EMETH VALUE CAPITAL

TO: Investment Partners
FROM: Emeth Value Capital | emethvaluecapital.com
DATE: 01/25/2021
RE: 2020 H2 Letter

Annualized Net Returns to December 31, 2020 (unannualized if < 1 year, inception 12/31/2015)			
	Emeth Value Capital	MSCI ACWI Index	Delta
6 Months	+32.92	+24.02	+8.90
1 Year	+8.08	+16.33	-8.25
3 Years	+18.84	+10.20	+8.64
Since Inception	+20.69	+12.52	+8.17

Calendar Year Net Returns to December 31, 2020			
	Emeth Value Capital	MSCI ACWI Index	Delta
2016	+9.33	+8.39	+0.94
2017	+39.57	+24.35	+15.22
2018	-17.14	-9.12	-8.02
2019	+87.40	+26.59	+60.81
2020	+8.08	+16.33	-8.25
Cumulative Since Inception	+156.09	+80.39	+75.70

Foreword

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

On Empathy

> *The real trouble with this world of ours is not that it is an unreasonable world, nor even that it is a reasonable one. The commonest kind of trouble is that it is nearly reasonable, but not quite. Life is not an illogicality; yet it is a trap for logicians. It looks just a little more mathematical and regular than it is; its exactitude is obvious, but its inexactitude is hidden; its wildness lies in wait. (GK Chesterton)*

While building a successful long term track record in public markets is challenging, it is monumentally challenging to build a successful long term track record by identifying fund managers attempting to do the former. For most, the principal hurdle that comes to mind is fees. Pedigreed, blue-chip fund managers often come with a hefty price tag, and while Howard Marks popularized the saying, "You can't eat IRR," the same could be said of gross return. Indeed, when considering the math behind a diversified portfolio of high cost fund managers, the significance of the burden becomes clear. For example, consider a hedge fund with a traditional two and twenty fee structure. This fund manager would need to generate nearly four percentage points of annual alpha to breakeven with the long term equity market return of seven percent on a net basis. As a result, limited partners who wish to construct a diversified portfolio of such managers, while also generating long term outperformance, must be able to structurally identify investment managers who outperform the market by a factor of 1.6x per annum. In public markets where the playing field is level, this is a heroic undertaking. However, the task is further complicated by an additional variable, which is that many of the determinants of success for a public markets fund manager are not directly observable. No model or depth of research can obviate the need to think critically. And while a fund manager's research process, or the way in which information is assembled, is tangible, the context in which that information is processed is not. The ability to identify a winning proposition in the absence of data, handicap risk that is fundamentally qualitative, and process an unbounded non-static set of competitive outcomes requires intuition of the business variety. Likewise, while traditional value investing texts would have you believe that success requires an investor to check all emotions at the door, research has shown that it is, in fact, this exact toolkit which serves as the foundation for sound decision making. In his 1994 book *Descartes' Error*, acclaimed neuroscientist and University of Iowa professor Dr. Antonio Damasio established that although the notion of rationalism appears sensible, it is at odds with the biological mechanics of decision making. Damasio recounts the case study of "Elliot", a model patient whose ventromedial prefrontal cortex (vmPFC) was damaged during an operation required to remove a brain tumor. Following the surgery, Elliot's intellectual capacity – IQ, memory, and language processing – remained fully intact. However, it became evident that he now struggled to complete even rudimentary tasks. Faced with an organizational chore, he'd deliberate for an entire afternoon about how to approach the problem. Projects at work were either left incomplete or had to be corrected. And despite repeatedly being shown his flaws, he could not course correct. Further testing soon revealed Elliot's true deficit. Elliot's capacity for empathy, or his ability to process emotionally charged situations, was severely impaired. Damasio and his colleagues later studied numerous patients with similar damage to the vmPFC, who, like Elliot, showed a consistent inability to make decisions. In a famous set of trials known as the Iowa Gambling Task, Damasio constructed an experiment to measure decision-making impairment through the simulation of real-life uncertainty, reward, and punishment. Players were asked to maximize their profits by selecting cards from four separate card decks – A, B, C, or D – which, unbeknownst to the player, had predetermined payoff profiles. Cards selected from decks A or B resulted in a cumulative $250 loss for every ten cards, while cards selected from decks C or D resulted in a cumulative $250 gain for every ten cards. Findings revealed that as the task progressed, normal control subjects gradually made more selections from the good decks (C or D) and less selections from the bad decks (A or B). And after approximately fifty selections, control subjects could explain what was amiss in the trial. On the other hand, patients with damage to the vmPFC behaved like normal subjects only on the first few selections. After an initial sampling of cards, they continued to draw from the bad decks (A or B) for the duration of the experiment. In fact, perplexingly, many patients with damage to the vmPFC continued to select cards from the bad decks (A or B) even after they consciously recognized that these decks were rigged against them. Finally, when re-tested six months after the initial trial the performance of patients with damage to the vmPFC did not improve, whereas the normal control subjects improved significantly. What is brought into question is the assumption of directionality. While scientists have traditionally considered emotion to be a discrete response to the processing of external or internal events, Damasio's findings suggest that the relationship is more accurately described as interdependent. Therefore, while it may appear an illogicality, it happens that the ideal disposition for any investor is one that is both highly rational and emotional. Logic tempers emotion in the same fashion that empathy aids in the processing of highly complex situations. While the examples explored above are extreme, the ability to effectively tap into empathy, for conditions both obvious and nuanced, is central to an investor's judgement.

