitude here at Maat. Not risk as defined by volatility around a mean. Rather as defined by our assessment of the probability of loss on capital invested in a security over 2-4 years. We accept volatility as one of the free variables as we target high absolute returns. With a concentrated portfolio of mostly equities, it would be naïve to expect anything different.

However, we also try to be mindful of path risk. Namely the journey market valuation may take between the day we invest and the day we decide to exit a position. We may get this wrong in the short run, but not for a lack of trying. Conversely, we think the company in question is a good example of when we got the path risk assessment right.

The company we are speaking about is **Edenred SE**. A French company that operates a specialized payment network that manages specific employee expenses, primarily meal vouchers (now cards) and fleet fuel cards. Edenred sits in the middle of a business to business to consumer (B2B2C) network. It acts as the processor between corporate clients (~1mm, with an average contract duration of 6 years), their employees (~60mm) and a vast network of affiliated merchants (~2mm), earning a commission from both sides on every transaction for essentials such as lunch, fuel, or EV charging costs. Traditionally, a predictable and growing business with a fee on every transaction and on the food side, with substantial float. We believe Edenred operates a form of **'scale benefits shared'** model where everyone involved gains a benefit from participating.

However, the historical record we refer to above is from 2023 looking backwards. At the time, the company hit a peak in valuation with a Market Cap. of over €15bn, and an EV of €17bn. Investors then looked at the business with an optimistic outlook and through a telescopic lens, far into the future. Extrapolating the prior decade. With the attributes and economics shown above, then assuming no change, a wonderful outcome was assured.

We liked the business and loved the attributes, but not the valuation as we saw the storm clouds from regulation in Edenred's three largest markets. Italy, France and Brazil were all exploring new regulations and approaches to the food card market amidst concerns of market abuse. Management was aware of these risks and was working to mitigate them. Nevertheless, with such strong operating leverage we felt a major impact in any one of the largest markets could be met with dismay. A major disappointment in more than one could change market focus and time horizon.

At the time we write this, the Market Cap. is €4.3bn and the EV €6.5bn. This despite growth in Revenues of ~28% from 2023 through 2025 to €3bn and expected EBIT of €1.07bn (35% margin). One can now buy the business at the following multiples (FY 2025): EV/EBITDA 5.0x, EV/EBIT of 6.1x and a P/E of 7.3x. The dividend has continued to grow along with earnings, and an equity holder now gets a 7.5% dividend yield. On top of this the company has instituted a €600mm share buyback. Insufficient in our eyes at this valuation, but still ~14% of shares outstanding.

At this point we expect you are asking what went wrong? **Did something unforeseeable, horrific and unexpected occur?**

Certainly, some things didn't go as hoped for. Those clouds in the distance proved to be large storms. But unforeseeable, or horrific? We think not.

Rather a cascade of foreseeable, if disappointing news, has changed the perception of the marginal investor. Two short years ago, the marginal investor was an optimist who employed a rose-tinted telescope focused on a best case future. The marginal investor today is a pessimist using a microscope to focus on every issue and extrapolate how bad it could get. Mr. Market has swung from euphoria then to depression today.

We will try to take Ben Graham's advice here and remain rational. After all, Mr. Market is there to serve us, not inform us. Edenred has had considerable volatility in valuation in the past three years. From peak to trough the share price has fallen over 70%. In the past three months alone the stock has rallied ~30% on a slight beat in earnings, only to decline 31% a few weeks later on bad regulatory news and a disappointing Capital Markets Day ('CMD') within a few days of each other. This has been a rollercoaster, and many nauseated investors walked away.

Who was right? Mr. Market buying in mid-2023 at an equity value of over €15bn? Or Mr. Market selling in the past couple of months at an equity value of €4.1bn?

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One of these two appraisals is wrong. At the current valuation, Edenred is priced for crisis. The Chinese symbol here has two meanings. Crisis and Opportunity. John F. Kennedy famously spoke to the idea that within every crisis rests a great opportunity. In the investment realm, the best opportunities tend to come when a wonderful business encounters a large, but temporary, malady that is mistaken for terminal illness. While Edenred is not a wonderful business, it is a very good one. We believe that the current challenges are real but not terminal. While the current valuation is driven by fearful extrapolation rather than a balanced analysis of the facts.

There is a story told of three friends who got caught in a terrible storm in the woods while hiking, with no hope of making it home before dark. The only hope was to camp, light a fire and stay warm overnight. Each of the friends had different dispositions:

The Optimist believed the fire would catch with the first match. When this failed, his friend ***The Pessimist*** lamented in despair that the fire would never catch. Thankfully, the last in the group of friends was ***The Pragmatist*** and always kept a butane lighter with him.

Thankfully, the friends survived. The moral of the story? The truth usually rests somewhere between our greatest hopes or fears, **but you will always do better if well prepared**.

As we have told each of you when we first discussed Maat, an analysis of the numbers alone is insufficient toward making an informed decision. Nor is a narrative, or some measure of business quality. Valuation is a holistic exercise reliant on judgement.

To prepare you properly to make your own assessment of Edenred, we must first inform you of the dynamics of Edenred's various business lines. Then we will briefly summarize the events that changed the mood so dramatically over the last 2 years. Before coming to our own assessment of which path the future is more likely to take for the business and investors. Along the way we will ask and answer the questions we think are most important towards deriving a sensible conclusion. After all, to get to the right answer, we must first ask the right questions, as Douglas Adams demonstrated so amusingly.

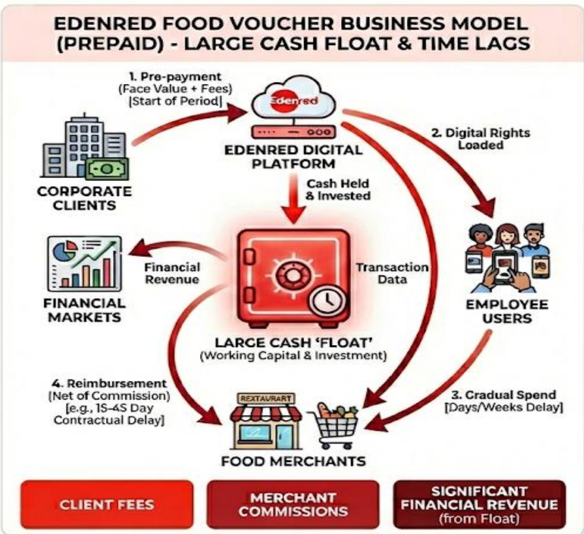
This is now a position in your portfolio and we owe you an insightful analysis.

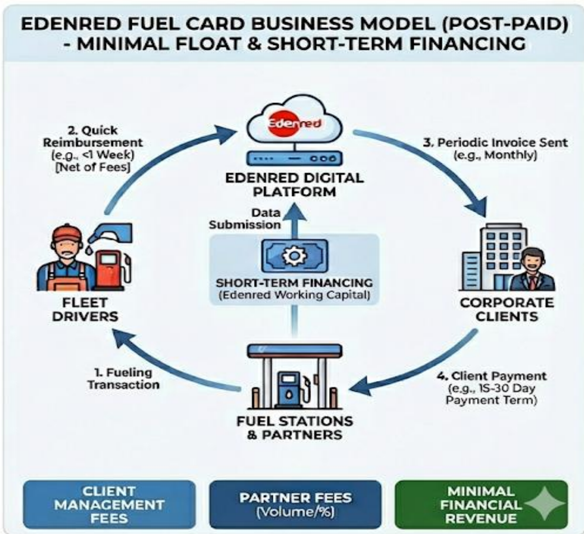
What does Edenred do?

Edenred has three divisions. Two provide the great majority of profit, while the third is small and a recent addition. The business was historically built on the first two: food cards (formerly paper vouchers) for employees, and then fuel cards for large fleets. These two products still make up the great majority of profit. Even though the business has now diversified away from reliance on them.

