
Zorea Capital Equity 3Q 2025 letter

Fellow investors,

Our performance for the third quarter of 2025 was 3.7% (gross) and 3.2% (net). This brings 2025 YTD performance to 22.9% (gross) and 21.2% (net). Net performance is calculated with our standard fee schedule ‘M’ which charges the highest management fee from our different alternatives but no performance fee. As long-term investors, we emphasize that judging our results over a short period of time is not informative.

	<u>Zorea Capital Equity</u> <u>(Gross)*</u>	<u>Zorea Capital Equity</u> <u>(Net)*</u>
2025 YTD (through Sept 30th, 2025)	22.9%	21.2%
2024 (inception May 1st, 2024)	6.6%	5.8%
<u>Annualized:</u>		
1 year	21.7%	19.5%
Since inception	21.0%	18.8%

**See important performance disclosures at the end of this letter. Inception is May 1, 2024.*

Equity markets generally continued their strong performance in the third quarter of 2025. We took advantage of this strength and reduced our exposure to the small cohort of companies that are underperforming our expectations; executing these sales at prices we consider favorable. As our investors know, we follow a “water the flowers and prune the weeds” approach to portfolio management. We have stuck to this portfolio management approach throughout the year and believe the portfolio is better positioned today because of it.

During the quarter, we significantly reduced our investment in DG, with our remaining position now being what we would consider to be immaterial. While DG remains a fixture in rural communities throughout the United States, we believe that WMT’s expanded online offering in these areas now offers a more compelling value proposition to a material portion of DG’s customer base. Our sales of DG shares were made at what we consider to be attractive valuations. Additionally, we reduced our position in CACC due to concerns that the new CEO’s¹ execution is unlikely to match his predecessor’s. We still like CACC and see their competitive position as strong, but have reduced our investment to reflect the lower level of conviction on management.

Most of the proceeds from these transactions were used to initiate an investment in TBBB, a company we are quite constructive about. A brief overview of TBBB is provided later in this letter. In addition to TBBB, we let some cash build, with our current cash position standing at 6.5% as of quarter-end.

Avoiding biases

As the great late Charlie Munger said “if you make a public disclosure of your conclusion, you’re pounding it into your own head.” Writing these letters subjects us to anchoring bias, escalation of

¹ The CEO transition took place in 2021 but we still consider the current CEO to be the ‘new’ CEO.

commitment bias, and confirmation bias. Please note that no investment operation has had a perfect success rate. We will not be the first. As such, we reserve the right to change our minds and hope to do so quickly and swiftly when appropriate. We take on no obligation to communicate changes of opinion.

Thomas Peterffy's secret to business success

Some months ago, we published a letter titled [Company interests vs customer interests: a lesson from cable](#). In that letter, we argue that businesses that align their business model with their customers' interests, are likely to produce better shareholder returns than businesses that prioritize short-term profits at the expense of the customer.

In August, Thomas Peterffy, the founder and Chairman of Interactive Brokers ("IBKR"), appeared in The Master Investor Podcast. IBKR is a global brokerage and custody platform providing access to a wide range of markets, advanced tools, and professional-grade execution at significantly lower costs than its competitors. Peterffy founded IBKR² in 1977, bootstrapping the company with \$200,000 of personal savings. Today IBKR has a market capitalization of \$110bn. Peterffy – having only experienced minor share dilution – retains a substantial ownership stake in the company, giving him a net worth of around \$78bn³. He achieved this level of financial success operating in a mature industry, competing against well-established players, with substantial resources, and strong management teams. Peterffy knows something about business and generating wealth.

In the interview Peterffy shared the below:

"It's very simple, it's very very simple, you just try to give a much better deal to your target customers than they can get anywhere else. That's the secret to business. Right. Any business" Thomas Peterffy, August 4th 2025

We find that Peterffy's *secret to business* highly aligns with our *Company interests vs customer interests* letter.

We are customers of IBKR, and while we can work with almost any custodian, we recommend IBKR to our clients. The quality of IBKR's platform cannot be recreated by competitors at the same price point. IBKR has the option to increase its fees, perhaps aligning them more closely with market rates, which would certainly boost short-term profitability. However, this would come at the expense of long-term growth. Like many of our companies, IBKR's cost position is world class. This allows them to provide a state-of-the-art platform for an unbeatable price – an advantage they have wisely chosen to leverage... Please don't ask why we never became shareholders!

New investment: Tiendas 3B (BBB Foods Inc – "TBBB").

This quarter we initiated an investment in TBBB, a rapidly growing hard discount retailer in Mexico. In our opinion, TBBB embodies Peterffy's *secret to business* (albeit in a different industry) and is poised for continued profitable growth and category leadership.