DP Eurasia NV

Overview

DP Eurasia is the exclusive master franchisee of Domino's Pizza in Turkey, Russia, Azerbaijan and Georgia. The group opened its first store in Istanbul in 1996 and was founded by Aslan Saranga, one of the most respected operators within the Domino's ecosystem, at the age of twenty-seven. Aslan maintains a significant ownership stake in the company and is a member of the Domino's Pizza General Management Council, which is comprised of the CEOs of the top ten countries in the global Domino's Pizza network. DP Eurasia is the fifth largest master franchisee within the global Domino's system and is consistently recognized as one of the best performing international master franchisees. In Turkey, DP Eurasia is the dominant operator with a store base that is five times larger than its nearest competitor, PizzaPizza. In Russia, DP Eurasia is the second largest operator behind local champion Dodo Pizza. The group has increased its store network more than tenfold in the last fifteen years and has whitespace to more than triple its existing store count.

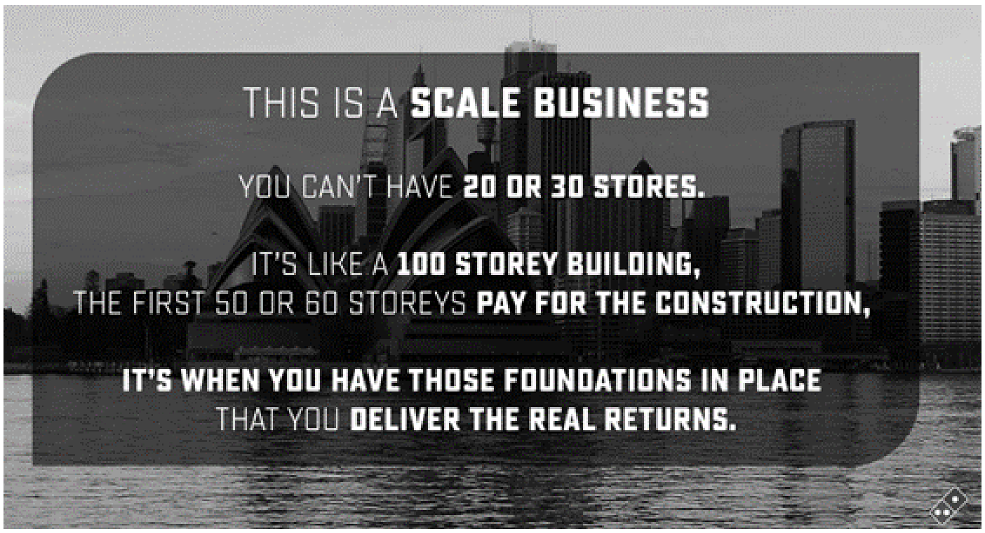
The Domino's Business Model

Domino's Pizza is one of the most successful fast food brands worldwide with seventeen percent global market share in QSR pizza, 17,250 store locations across ninety countries, $14 billion in annual sales, and over one hundred consecutive quarters of positive like-for-like growth internationally. The strength of their business model is widely recognized. In short, scale advantages allow Domino's to deliver great tasting pizza, at a cheaper price, and faster than the highly fragmented universe of competitors. These scale advantages manifest themselves in numerous ways. For example:

- Corporate marketing spend per pizza
- Central SG&A per pizza
- Rent per pizza
- Hourly wages per pizza
- Bulk purchases → raw ingredient savings per pizza
- Store Density → improved delivery times → more repeat orders → more scale

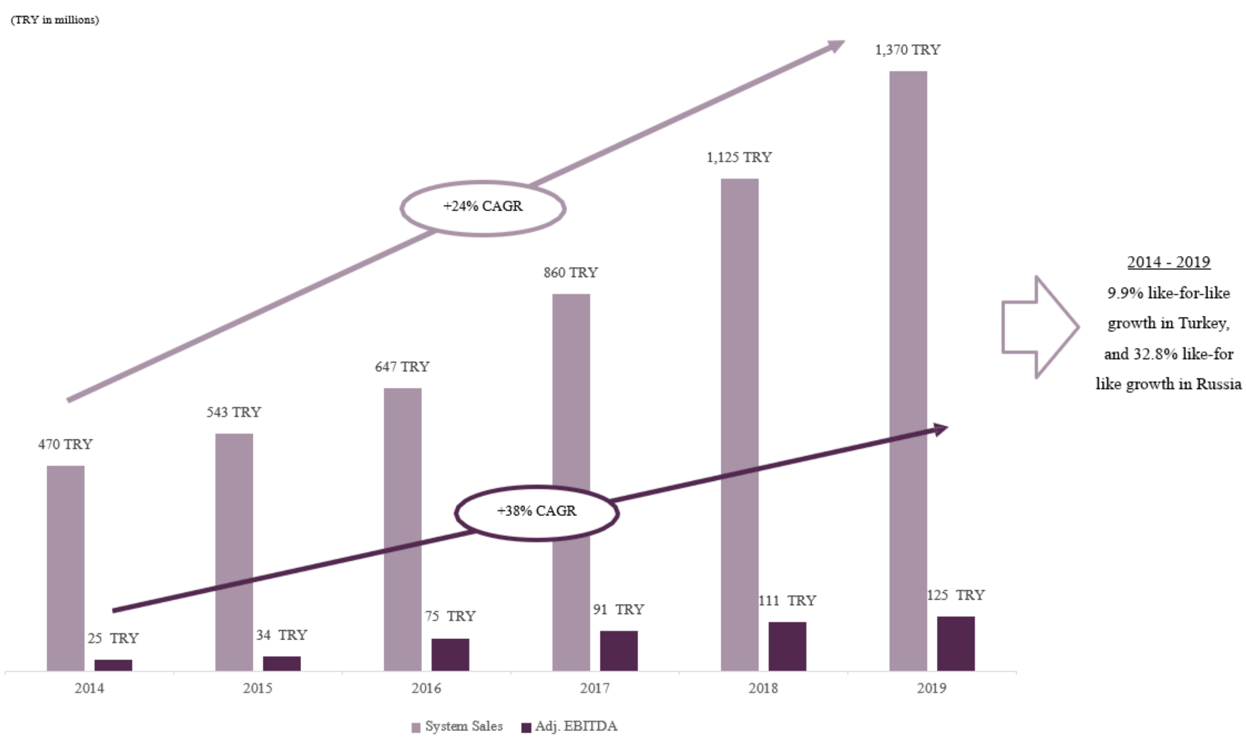
- R&D per pizza → improved app experience → more repeat orders → more scale
- R&D per pizza → improved pizza taste → more repeat orders → more scale
- Increased sales → improved franchisee economics → more franchisees → more scale
- … you get the idea.

In addition, these scale advantages are turbocharged by a company culture that is entrepreneurial, meritocratic, and highly focused on franchisee economics. It has been said that the best way to make *a lot* of money, is not to figure out how to make money for yourself but figure out how to make money for others. This dynamic has worked wonders for Domino's over the last twenty years.