The first division is ***Benefits & Engagement (60% of revenues)***, within which food cards now sit. It has diversified into lateral services for corporate clients and their employees, taking advantage of the large network the food card business developed. Food cards remain the engine of that division. The second division is ***Mobility (22% of revenues)***. Likewise it is still dominated by fleet fuel cards, and has followed the same strategy of diversifying into adjacent services built on the back of the large existing network. The final division is ***Complementary Solutions (10% of revenues)***. For the eagle eyed amongst you, the remaining ***8% of 'other'*** revenues comes from interest on float.

As food and fuel cards are the engine of Edenred and the former is the source of both prior euphoria and current despair, we will explain the fundamentals of both. Both are network centric businesses, but have distinct differences. The following gives an idea of how they operate (food on the left, fuel on the right):





Starting with ***Food Cards*** (which are pre-paid) and from top left:

1) The *Corporate Client* deposits cash with Edenred for employees to use. This creates *Float* for Edenred, or in other words, generates a large outstanding borrowed amount at zero cost, though that cash is restricted in usage. This resembles float generated in an insurance business, but without the associated cost of servicing a claim that insurance comes with.

2) Edenred collects the cash, takes a small commission, the '**Client Fee**' and the net proceeds are allocated to cards for ***Employee Users ('Issuance')*** of the corporate client. For large corporations, the clients may also receive a kickback from the merchant fee collected by Edenred.

3) The float duration is in part a function of how long it takes employees to spend these funds. **It cannot be spent instantly**. This has a regulatory aspect. In most countries where there is tax deductibility there are strict limits about the *maximum daily spend* for an employee at network affiliated merchant. Meaning an employee will need several weeks to spend the full amount.

4) Edenred reimburses the ***Affiliated Merchant ('Acceptance')*** net of a '**Merchant Fee'**. However, reimbursement is typically made only after a lag of 15-45 days. This is the second driver of float duration. This is also often regulated. The merchant fee is similar to the fees charged to restauranteurs from food delivery services, like UberEats, Deliveroo or DoorDash.

There is an additional form of revenue (omitted in the graphic above), with ever diminishing relevance known as '**Breakage'**. This is proceeds deposited but never used. In the past this came mostly from lost paper vouchers. More recently it was from amounts unused within a specified period. With the move from physical vouchers to digital cards breakage is heading towards zero. Food cards contribute ~43% of total Revenues. However, they are traditionally higher margin than fuel and thus contribute a higher percentage of EBIT.

Fuel Cards are similar. They also use a 3 point network, with Edenred sitting in the middle of corporate clients, their employees (fleet drivers) and affiliated merchants (petrol stations). However, the critical difference is that Edenred has considerably less leverage in this network, given consolidation on the merchant side. This is manifest in payment terms. The fuel card business is post-paid. This removes two of the five sources of revenue when compared to food cards – float and breakage.

As the network in either business line grows, the network becomes more valuable. This confers greater advantage to Edenred as the middleman. This is because in both cases the network is a closed loop. No outsiders can participate.

That is the general explanation. Getting to specifics, Edenred earns revenues from the fees it charges, breakage and float income. Float income for 2025 should be ~€220mm on average float of ~€4.2bn; an effective rate of 5.2%. The industry term for how much Edenred earns from the various fees and breakage is the **'Take-up Rate'**. That combined with income from float constitutes total revenues. How does this look for Edenred today and compared to 10 years ago? The following table shows an estimate for this based on disclosures:

Food Voucher/Card Take Rates constituents from 2011-2015: (Morgan Stanley Research)							Maat Estimate	
	2010	2011	2012	2013	2014	2015	2022	2025
Client Fee	1.4%	1.1%	1.0%	0.9%	0.8%	0.8%	0.8%	0.7%
Merchant Fee	3.3%	3.5%	3.5%	3.5%	3.5%	3.4%	4.4%	4.4%
Breakage	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.2%	0.2%
Operating Fee (Take-up rate)	**5.3%**	**5.2%**	**5.0%**	**4.9%**	**4.8%**	**4.7%**	**5.3%**	**5.3%**
Financial Income (on Issuance volume)	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%	0.1%	0.6%
Total Revenue as % of Issuance	**5.9%**	**5.8%**	**5.5%**	**5.4%**	**5.2%**	**5.1%**	**5.4%**	**5.9%**

As you can see, breakage has been diminishing as one would expect after digitization. Client fees have also declined somewhat. This has been compensated for by increasing the burden on the merchant network.

In 2023, optimists extrapolated the positive trend in the take-up rate. In addition, voucher values allowed by regulators (there is a limit in daily value) typically follow inflation with a slight lag. This in tandem to higher interest rates implied both revenues from the operating fee and float income could experience substantial growth, with large drop through on margins given a ~60% fixed cost base. However, the figures above are averages over more than 40 countries and different corporates. The ranges on each of those fees is enormous and was a source of concern.

Why does this exist?

For many of you, the idea of food cards may be novel or strange. The concept came about in France during a period of high taxation and high inflation. The government wanted to create incentives for employers to give more benefits to employees relating to fundamental essentials. Food vouchers could be given as a perk to employees. Those vouchers were not subject to payroll tax or social security contributions from either the employee or employer.

How do the parties benefit?

For the **employee**, food cards increase purchasing power on the most essential item in their budget. The extent of this increase depends on local tax (social security) levels. It can be 40% or more than the equivalent in cash salary in certain countries.

For **employers**, they also get a tax (social security) benefit, albeit smaller than if they gave the same amount in cash. In addition, they get happier and more engaged employees, for the same direct cost to themselves.

For **merchants**, they get a large (and growing) pool of money that must be spent on food and within a given time period. A pool that they will not have any access to unless they become an affiliated merchant of the closed network Edenred provides. In countries with high penetration of food cards, this can mean an increase in potential patrons of over 30%. Better than this, the average food card user has a higher average spend than a non-user. In part this is because the user can add their own personal payment on top. Employees can also add discounted food card credit with their own cash, beyond the tax limited daily spend.

For **Edenred** they get the fees from those parties, the interest on float and any breakage. This is a win-win-win (win) situation for all parties involved. Indeed we believe it is ***akin to the scale***

benefits shared model, as explained by Nicholas Sleep of Nomad Partners when describing his mental model of both Costco and Amazon.

In that model the idea is that as businesses scale they get greater procurement power in negotiating prices with suppliers. Like with Edenred, the suppliers take a lower margin, but do so to get access to a closed network they would otherwise be excluded from access to.

However, rather than just pocket the gain for themselves, Costco & Amazon pass it back to their end customers in the form of lower prices. This increases the companies relative advantage vs. competitors, by increasing the value to end customers. More customers are drawn to the great prices. Which grows the customer base and gives more procurement power to the company. And so the virtuous loop of growth continues. The company maintains a low margin, but on the fast growing revenue delivers large absolute growth in both revenue and profits. All while increasing their moat vs. competitors.

Where does the scale benefit shared analogy end?

However, we believe the Edenred model to date is only akin. There are *two major differences for Edenred*. First, they have not always been so kind in sharing the scale benefit. Indeed, in the eyes of the government in several countries they have abused their power with smaller merchants. This has been the driver of their recent problems. Second, they have some regulatory protections as part of the food card business. Those protections limit competition outside of the oligopoly.

The mix of these two factors is a major contributor to such high margins and returns on tangible capital.

What could happen if those protections were relaxed, removed or reversed?

Without those regulatory advantages the ability to keep the network closed and free of broader market competition could diminish or disappear.

In the worst case, regulation could change from support to guillotine if, for instance, an open network was mandated. The fear of the guillotine is that it could open 'fat and happy' oligopolists to competitive predators of much greater scale in adjacent areas (Mastercard, Visa, Adyen, Stripe, etc[3]). Such competition could devastate the economic model of Edenred and its fellow incumbents and render even the current valuation untenably high. A lesser headwind would be limits on fees and/or limits on delay in payment to merchants. This could reduce margins sustainably and impact near term growth.