² It was actually IBKR's predecessor T.P & Co. which was a market-making business that had a seat on the American Stock Exchange.

³ Source: <https://www.bloomberg.com/billionaires/profiles/thomas-peterffy/>

The hard discount retail model was pioneered by Aldi in the 1960s. Since then, it has brought tremendous success to Aldi and others who have copied it across the world. Consumers have benefitted greatly from the model's existence as it brings low prices for high-quality items. TBBB introduced this model to Mexico in 2004. From a single store, it has grown to 3,031 stores, and it is now well positioned to continue capturing a growing share of Mexico's pantry spend.

The hard discount model is a unique model in retail. It focuses on no-frills, small-box stores with a limited assortment of high-turnover products, and a significant emphasis on private-label goods. These allow hard discounters to sell high-quality products at significant discounts to other retailers. TBBB's stores range between 300 and 450 square meters⁴. They sell approximately 800 SKUs with private label sales representing 54% of total sales, and inventory days hover around 20 days. This operation design differs significantly from that of Walmex or FEMSA, which together control approximately 45% of 'modern' grocery sales in Mexico⁵. It allows TBBB to sell goods for a 16% gross profit margin, deliver best-in-class prices to consumers, and make money.

Best prices on quality merchandise.

We have conducted extensive price comparisons between TBBB and its competitors. Their fiercest competitor is widely considered to be Bodega Aurrera (owned by Walmex), so we have dedicated particular effort to comparing TBBB with Aurrera. Our analysis reveals that, after adjusting for quantity and quality, TBBB's prices are generally more than 10% lower than those offered by Aurrera. The price difference between TBBB and some of the other large retailers in Mexico is even larger.

It is common for Mexican consumers to compare the prices of essential goods, often referred to as the "canasta basica," across various retailers and share their findings online. There are many of these comparisons on different social media platforms. In this section we provide you with two examples to help illustrate our points⁶. In this short [Tiktok](#) video, the protagonist goes to buy sugar, toilet paper, and lentils at TBBB, Bara (another retailer), and Aurrera. For the aforementioned items he spends a total of MXN56 at TBBB, MXN60 at Bara, and MXN65 at Aurrera (even though Aurrera's toilet paper was smaller!).

Importantly, customer perception is consistent with reality. We have spoken to consumers in Mexico and scraped the internet to get a sense of customer perception. By and large consumers say that TBBB and Tiendas Neto⁷ are the cheapest alternatives. To help drive the point home, [here](#) is one of many posts online asking whether TBBB or Aurrera are cheaper. Out of the 65 comments, 68% of

⁴ 3,229 to 4,844 square feet.

⁵ Source: Euromonitor 2022.

⁶ The Tiktok video and Facebook post used were chosen because they are generally short and clear. Neither represent a statistically significant sample. They are used so the reader can contextualize our arguments.

⁷ Tiendas Neto is the only other hard discounter of scale operating in Mexico. It was founded in 2009 by Hugo Salinas (son of billionaire Ricardo Salinas) and is currently operating around 1,700 stores. The company has had a change of management and seems to have lost some of its discipline. This was described as a 'pet project' to us. It seems unlikely that they will become a formidable competitor – though we keep an eye out.

respondents clearly articulated that TBBB is the cheapest, 9% opined that Aurrera is cheaper, and 23% gave an inconclusive comment⁸.

We would encourage those interested to read the responses. They are consistent with what we have learned. They also highlight the tradeoff with TBBB: selection. With only 800 SKUs TBBB doesn't have the selection of other supermarkets. Both in terms of numbers of products as well as breadth of a single product. So, when TBBB doesn't have an item that the customer wants, that customer either complements their TBBB purchase with another retailer or does his/her entire shopping at another retailer (choosing convenience at the expense of savings). We are ok with that. In order for TBBB to offer its prices it must keep SKU count low. Hard discounting doesn't try to capture all of the customers' pantry spend, and that is part of the reason why the model works.

TBBB is growing fast. Store count has grown at a 22% CAGR in the last four and a half years, while revenue has grown at a 34% CAGR over the same period⁹. The bigger they are, the more purchasing power they have. The more purchasing power they have, the lower the prices they can offer clients. We believe TBBB is approaching Walmex's purchasing volume in certain product categories, and, given their fast growth, should continue narrowing the product volume gap in the coming years. This should allow the company's price advantage to widen over the long-term. The company, which has good visibility on costs, has high confidence that there is a long runway for increased volumes to continue improving their cost of goods sold.

For those interested in better understanding *why* TBBB and other successful hard discounters are able to price where they price and still make money, we would refer you to [Bare Essentials by Dieter and Nils Brandes](#).

Attractive unit economics with a long runway.