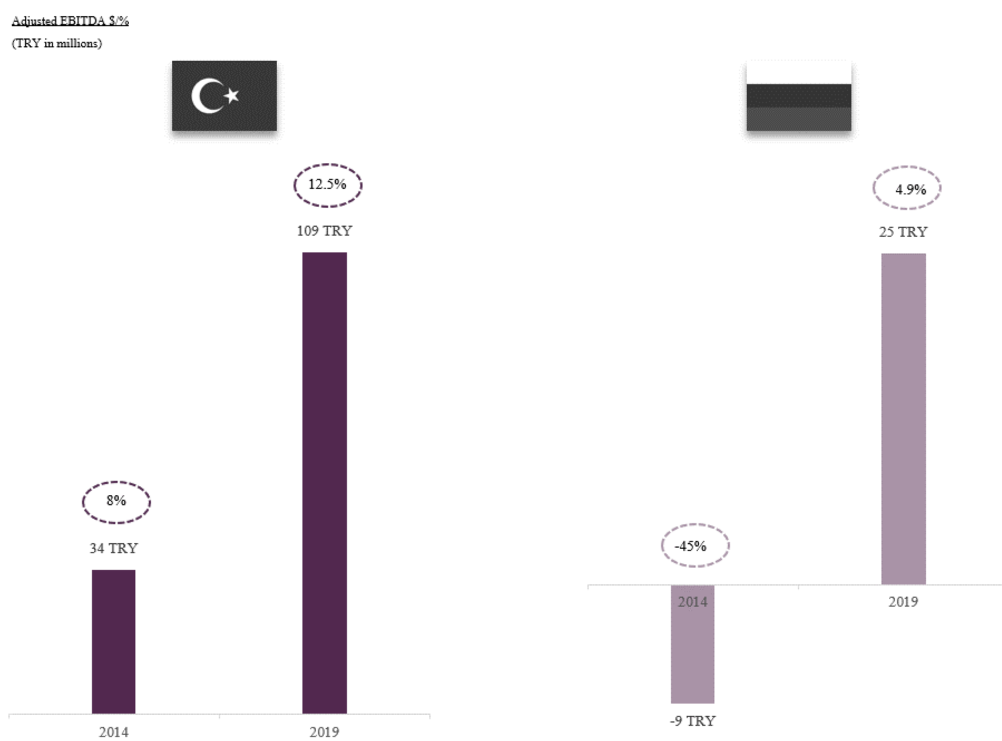
DP Eurasia Operations

DP Eurasia has 754 system stores in Turkey, Russia, Azerbaijan, and Georgia. In Turkey, the group has 542 stores that are located throughout the country; whereas, in Russia the group has 199 stores that are highly concentrated in the city of Moscow. In Azerbaijan and Georgia, DP Eurasia only has stores in the capital cities of Baku and Tbilisi. Domino's has a strong focus on efficiency. Their stores do not require large preparation and eat-in areas and, as a result, the average store size is only 1,200 square feet – approximately two-thirds smaller than the QSR average. In addition, Domino's delivery centric model allows the group to operate in lower footfall areas, which provides significant flexibility in choosing a location and results in lower rent per square foot. DP Eurasia utilizes a disciplined, time-tested store location selection process that is referred to as mapping. Proper mapping is critical to ensuring sub-franchisee success and maintaining a commitment to Domino's thirty minute delivery guarantee (ninety-five percent on time deliveries in Turkey and ninety percent on time deliveries in Russia). Furthermore, DP Eurasia retains a strategic balance between corporate and franchised stores, with sixty-eight percent of locations being franchised. Corporate locations allow DP Eurasia to establish a network of owned stores in its most densely populated areas, thus maximizing profitability, while they also provide an important platform to develop operational best practices and innovate on food offerings. On the other hand, franchised locations are the lifeblood to scaling the Domino's network, which in turn allow DP Eurasia to grow with minimal capital requirements and create a highly profitable recurring revenue stream. To achieve consistent quality of its products, competitive supplier prices, and timely delivery of items to its system stores, DP Eurasia centralizes its supply and procurement function. The group owns and operates seven commissaries that manufacture the pizza dough and supply system stores in Turkey and Russia with all ingredients and materials required. Notably, one hundred percent of ingredients and materials are sourced domestically for both Turkey and Russia system stores, leaving DP Eurasia operationally unexposed to currency divergences. The group's four commissaries in Turkey have an 850 store capacity (300+ remaining), and the three Russian commissaries have a 330 store capacity (130+ remaining). DP Eurasia incurs capital expenditure primarily in relation to corporate store openings and centralized investments in technology. Consequently, with most new store openings coming from its sub-franchisees, DP Eurasia can grow its network in a capital efficient manner. The continued growth of the group's network is further supported by strong underlying franchisee economics. In Turkey, franchisee new store builds have three to four year payback rates, and in Russia franchisee new store builds have a three year payback rate. This has allowed DP Eurasia to grow its store count while maintaining considerable diversification among its franchisee base (no single franchisee has more than fifteen locations). DP Eurasia's financial model consists of four income streams: profit on corporate owned stores, net royalty spread, food gross margin, and franchisee opening fees. The group's corporate stores operate at an average mid-twenties percent store level margin, while it earns a five to six percent net royalty spread on sub-franchisee system sales. In addition, DP Eurasia earns a thirty-five percent gross margin on food sales to sub-franchisees in Turkey and a mid-teens gross margin on food sales to sub-franchisees in Russia. Finally, first time franchisees are charged $50 thousand for opening a new location ($20 thousand for "homegrown" Domino's employee units which are one-third of all new builds), and $20 thousand for each additional location opened thereafter. In other words, each newly opened sub-franchisee location pays for approximately one year of maintenance expenditure for a corporate owned location.