In short, the wonderful economics and attributes we discussed earlier rest in large part on a foundation of a closed network and the power it confers on Edenred via a large segregated pool of specific purchasing power. This closed network originated and grew on the back of regulatory protections. So it is important to understand what some of those protections are, the nature of complaints about some of them and how much they may change.

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[3] Stripe and Adyen as payment processors could be competitors if one opened up the network, although they would need to partner with a merchant acquirer as well such as Worldpay, Nexi etc.

What are some of these regulatory protections?

Both food cards and fuel cards benefit from regulatory protections in the form of guard rails. The mechanism of the guard rails differs fundamentally between the two products.

For food cards, the barrier is institutional and social. For example, in France, the amounts on the card aren't actually money. They are a form of special scrip currency that requires strict enforcement of 'purpose restrictions' (e.g. food only, daily limits) to maintain tax and social security exemptions. This forces issuers to manage complex merchant whitelists that generalist payment processors avoid.

For fuel cards, the barrier is fiscal and technical. The value proposition is the guarantee of tax deductibility for corporates of fuel expenses, which requires the capture of granular data (e.g., exact litres, fuel type, station ID) at the pump. Standard bank card networks were not built to support such data or such reporting, though they could do so. So far, the cost benefit proposition has not proven appealing to them.

For example, in France and Italy, the food card guard rails are cemented in law. France's protection relies on the CNTR (Commission of Restaurants), which mandates that merchants be 'assimilated' to accept vouchers, creating a closed network that blocks generalist cards from being used at ineligible locations like non-food retailers. In Italy, the food card market has converted into a regulated utility from a largely unregulated state after a shocking scandal involving extortionate behaviour from a large local food card player.

For fuel cards, the best example comes from Mexico. There the guard rail is the 'Monedero Electrónico' authorization granted by the Tax authority (SAT). Fuel purchases are only deductible if paid via an authorized wallet that issues a digital invoice, with data that general card systems omit. This precludes standard cards from being used to purchase fuel that is tax deductible.

In other regions, fuel card suppliers just use procurement strength to negotiate discount rates or other preferred terms on behalf of their corporate clients. In addition, they provide value in accounting for expenses and critical fleet usage data that helps fleet managers minimise logistics costs. Merchants again get a pool of money they otherwise would miss. While drivers get ease of use and often some discounts for their own purchases.

Are there any non-regulatory barriers?

Even in Countries with no regulatory protections, in legacy markets with scale the existing network and approach to creating it can prove a large barrier. To create such a network requires a large salesforce. First to approach merchants and negotiate discounts for corporate clients. Second to approach HR departments at various corporate clients to explain the benefits of joining and to negotiate a fee from them for the offer, or in the case of very large corporates, on occasion to negotiate a rebate they will get from Edenred.

Acquiring merchants is certainly something that other payment companies can do relatively easily with online businesses but that has proven a much harder nut to crack when it comes to brickand-mortar merchants. Stripe and Adyen, for example, focus on partnerships with independent software vendors such as Shopify, eBay and Amazon that acquire those merchants for them.

Acquiring corporates via HR departments however, is very different to their core business and may prove a substantial barrier. Edenred's average contract duration with corporate clients of 6 years also makes it harder for any new entrant to sweep up share in one fell swoop.

How easy is it for someone to come and compete in this space?

To press the Buffett test on how easy it would be to compete with this business if given a sum of say €6.5bn, how well could one do? Edenred has a leading position in most countries it operates in, for the food business. It is in 45 countries, with 1mm corporate clients, and 2mm merchants on its network. About 165k corporate clients are up for contract renewal annually. Edenred has ~12k employees, 3.5k in technology and much of the rest in sales and marketing towards corporate client HR and logistics departments, or to merchants.

For a newcomer, building out and supporting such a sales force would take considerable time, effort and expense. Both corporate client and merchant rolls would be hard to build unless a much lower revenue share was offered. The chicken and egg problem here is real for a prospective Edenred competitor, with respect to a pitch to corporate clients, and arguing the value proposition to merchants when the pool of both is small or non-existent.

Small regional players have attempted to compete with Edenred and incumbents. iFood in Brazil has had some success and has built a network of ~350k merchants. However, they are struggling for profitability and their model doesn't seem to travel. Others have tried also, a few years ago offering an integrated wallet on one app. Edenred was slow to counter this, but has now bettered that offering and is deploying that approach across its various regions.

The customer acquisition cost (CAC) of building such a network is not trivial. The well-known food delivery companies provide a nice analogy. At one point these were considered a threat to Edenred. They now cooperate. Some examples are instructive.

Delivery hero has built a merchant network of just under 1mm active merchants. Since 2013, Delivery hero has raised just under €11.5bn in capital (€7.8bn in equity, €3.7bn in net debt) to assemble that network. It does have ~€14bn in Revenues, but an EBITDA margin of only 6%.

Just Eat has raised ~€1.5bn since 2013 between debt and equity. It has €3.5bn in revenue, but is breakeven on an EBITDA basis, after many years of losses. There are ~360k merchants on their network.

DoorDash has a merchant network of ~600k. Since its founding in 2013 and through private capital raises, in addition to the IPO in 2020 and debt issued since, we believe it aggregated ~$7.5bn. It does about $14bn in Revenues with a 20% EBITDA margin, with a focus on local strategic dominance, like Edenred.

This is all superficial we know, but those three examples would show capital raised per merchant on the network of €4.5k - €11.5k. By this admittedly back of the envelope metric, Edenred's 2mm merchants would suggest a replacement cost of €9bn - €23bn. In addition, there are strong arguments that Edenred's network is more valuable, given long-term contract lock-in and cheaper CAC for end users, via block acquisition at HR departments. What this should make clear is that a large network is neither cheap, easy or rapid to build.

Why are food card issuers under attack?

It all comes back to the take-up rate and abuse of market power. As mentioned earlier, the Take-up rate table we had shown was an average. In most countries, there is huge dispersion in how take rates are charged to various merchants. A large restaurant chain such as McDonalds may negotiate a merchant fee of ~1% or so. However, smaller restaurants can be charged a take-rate in the teens. In effect, smaller enterprises (SME's) subsidize larger corporations in this arrangement. This dispersion in fee rates was viewed by several governments as predatory.

The same skewness in merchant fees is just as prevalent for the large food delivery companies such as Delivery Hero, Just Eat and DoorDash. Those companies charge merchants up to 30% of gross order value, in exchange for delivery logistics, payment processing and promotion to the top of their merchant list. If a merchant does not choose to be a priority the fee typically drops to 15% - 20%, and if the merchant provides its own delivery the rate can drop to 6%-8%. This is the typical fee card rate for a smaller restaurant. For behemoths such as McDonalds, or KFC much lower rates apply. The skewness in merchant fees by size of merchant is as bad if not worse than for food cards at Edenred or competitors.

Why do merchants accept this? Because there is huge incremental business on those delivery networks they would otherwise miss out on. For the same reason the Edenred network appeals. More customers looking only for your product or service and with a desire to spend.

However, unlike those delivery companies, in the countries where Edenred gains most revenue they operate with the aforementioned regulatory protections to competition.

The most striking example is Italy, Edenred's biggest market. The market was largely unregulated until late 2024. Regulation was prompted by the bankruptcy and fraud case against local food card issuer Quigroup, in 2018. The highly publicized case turned the public lens on systematic flaws and abuse of discounting practices. Smaller merchants were paying fees of up to 25% and forced to endure collection delays of 6 months. This was rightly seen as extortionate. Noises around regulating the sector were loud already in 2022.

What went wrong for Edenred and other food cards issuers and how bad could it be?