It costs TBBB ~MXN3.9mm to open a new store. Including some additional pre-opening expenses brings the total cost closer to ~MXN5.0mm. The company's relatively low store opening expenses stem from several business model decisions. They build small, no-frills stores in and around residential areas and secondary neighborhoods. They use a centralized distribution system, which lets them keep stores lean and avoid building costly backroom storage. Lastly, their low inventory days outstanding at ~20 days is much lower than the 65 payable days they get from suppliers, making it a negative working capital business.

It takes between three and five years for new stores to mature. We believe that by year four the stores generate ~MXN1.5mm in after-tax free-cash-flow, representing a 30% cash-on-cash yield. In our full modeling, we get to IRRs well into the 20s% for new stores. Importantly, stores continue growing (albeit at a moderate rate) once they mature.

New store openings are decided at the Distribution Center ("DC") level, with DC management having autonomy to select new sites and fill the stores. The company provides a pre-determined set of criteria for guidance. The criteria include guidance about the space as well as how to evaluate it. At

⁸ While we try to delineate the three types of responses as objectively as possible, there is some inevitable subjectivity categorizing responses.

⁹ Revenue has grown significantly faster than store count driven by both (1) newer stores reaching maturity, and (2) mature stores increasing same store sales.

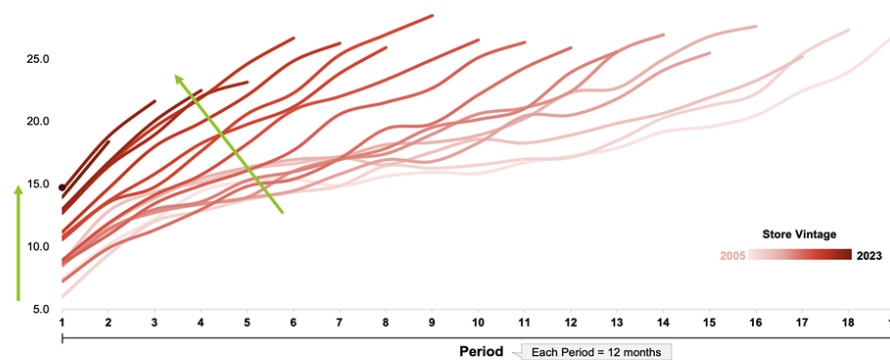
a high level, the company generally looks for areas that are trafficked by homemakers that are close to certain types of other stores. This decision-making process allows the company's new store openings to scale faster than they would otherwise. It also allows for higher quality decisions, as the people making the call are the ones closer to the ground.

Assuming the company continues executing, new store economics should keep improving with time. As the graph below shows, newer vintage stores tend to ramp faster than older ones. We believe the main reason for this is improved brand awareness with the Mexican consumer. We should note that buildout costs also increase with time, but these increases should be overwhelmed by the faster revenue ramp.

Attractive Sales Ramp-Up Evolution

Median Sales per Store Vintage⁽¹⁾

Ps. MM | Median 12-Month Period⁽²⁾ | Sales per Store⁽³⁾ in Real Terms⁽⁴⁾ | Excluding Temporary Closures in Acapulco



Sales of each new vintage start higher, and their sales curve is steeper

Source: Company information, INEGI

1. "Sales Ramp-up Evolution by Vintage" measures, for stores of the same vintage, the median of such stores' revenue from sales of merchandise during 12-month periods since the start of the operation. When calculating this measure, we exclude the first calendar month of a store's operations to account for stores that are not open for the entire month, as well as stores that have been permanently closed. Considers stores opened in the corresponding vintage that remains open as of December 2024.

2. 12-month period since opening, excludes month 1.

3. Median 12-month period sales of all stores in the corresponding vintage (includes first month to "normalize" dates in which stores are operational since opening). Closed stores are excluded from median calculation, as well as stores in Acapulco that suffered temporary closures due to afflictions by Hurricane Otis and Hurricane John.

4. All figures in real Ps. terms as of December 31, 2024, adjusted for inflation using Mexican National Consumer Price (Índice Nacional de Precios al Consumidor), as provided by the Mexican Statistic and National Geography Institute (Instituto de Estadística y Geografía), and as published by Banco de México.

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As of 2Q25 TBBB operated 3,031 stores. While we tend to avoid Total Addressable Market (TAM) analyses, Mexico seems capable of supporting a significantly larger footprint. For example, OXXO has 23,000 stores in Mexico. In addition, when we compare hard discount penetration in Mexico vs more mature markets, Mexico has a long runway to catch up. Each new TBBB store enhances the company's overall value proposition, which we expect will elongate the runway for store expansion.

Best in class management team.

TBBB was established in 2004 by its current CEO and controlling shareholder, Anthony Hatoum. Hatoum's story is a remarkable one. He graduated from Columbia University undergraduate, has an MS in engineering from MIT, and an MBA from Stanford University. Prior to founding TBBB he worked at Merrill Lynch, McKinsey, and JP Morgan. His time at Merrill Lynch exposed him to BIM, Turkey's prominent hard discounter. Recognizing the strength of the business model, he decided to copy it. He identified Mexico as having many of the qualities that he was looking for. As a Lebanese-American

he knew no Spanish, but that didn't stop him, he uprooted his life and family and moved to Mexico to establish TBBB. Truly remarkable.

His achievements at TBBB (and prior to it) speak for themselves. Our due diligence confirms a narrative that is consistent with the track record. Our understanding is that he is deeply committed to TBBB with a long-term vision. That he is focused on the right aspects of the business and that he demonstrates effective leadership.

The ultimate prize.

In 1953 Karl Albrecht, Aldi's co-founder, wrote a letter about the company. It is one of the few public statements he made about the company. We took the below excerpt from his letter (the bold is ours for emphasis) as it represents what we consider to be the ultimate prize for most retailers.

"If purchase prices drop we lower our sale prices immediately, even if we have not bought at the new prices yet. We take the position: offensive action is better than defensive.

*It is far too easy to maintain a price even when the purchase price has fallen. But that would have an unpleasant, delayed impact, **for the goal which must be achieved is that customers begin to believe that they cannot buy cheaper anywhere else. Once you have achieved that – and I believe that this is true for us – customers will accept anything else. They will even rearrange their schedules to come at the best shopping times.**"* Karl Albrecht, Aldi co-founder, 1953.

Our view is that with time and consistent execution, TBBB is likely to take the above position in the Mexican consumer's mind. There are only a few retailers in the world that we can think of that have achieved this position, and they are all very successful businesses.

Valuation

TBBB's financials do not immediately reveal the company's earnings power. The company is investing to grow, which means operating and capital expenses are currently elevated. However, beneath the growth-related expenses lies a fundamentally profitable business. One with underlying margins that are comparable to mature and successful hard discounters.

We initiated our investment at an estimated price-to-earnings ratio of approximately 23x. This valuation is based on what we consider to be conservative assumptions for underlying profitability. While not a low headline multiple, we believe the long runway, attractive returns on capital, and defensible nature of the business, will ultimately make the price paid appear undervalued in retrospect.

Risk

Despite our optimistic outlook, TBBB is still a relatively young company operating in Mexico. They are still in the process of cementing their market position. Compared to the rest of the portfolio, we believe the range of outcomes here is wider. That is why we have sized our investment accordingly.

Alignment

A cornerstone of our portfolio management philosophy is to manage client portfolios in the same way we invest our own capital. At Zorea, we cannot guarantee results, but we can guarantee that we are in the same boat as our investors.

Thank you for your trust.

Yours truly,

Simon Bennaïm

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Performance information in this document reflects the actual performance of the account established by Zorea’s Chief Investment Officer as of May 1, 2024. Reported net performance is net of all actual trading and other account expenses, reinvestment of all income, as well as Zorea’s fees. Zorea’s fees, as presented here, are composed of our standard fee schedule for non-Qualified Clients, consisting of a 1.8% management fee. Our Qualified Clients may elect from other fee schedules we offer. Qualified Clients who elect a different fee schedule may pay higher (or lower) fees and therefore realize lower (or higher) net returns depending on the portfolio’s performance. The specific fee charged to a client will be identified in the client’s advisory agreement.

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Portfolio Metrics – notes on methodology:

For all companies we use latest reportable information as of the date of the quarter. The numbers are our best estimates and what we use internally. However, coming up with the different numbers requires assumptions and some subjectivity. We try to be consistent with our methodology through time but there is no guarantee of accuracy. We use source documents for our calculations. The growth calculations under this table are a weighted average of the underlying growth of our investments. Some important callouts below.

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- *Revenue per share growth (LTM): only includes our single names (indexes are excluded). For CACC, SYF, and AER, we substitute Revenue growth for Book value growth as we see that metric as more relevant to underlying business growth.*
 - *# of Positions: excludes T-Bills.*
 - *ROE, PE, and EPS growth: all three of these metrics use 'earnings' either in the numerator or the denominator. For the companies that we see GAAP or IFRS Net Income as a good proxy of earnings power, we use that. For the companies where it isn't, we use the metric we deem most appropriate, which is usually Free Cash Flow or company adjusted earnings, but can be something else. We believe we are conservative when publishing these numbers, but we cannot guarantee that such is the case. Both ROE and EPS growth calculations excludes our exposure to indexes and cash. HCA is excluded from our ROE calculation because the company has negative equity.*
 - *PE (LTM, ex-cash & index): This metric represents our calculation of PE of our individual company investments. It excludes cash as well as any index exposure we may have.*