Hence the new law in 2024 in Italy capping merchant fees at 5%. This did create barriers for non-specialists, which is a meaningful positive for Edenred longer-term. However, the short run impact is punitive. The impact of cutting off the long tail of merchants with fees much higher than the 5% cap had been underappreciated. Those higher fee merchants provided most of the margin resulting in an average all-in take rate we estimate of ~7% vs the group average of ~5.3%. That such a cap might be imposed was understood, the potential impact was not. A small move in the average could have a large non-linear effect on margins due to the high drop-through. When the cap was announced, Edenred delivered the bad news.

Management expected a hit to EBITDA of €120mm (10% of company EBITDA for 2025) on Italian revenues of ~€325mm. This was a huge decline in EBITDA margin. We can only guesstimate prior and post margins, but we think 50% to 20% is in the ballpark. Bringing Italy from above to below average margin for Edenred.

As bad as the hit to margins, was the hit to investor confidence and conviction. Introspection began: Was this more of a Blackbox than they realized?

Worse, Brazil and France (2nd and 3rd biggest) were also investigating a change in regulations from similar concerns. Could worse happen in those markets?

Throughout the 2022 – 2025 period various bills and proposals were presented by Brazilian and French governments. While French proposals looked like a net positive (and still do) if passed, the uncertainty left people concerned. The major concern throughout for investors however resided with Brazil.

Draconian moves such as moving to the national zero lag PIX digital payment network were touted which could in effect kill the food card business for all incumbents. This was seen as the worst case scenario, but also perceived as a negotiating ploy. That move could occur, but rampant tax evasion would likely come alongside.

The second worst scenario would be a merchant fee cap, a limit on period for float and a dictate to make all networks open. The first two would put a major dent into margins as Italy demonstrated, since Brazil has similar take-rates to Italy. The move to an open network could, over time, destroy take-up rates and margins by killing the bargaining power of Edenred's network. That pool of money would no longer be captive.

From late 2024, investors had a laser focus on any headline relating to regulatory proposals or updates from Brazil or France. Watching from the sidelines, moves in the share price felt to us more like punters reacting to every move in a horse race.

Is that a light we see at the end of the tunnel?

With Edenred's Q3 operational update in October, and latest French draft, it looked like the worst may have passed. Many analysts touted a trough had probably been reached. Management spoke to the positive news in Brazil. A move to the PIX system had been shelved, while after close consultation with the Lula government, the new regulation was likely to be only mildly impactful. A near term hit to margins and earnings was a given, but a long-term regulatory barrier to large competition was likely to be the benefit, as had happened with Italy.

A slight beat in Q3 earnings vs. expectations saw a ~30% rally in a few days in the share price, adding ~ €1.5bn to the market cap.

It was a train! The Coup de Grace – A Capital Markets Day and Brazil

The Capital Markets Day ('CMD') a couple of weeks later was now warmly anticipated.

With more details on how mitigation in Italy would work, how Brazil might function and what new long-term goals might be. Unfortunately the CMD was a dud.

Management was upbeat as always and peddling the story of how Edenred had moved from an analogue logistics company shuffling paper to a SaaS company generating tremendous data and opening up new adjacent markets. This is all true, however investors had moved from being delighted by long-term strategy to a desire to understand how the underlying economic engine worked. More specifically to how exposed it might be to further shocks.

Rather than address that elephant in the room, management moved the goalposts. Many investors had grumbled in the past about the opacity of disclosure by Edenred. While revenues had been disclosed historically on both a segment and a regional basis (France, Latin America, Rest of Europe, Rest of World and Other), profitability had only ever been shared on the regional front.

With revenues, at best one could garner the take rate for those broad geographic buckets, such as 5% for France, 6.5% for the Rest of Europe and 5.5% for Latin America. Nice to know, but more granularity per country was clearly very important. For instance, how much of Europe was influenced by Italy? With EBIT, we also got that by broad region. Rest of World produced the lowest EBIT margin at 11%. Rest of Europe the highest at 37% EBIT margin, with France at 21% and Latin America (LATAM) 29%. However, profitability by product area was glaringly omitted.

When problems were theoretical, the lack of disclosure was not a point of focus. When people realized the exposure post Italy, concerns grew. Moreover, there had been some grumblings from investors over the years about promotional presentation of results. For instance, management was keen to emphasize like for like sales growth for the group. Nothing wrong with this on its face. But with LATAM being such a large contributor, the overall measure was too flattering given high inflation. The nominal growth was true, but the measure ignored the large offsetting foreign exchange depreciation. Actual growth in €uro terms was lower.

Fear and loathing in Paris – moving the goalposts and using the wrong yardstick

At the CMD Management briefly reassured on France and Brazil. Much of the rest of the CMD was spent on explaining how they would continue to grow through 2030. However, rather than reassure, most investors ended the day more confused.

Edenred was long known as a long-term cyclical exposed to employment in its key countries. After all as unemployment climbs, number of cards issued declines commensurately. Management had long wanted to reduce their exposure to this volume risk in addition to mitigating their reliance on regulatory guard rails against competition.

Strategic Pivot – a brief aside for context

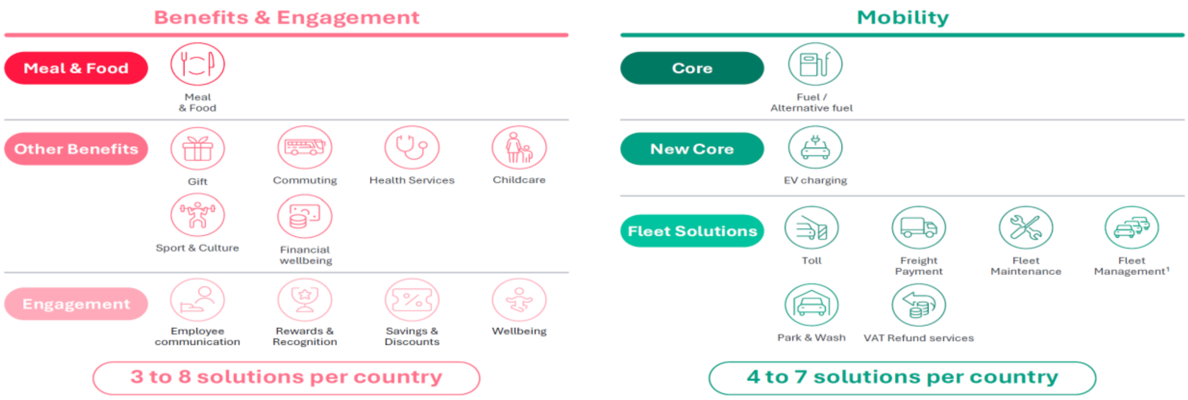
Management had a few years prior moved to the new broader segments for those reasons. The strategic changes make sense too. Edenred recognized they had large powerful networks in each of the countries they operated in. In almost every region they were largest or second biggest player.

In an analogue world, adding SME's or adjacent services was a logistical nightmare. Adding SME's and serving their small card volume was a low profit activity. While adjacent services would require its own card printing, sorting and accounting. The move to digital eliminated such marginal costs.

Adding more clients (expanding the network) and services per client would make the benefits of joining the network more valuable. Moving towards a subscription model would also reduce economic sensitivity. In short, the Lifetime Value (LTV) of the users on the network would increase substantially with only a moderate increase in the (CAC) of new clients. The higher the ratio of LTV:CAC the better and the more valuable the network.

Edenred now sells to HR departments of corporate clients a suite of employee and mobility benefits. Prior to this, Edenred had one product offer in each of those areas. They have now expanded their purchasing power to negotiate discounts with a broader array of merchants to offer into their 60mm+ network of users. This is easier to show than to describe.

The following from their CMD in November should give a clearer impression. From food being the sole service offer in 2010, Edenred now offers 3 to 8 services, depending on Country to HR managers in Benefits and Engagement, with the same happening from fuel to Mobility:



From only offering fuel cards to fleet managers, they now offer solutions for EV charging at home, in the office and on the road. This may sound counter intuitive, but that opens a large new market of corporate cars that was previously inaccessible. The shift to a multi-modal fleet across heavy and light vehicles makes fleet management more complex for fleet owners. Especially when one considers the byzantine tax rebates available for certain EV's and reporting requirements around CO2 emissions across regions. The same is true for digitizing toll payments and VAT refunds across borders. Edenred tries to combine all these services with the appeal of pre-approved maintenance support at heavy discounts across various geographies, all in one phone application for drivers.

This moves Edenred's otherwise commoditised fuel card business to something with much greater appeal and a network with greater stickiness. The payment framework for Edenred has changed also, from volumetric plus a minor service fee in the past to a pay per user subscription package, with additional fees per service used.

Likewise in food, revenues in the past were simply a function of cards issued, daily spend and then fees on the amounts deposited plus float income. Now when dealing with HR departments, Edenred salespeople offer additional services such as gym membership or pass access. Bundled commuting discounts (bus and rail pass deals), daycare subsidies, or special account services with a bank etc. Any one of these additions may have only a minor impact. In combination, they are powerful tools for HR with respect to engagement and employee satisfaction.

This underlines one of the clear benefits in the move to digital from analogue. While breakage is evaporating, and float duration will diminish (it has gone from 9 weeks on average in 2010 when digital penetration was 35% to 7 weeks with ~90% digital), there are offsetting benefits.

- Greater ease of adding SME's with little marginal cost (800k were added in '25)
- Greater ease of adding merchants in non-food verticals
- Enormous data generated from digitized transactions, and..
- Ability to offer targeted advertisement, plus..
- Ability for merchants to offer individually & locally targeted discounts/offers
- Ability for Edenred to link up with other affiliate businesses

Affiliate link up is already working well for pulling in SME's. The number of SME's in the Edenred client base is up over 4x since 2016, aided by partnerships with Itau bank in Brazil, or American Express for fuel cards in Mexico. The latter should speak to reluctance of traditional card processors to create a new network only to service highly localized and regulated small niches.

Equally, the richness of data Edenred possesses makes them a valuable outlet for merchants for targeted offers. This is akin to the Groupon business model offering discounts to end customers with Groupon as network holder. Edenred can do the same but in a better way at a lower cost and with greater value to all participants. Edenred now has an affiliate ecosystem of 70 apps within its own application where end users use a discount code to purchase the service and Edenred gets a referral fee.

The pivot is still in its infancy. In 2025, the average Edenred corporate client uses only 1.5 services on average. Their plan is to move that average to 2.5 by 2028, and to 5 by 2030. If this is achieved the network will be larger, more resilient and far more valuable for the participants.

The idea is to increase the value and appeal and thus value of the network. In the 2022 CMD, Edenred shared some figures around the value of their network compared to other industries. They did so through the lens of the LTV:CAC ratio[4].

For Benefits and Engagement the ratio in France was **13x**, in Brazil **10x** and in Belgium **11x**. For Mobility in Brazil it was **11x** and **10x** in Mexico. Keep in mind, those latter two have no headwinds regarding regulation. For context we believe the following ratios are roughly true for e-commerce companies in a few industries:

- Mobile gaming companies: **2x - 3x**
- Streaming services (Netflix, Disney+, Amazon Prime): **2x - 5x**
- Food delivery services (Delivery Hero, Just Eat, DoorDash): **2x - 3x**
- Fintech services (Revolut, Klarna): **3x - 4x**

[4] One must always take such measures and comparisons with a pinch of salt, as both figures are subjective and easily abused. Nevertheless, the comparison was noteworthy.

Some rules of thumb for these ratios: **1x** or below is value destructive and terminal. **1x – 2x** will just about allow survival, but any shock may kill you. **3x** is self-sustaining and should allow for self-funded growth. By those measures, Edenred's network is remarkably valuable[5].

The question remains as to how sustainable their model and these economics are. However, we can also look at the sensibility of Managements plan through this lens. **CAC** and **LTV** are usually calculated as follows:

$$CAC = \frac{Total\ Sales\ \&\ Marketing\ Expense}{\#\ of\ new\ Customers\ Added} \qquad LTV = \frac{ARPU \times Gross\ Margin\ \%}{Churn\ \%}$$

On the CAC side, it is the same salespeople approaching HR departments, just with more services to offer. Hence CAC should increase only marginally. On the LTV side, Management openly wants to increase ARPU[6] through fees for additional services. In addition, the greater the variety and value of services, then the lower churn should be. Edenred today has an average contract duration length of 6 years implying churn rate of at worst ~15%[7] p.a.

CMD Confuses

It should have come as little surprise that Management would move towards an ARPU KPI measure given the move in segments toward more than one service, and considering they had started comparing on a LTV:CAC basis in 2022. However, execution on the day of the CMD and the timing of it given the past 2 years left much to be desired.

Edenred revealed they have a current ARPU of €45. Which compares to €5-€10 for payment providers in general, €25-€35 for their peers, such as Pluxee, and €50-€100 for meal delivery providers. Management target a 55% increase in ARPU to €70 in 2030. This alongside modest user growth would ultimately lead to revenues of over €5bn by 2030. If they could achieve that then EBITDA of €1.35bn would be maintained by 2030 even if EBITDA margin declined from the current level of 43% to 27%. Moreover, absent a substantial increase in churn or CAC, then ceteris paribus, the increase in ARPU should mean an increase in margins rather than a decline[8].

There is genuine reason for positivity if their targets on revenue are met. Although, we are sceptical on that revenue target.

So why the poor reaction to the CMD? The ARPU measure was not well conveyed, nor was any bridge from the past or into the future given, beyond a stylized graph showing an ARPU of €25 in 2016. How then can investors compare the future to the past?

Worse, when pressed on how the growth in revenue would be achieved between growth in number of users, ARPU and M&A the answers given didn't inspire confidence. In particular growth in

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[5] One other thing to note is that user engagement with the Edenred app is much higher than for food delivery services, Uber and emerging local competitors such as iFood in Brazil.
[6] Average Revenue per User
[7] For best-in-class SaaS companies, it is feasible to get churn below 10%.
[8] We pick the 27% margin example purely to illustrate how much margins can drop before profits do if they can hit their revenue and ARPU target. Indeed EBITDA margin was ~33% in 2016 with a €25 ARPU vs. 43% margin expected for 2026 at the current ARPU.

certain variables didn't seem consistent or sensible[9]. Management responses were vague and frustrating. Perhaps adequate when tailwinds are pushing business forward. Unacceptable after a cascade of disappointing news and with the share price down 70% from the peak.

Brazilian bloodbath

If the CMD had put a damp cloth on expectations, the Brazilian government inspired dread just 6 days later with their regulatory decree for the food card business. It wasn't the worst case, but it was a close second.

The decree introduced a cap on merchant fees at 3.6% and shortened settlement terms to 15 days from roughly 30. Investors were understandably horrified, recalling what a 5% cap had done in Italy. This was nothing like what Management had indicated the prior week. Moreover, that wasn't the worst part of the decree. They also mandated that all operators open their networks and make acceptance of any cards fully interoperable.

This was a shock to the entire industry and a major embarrassment for Edenred management. In short order they issued a press release lamenting that this was not what they had understood from their deliberations in Brazil, and that they would be suing. Nobody cared.

Events in Brazil killed all faith in management. Investors who had been on the fence now looked at them through a harsher lens. Either they were naïve or they were dishonest. Neither are traits one would desire in a management team.

In tandem, they announced the impact on profitability would change guidance on EBITDA in 2026 from slight growth, to a hit of €150mm - €200mm (12% - 16% of 2024 EBITDA). This on Revenues of €520mm in Brazil, with ~€260mm from food. We estimate that EBITDA margins in Brazil before the announcement were north of 50% and may be ~20% afterward[10]. Before considering long-term impact of network opening.

Digesting it all and looking forward

Contemplating the sequence of events from October 2024 with Italy's €120mm hit to EBITDA, through to Brazil's potential €200mm impact, 26% of 2024 EBITDA had evaporated at a couple of strokes of the pen. Hugely concerning. Prior to this, even the most bullish investors had some pause around management and capital allocation.

In 2023 Edenred did its largest ever acquisition paying €1.33bn for a SaaS company called Reward Gateway, that provides benefits and rewards for members. The market was shocked at the price paid, with an EV/EBITDA multiple of at least 20x after synergies. There was a negative reaction to this deal and some head scratching at both the valuation and the rationale.

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[9] One sell-side analyst triangulated from various targets that only ~3mm additional users would be added to the current 60mm by 2030, and that given they had mentioned adding ~700k SME corporate clients per year, that implied an average SME with ~ 1 employee. While a target 5% aggregate growth in users over 5 years disappointed.

[10] This is challenging to estimate. Brazil is only ½ regulated food. Of the €150mm hit at the low end, we estimate ~€120mm is operating EBITDA, the remaining €30mm is hit to float.

After the impact of Italy and Brazil was realized, investors looked back on that deal with hindsight, some bitterness and suspicion. Had management understood more about the downside that was to come than they had let on?

Is it any wonder why the mood amongst investors has gotten so gloomy? Or why people no longer trust management and their projections? Or their own understanding of the business?

Many investors were disappointed. Some were embarrassed. Almost all were left frustrated and uncertain.

Would something similar happen in France? Could the Brazilian decree become a landmark precedent for Edenred's other markets?

All of these questions and concerns are understandable. If the food business is permanently impaired in general, then Edenred may not be attractive, even at the current price. However, we don't think this is the case.

Reasons for hope

First, we think it is worth revisiting what has happened in Italy post the shock of late 2024. There are mitigants to the €120mm shock. Part of this will come from fee increases to other parties on rolling contracts. Part from cutting some costs. Additionally they plan on…

Making it up in volume

The Italian Government announced in late 2025 a 25% increase in the face value of food card allowances per user (as have other countries). This grows revenues by that amount while management is working on reducing costs. Keep in mind also, that Italy is now a regulated oligopoly. Margins for Edenred are lower, but they are also now likely safer for longer. Moreover, a merchant fee cap should accrue competitive advantage to the largest scale player by creating a walled garden.

Similarly in the furore surrounding the merchant take rate cut in Brazil, the benefit from removing any kickbacks to corporates has been forgotten. This makes it harder and less appealing for newer players to undercut and win loss making business to establish a toehold in the market. With a level playing field, market share should accrue to the larger players with the best digital footprint such as Edenred.

Taking a step back, even after giving effect to the Italian and Brazilian hits, total EBITDA should still be in the worst case, at least €1.15bn for 2026 and perhaps over €1.2bn. This one can compare to the current EV of ~€6.5bn for a headline EV EBITDA multiple of 5-6x. The Brazilian hit is brutal, but ***the question we ask ourselves is how much worse can it get?***

Let's invert - 30% of Edenred Operating EBITDA comes from non-regulated & non-Food services

The easiest place to start is with the Mobility business. Prior to 2016 Edenred earned little from mobility outside of fuel cards. The mobility segment in 2016 had €190mm in revenues with EBITDA margins of ~30%. In 2025 Mobility revenues increased to €625mm, of which at least

€200mm is non-fuel related and less cyclical. For 2025 this segment should deliver EBITDA of ~€275mm (>40% margin). Revenue and EBITDA has grown at an impressive CAGR of 14% and 18% p.a. through a combination of organic growth, operating leverage and bolt-on acquisitions.

The Mobility segment has some well-known listed comparables in the US. Corpay is a payment service business servicing fleet managers, including fuel cards. It is sizable, with $4.5bn in Revenues and a 51% EBITDA margin. Since 2016, Corpay has grown revenues and EBITDA at ~10% p.a. Wex is another covering fleet management services (including fuel cards) as well as other accounts payable software with a focus on healthcare. It does about $2.6bn in Revenues and a ~34% EBITDA margin. WEX has grown at a revenue and EBITDA CAGR of ~11% and 15% respectively. The financial success of all three businesses serves to illustrate the durability of economics and growth within an attractive market.

How much is Edenred's Mobility business worth?

Corpay trades at 11.5x 2025 EBITDA while Wex trades at a 5.8x EBITDA multiple. Those EBITDA multiples for both are far below the historical average, while WEX is also experiencing idiosyncratic problems. It has a narrow geographic profile and is more reliant on fuel prices and the more commoditized fuel card business.

Beyond this, there have been several transactions for fuel card or fleet management businesses in the past 10 years or so worthy of note. Most have been in the range of 9x – 12x EBITDA, albeit for slower growth and lower asset quality than found with Edenred Mobility. Most recently in late 2024, the private equity firm CVC sold a 20% stake in the leading German fuel card provider DKV back to the founding family at an EBITDA multiple of 10-12x.

Edenred's Mobility business is superior to Wex and more similar to Corpay and DKV in quality. We think a valuation of €3.3bn could be a stretch in this market, but something in the region of **€2.2bn - €2.8bn is most likely fair value range for Edenred fleet & mobility.**

How much is Edenred's Complementary Solutions business worth?

Edenred's Complementary Solutions division focuses on tightly defined payment use cases such as corporate expense management (e.g. expense cards with spend controls) and accounts payable automation (e.g. software for streamlining corporate accounts payables). These products use Edenred's existing closed-loop payment infrastructure and merchant network.

This business has struggled this year with negative growth outright and more so on a like-for-like basis. However, this was largely down to exiting a poor banking as a service contract in Chile in tandem to some challenges in North America. Wex and Corpay are again comparables with segments that fulfil similar functions.

This segment is economically sensitive given gift cards are largely discretionary in nature. Though it also comes with some float. We believe the €60mm of EBITDA for the segment should be valued like legacy payment companies, from 6x to 8x EBITDA, at ~€360mm - €480mm.

What about the float?

In 2025, Edenred generated ~€220mm from the income on the float in the business. The overwhelming majority of float in the business comes from Benefits and Engagement in particular from food vouchers, gift cards, etc. Note that, of the expected €1.35bn in EBITDA for 2025, the €220mm in float income is a contributor to that. It has a margin of nearly 100%, so operating EBITDA is ~€1.13bn on operating revenues of ~€2.8bn, or an EBITDA margin 40%.

Income from float in any business is typically separated and valued differently. Float varies in quality (average duration, sustainability, risk on cost) and thus valuation across industries and companies. GEICO famously has had 50 years of growth in float with no to negative cost.

For Edenred, the float is cost free. It has also been growing. It has been at an average of ~€4.2bn in 2025, down from €4.3bn at YE 2024. That compares to €2.4bn in 2015, or a growth rate of ~6% per annum.

Float Sustainability and value

The concerns around Brazil, an open network and limitation on float duration are justified. However, Latam provides only ~20% of float for Edenred. 70% is from Europe and 10% from the rest of the world. Halving the maximum holding period against merchant reimbursement in Brazil impacts only that side the float duration, for a portion of the 20% in Latam. The group average duration at ~7 weeks should thus not move much.

Float has grown at a slightly lower rate than revenues. We expect that to continue as non-float services grow in prominence, but it should still grow. With float, one earns income that wouldn't otherwise be earned. For 2025 that income should be €220mm.

What if there is no growth in float over 10 years and interest rates gradually decline to 2.5%? Then using a 6% discount rate and a terminal multiple of 8x on float income in year 10, the float today is worth €1.6bn, or 7x the current income. If interest rates and float both stay at the current level, then using those same assumptions the current float is worth €2.5bn today, 62% of the current float balance, or 11.3x the current float income.

Then let's do something we haven't done yet and consider what happens if things go well? What if the float grows at 5% per year and rates stay at current levels? Float would grow to €6.5bn by 2035, and the value of the float today would be worth €3.4bn. **85% of the current market cap and 15.5x the current float income**. In that same scenario of float growth, even if rates declined back to 2% linearly over the decade, the float today would still be worth **~€2bn** today. We believe the float is worth no less than that figure today and most likely more.

How is the market valuing the Benefits and Engagement segment?

From the above, we can say that **the other operating divisions are worth** at minimum €1.9bn and perhaps as much as €3.75bn. We think a more reasonable range is **€2.5bn - €3.3bn**, given comparables[11]. The float should be valued at ~€2bn with a range of €1.6bn-€3.0bn. This would take the intrinsic value of these assets to €4.5bn-5.3bn before assigning any value to operating earnings from the Benefits and Engagement segment.

2025 €mm expected vs. EV €6.5bn	Revenue	EBITDA	Margins	Harsh Low Value	Fair Low Value	Fair High Value	Optimistic Value
Mobility	625	275	44%	1,568	2,063	2,833	3,300
Complementary Solutions	285	60	21%	342	450	450	450
Other Divisions	***910***	***335***	***37%***	***1,910***	***2,513***	***3,283***	***3,750***
Float	220	220	100%	1,600	2,000	2,000	3,000
Benefits & Engagement (implied)	**1,870**	**736**	**39%**	**2,991**	**1,988**	**1,218**	**(250)**
Total	3,000	1,291	43%	6,500	6,500	6,500	6,500

This implies a **current value of €1.2bn-2.0bn** for Benefits and Engagement operating earnings of €736mm for 2025 (1.7x – 2.7x), and perhaps €555mm (2.2x – 3.6x) in a bad scenario for 2026.

But wait there is more. Edenred acquired Reward Gateway in 2023 for €1.33bn, at 26x prior year EBITDA (€52mm) and 12x (€112mm) revenues. Rewards Gateway is an employee engagement software product that allows HR teams at large corporate to manage Benefits and Engagement and rewards. 80% of their revenues are in the form of recurring software services. We are with the majority in thinking this was a substantial overpayment. However, since acquisition Rewards Gateway has leveraged the Edenred corporate base and by our estimates grown EBITDA by double digits to ~€60mm for 2025. As a result, we think that business is worth at least €600mm today at ~10x EBITDA – post synergies. This sits within the Benefits and Engagement division, but is not subject to regulatory threat.

If we back Reward Gateway out, the market is assigning a value of just ~€620mm-€1.39bn for the remaining Benefits and Engagement 2026 operating EBITDA of at minimum of €495mm. **An implied EV / EBITDA multiple of 1.3x - 2.8x.**

This strikes us as substantially undervalued for a business with such characteristics. Yes, margins have dropped, and with them ROTCE. However, in exchange for lower margins, most markets have seen regulatory guard rails increase in strength, reinforcing the moat for incumbents. Brazil and the Czech Republic being notable exceptions.

In addition, voucher inflation is seen as a release valve for Governments in terms of increasing discretionary income for the populace in a manner that doesn't stoke broader inflationary pressures vs. cash increases. Edenred can make up for these hits with volume, as Italy is already showing a year in. Moreover, the company can cut costs in those affected countries going forward.

What is an ultra-harsh scenario?

If we step back, regulated meal and food revenue contributed 42% (~€1.1bn) of operating revenues for the group in 2024. Of that Italy was ~12% (€325mm), Brazil 9% (€235mm) and France 7% (€182mm). The remaining 15% is split across 24 countries.

[11] Those comparables are trading at cyclical lows of multiples. A reversion to historical multiples in the teens of EBITDA would imply a valuation of €4bn - €5bn.

Italy and Brazil are now much smaller and less profitable. However, they are also now resolved, albeit not as people wished. There is also a chance that Brazil eases some terms in its decree, around an open network. French proposals thus far are positive for Edenred. The table below is a snapshot of our estimate for the Benefits and Engagement division after the recent regulatory changes for 2026:

Benefits and Engagement 2026 Pro-forma €mm	France	Brazil + Italy	Other Regulated Food	Non-Regulated Food ex Rewards Gateway	Reward Gateway	Total
Revenue	185	370	400	465	120	1,540
EBITDA	**45**	**70**	**200**	**180**	**60**	**555**
Margins	24%	19%	50%	39%	50%	36%

Assuming France is fine, then it leaves only €200mm of EBITDA at risk. Even if those markets were to move to a Brazilian / Italian outcome and margins were to collapse to 19%, EBITDA would fall to €55mm, from the current €200mm, in other regulated food. This would be a further hit of ~€145mm to EBITDA. However, this would require those countries to move en masse towards such new rules. Our research indicates such moves are not in play at present. Making such an assumption draconian and unreasonable[12].

But even assuming such a terrible scenario, the comparable EBITDA for 2026 would drop to €1bn. Of that amount, regulated food would contribute €170mm in EBITDA[13] with margins of ~20%. All the negative news from that segment would be done with. Keep in mind this implies all remaining regulated food markets get the Brazilian bloodbath treatment, with the exception of France. We think this wildly unrealistic, but illustrative.

Group EBITDA would still be above the €900mm level of 2023, when the business was still valued at €14bn. Even if we were to assume further that France gets beaten up like Brazil, EBITDA would remain at €970mm or more. That would constitute a worst-case scenario in our eyes and would mean 2026 EBITDA, after all negative news has dropped, is still above the level of 2022 when the business ended the year at a valuation ~€12.5bn.

This would mean that in our worst-case scenario of €970mm in EBITDA, one is buying Edenred today at an EV/EBITDA of 6.7x, EV/EBIT of 8.7x and a P/E of 12.3x. While there is recession and related unemployment risk on top of this, we believe this would be viewed as a trough situation for Edenred.

Is Mr. Market being reasonable?

The ultra-harsh scenario seems highly unlikely to us. We share it purely for illustration. To be clear, we don't think that earnings will decline meaningfully from the projected EBITDA of at least €1.15bn in 2026 come 2030. More likely is that earnings shall grow substantially[14].

12 Underneath this there are many cross currents. The Czech government has moved to neutralize the difference between cash and food card tax impacts. In other regions the guardrails are growing as governments see the food card a less inflationary mechanism than salary increases to give something back to the electorate

13 €45mm from France, €70mm from Brazil & Italy, and €55mm from other regulated food markets

14 Assuming no large recession.

If that assumption proves correct, then we think this shows Edenred is undervalued here, even if things turn out worse than people currently assume. After all from that point forward Edenred should be back to growing at a high single digit range and still offering a high dividend yield.

That is one way to look at the downside. Perhaps better is to look at a sum of the parts. As we highlighted before, by our reckoning the market is assigning a value of €1.2bn-2.0bn to the Benefits and Engagement division regulated food business, ignoring Rewards Gateway.

Taking the low-end of 2026 consensus projections, we are left with ~€495mm of EBITDA from Benefits and Engagement, excluding Rewards Gateway. Even in our dire scenario where the rest of the world gets the Brazil treatment, that EBITDA falls to €350mm.

This would be for what then will likely be a fully de-risked business with a positive growth roadmap ahead**.** This scenario is incredibly unlikely. Even if it did transpire, that valuation for a derisked business just seem far too low to us. Even assuming the implied valuation for this last piece of earnings is the €2.0bn, which is punishing valuation of all other assets, does 5.7x EV/EBITDA for those worst-case earnings seem correct? Or 3.5x at the implied €1.2bn value?

Not to us. That seems completely wrong and misguided.

Conclusion

But that was the point of this whole discussion. As we evaluate Edenred, even when weighing all that has gone wrong, we struggle to see how an investor gets hurt at the current valuation. Even with very harsh operating assumptions and cyclically low multiples. Would you short Edenred at the current valuation given what you have read above?

If you were management of Edenred, would you sell the Benefits and Engagement operating earnings at the multiples implied above? We expect not. Would there be willing buyers at such a valuation? We think so.

Away from the sum of the parts, examples from food delivery services on the cost to create such a network also supports the idea Edenred is undervalued here. Substantially so. In the past some saw food delivery services as a threat to Edenred. Yet now they cooperate.

True, both charge substantial fees to merchants. Merchants don't engage with Edenred or delivery services with charitable intent. They are happy to join the network because it provides enormous value. Compared to food delivery companies, Edenred's take rate is far from offensive, even at the steeper rates charged to SME's in certain countries.

One last thing…

Perhaps the take rate for Edenred seems high compared to card networks operated by Visa, Mastercard or Adyen & Stripe. This is a point we have thus far not covered sufficiently. A brief segue into payment networks is appropriate. In any payment network, there are three elements – an acquirer (e.g. Stripe and Adyen), a network (e.g. Visa and Mastercard) and the card issuer (which receives interchange fees). An open loop network has independent players across the three elements of the value chain while a closed loop network has a vertically integrated payment stack. American Express or PayPal Branded Checkout would be examples of the latter.

Below is a range of all-in take rates across different payment networks:

Open Loop	US Credit - Domestic	US Credit - Intnl	US Debit	EU Debit	Brazil Credit	PayPal Branded Checkout	Edenred Meal & Food - Old	Edenred Meal & Food - New
Merchant acquiring fee	0.5%	0.3%	1.4%	0.5%	1.1%			
Network fee	0.3%	1.4%	0.2%	0.2%	0.2%			
Interchange	2.2%	2.6%	0.4%	0.2%	1.7%			
Total Take-Up Rate	**2.9%**	**4.3%**	**2.0%**	**0.9%**	**3.0%**	**3.0%**	**5.3%**	**4.0%**

Source: Maat Estimates

The table above shows a comparison of take-up rate from those open loop networks vs. Edenred prior to Italy and Brazil and post. One could argue that even with the current regulatory caps, the take rates relative to credit card networks would have room to decline. That is a fair premise.

However it ignores a critical fact: general purpose payment processors are built to do a single thing at incredibly low cost with much larger volumes. Edenred by contrast represents a special purpose payment network with a much higher cost to serve. As a result, general payment processors actively avoid Edenred's market and have done for some time. In some cases because regulations discourage it. In others because of nuisance and cost/benefit, as fuel cards in Mexico and Edenred's partnership with Amex there demonstrates.

It would be easy to mistake Edenred as just another payment processor, with a twist. However for a merchant and consumer, their network offers genuine value and is not easy to replicate. Edenred fulfils payments as well as card networks do, but also brings an extra pool of users for merchants. Visa and Co. however can't deliver that incremental pool of money.

Do we expect such a network to warrant a premium price? Yes. Do we believe that regulated take rates will decline? Yes.

This is the whole premise of a scaled economies shared model. However, as examples such as Amazon and Costco attest to, monetizing the platform in different ways over time should lead to greater ARPU. We think it was a major strategic misstep by Edenred not to share those scale benefits more equitably in the past. Failure to do so invited regulatory response. Regulatory actions have now forced such a move, however. For a patient investor, the strategic pivot now reflects this and we believe should deliver good results.

Of course, there are risks beyond those we have discussed above. This is a macro cyclical business, albeit less so than in the past. Some things to consider from that perspective are:

- A cyberattack or ransomware could do lasting damage to the brand and business
- Growth in SME exposure increases risk on receivables
- A 1% change in unemployment should translate to a 1% impact on revenues

- With a 50% drop through rate, that would mean 1% increase in unemployment would mean a €30mm decrease in revenues and €15mm decrease in EBITDA
- If Inflation were to drop substantially this would inhibit revenue growth as user growth should be more muted than the past
- If interest rates decline, float income will drop commensurately

Those last two factors are clearly intertwined. However, thankfully asymmetry in this respect works in investors favour. If we enter a macro environment where inflation drops and unemployment increases, revenues and earnings will fall. However, even if that did happen on a sustained basis, the result would be disappointing, not overwhelming considering current valuation.

We should also consider some range of scenarios of how things may look come 2030. Here are three simple scenarios:

- **Bear Case:** Total revenues actually decline due to sustained recession to €2.55bn. EBIT margin declines to 26%[15], or €660mm. At 8x EV/EBIT this would mean a valuation come 2030 of €5.2bn. €1.3bn below the current level. However, even in this case we think shareholders will have received at least €1bn in dividends in the interim, on a declining basis. After adjusting for this, we think the downside in this scenario is less than 10%. If the dividend remained at 2025 levels for the next 5 years, then the share price could decline by 37% before investors take a loss. Though clearly the opportunity cost would be terrible.

- **Base Case:** Total revenues grow 4% p.a. to €3.65bn and EBIT margins remain at the 2026 expected level of 30%, for €1.1bn in EBIT. At a 10x EV/EBIT that would imply a valuation come 2030 of €11bn. The share price increase along with dividends would deliver an IRR of over 26% per year. That is before adding any benefit for buybacks done in the coming two years.

- **Bull Case:** Total revenues grow at 8% p.a. to €4.4bn and EBIT margins stay at the 2026 level of 30%. EBIT would then be at €1.32bn. Here let us split out float, and assume the balance is at €4.5bn (1x revenues) and it is earning 5%, or €225mm. We can say the value there is no less than €2bn. The remaining operating EBIT of €1.095bn at a 13x EV/EBIT multiple would be worth €14.325bn, for an aggregate Edenred valuation of €16.325bn. Nothing we haven't seen in the past 3 years. If that were to happen, even with no increase in dividend payment, we would earn an IRR of over 36% per year through 2030.

To be clear here, we think the bull case is more likely than the bear case. Substantially so. Nor is our bull case remotely as optimistic as Managements hopes for 2030. Even in our base case, which we think is far from aggressive in any way, the returns are excellent. While in our bear case, which we think is very harsh, you still lose little.

Edenred is a complex business to grasp. The disclosures around profitability and understanding the drivers leave much to be desired. Management has been caught off balance with the impact of

[15] Vs. 35% in 2025 & 30% expected in 2026

the Italian and Brazilian regulatory changes. Though they had been prepared for change and had moved ahead of those events.

Ultimately, the storm clouds that concerned us in the past have now cleared. Uncertainty has passed. What remains is a high quality business, with a valuable and hard to replicate network. The business has plenty of scope to continue growing, and the wonderful attributes lauded at the peak remain, if somewhat diminished. Certain markets will move as Brazil has. Most will not.

Away from regulated food, there are an array of other valuable assets within Edenred not affected by those events.

We believe that over time, the market will move past the bruises left by the recent hits. Focus will revert to the future and the very good economics of the business. From the microscope with a negative bias to a telescope with a positive one.

As it is hard to lose much here, and we have the potential for a wonderful outcome in even a run of the mill moderately positive scenario we have taken a position in Edenred. As such, we believe it is important you know why we have done so, and we hope the above explains it.

One last attribute to Edenred comes from what will impact its future share price performance from here. Of course, there is economic cycle exposure. However, more important are idiosyncratic risks relating to certain countries and lines of business that Edenred services. What will make this a good or bad investment over the coming 3-5 years will not relate to the overall economy. It will be how those idiosyncratic risks play out and how perceptions change. In that respect, Edenred is over that time frame uncorrelated to other investments we have made on your behalf, and that is good for your portfolio.

Only time shall tell if our assessment above is correct. We eagerly await the next chapter to see how things unfold. We look forward to discussing with you should you have questions. We welcome any criticism or debate.

We end this letter to you with a feeling of immense gratitude. The trust you have shown in us means the world to every member of the team. You are allowing us to live our dream. We work with people we love, doing a job we love, for investors we cherish. We can think of no greater blessing. We hope each of you had a wonderful holiday break and wish that 2026 will be your best year yet.

Best Regards,

Shaun Heelan, Chief Investment Officer

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