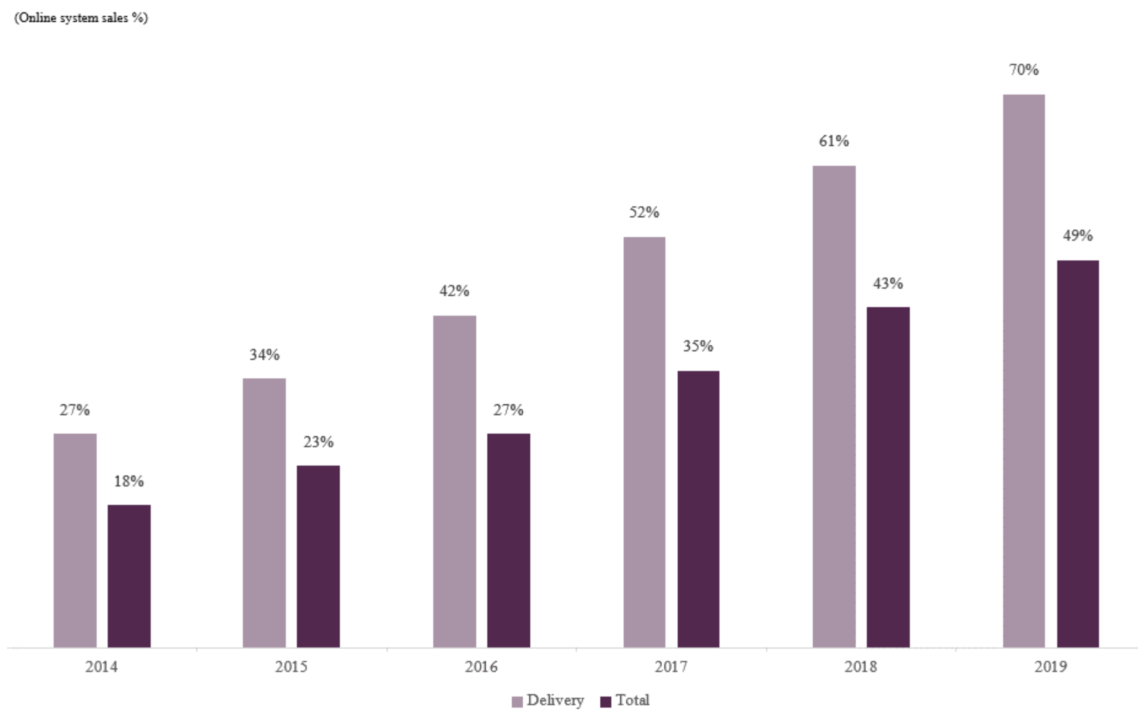
Russian Margin Convergence

In the years immediately preceding the 2017 initial public offering, DP Eurasia's Turkish adjusted EBITDA margins hockey-sticked from the low single digits to the low teens as it began to fully leverage centralized costs and benefit from scale purchases, higher network density, and an increasingly mature store base. In recent years, DP Eurasia's Russian adjusted EBITDA margins have been in the mid-single digits but are expected to increase non-linearly in the coming years to converge with the core Turkish market. There are a few important levers to this margin inflection. First, DP Eurasia has 160 corporate employees in Russia to support 199 system stores, compared with 200 corporate employees in Turkey to support 542 system stores. Central SG&A expenses are more than forty percent of total gross profit, which provide a meaningful foundation for operational leverage. Second, approximately half of all Russian locations have been opened in the last three years, compared with ten percent in Turkey, and store units require eighteen to twenty-four months to fully mature. Finally, commissary food sales represent a substantial portion of franchisee revenue, and DP Eurasia earns half the margins on food sales in Russia as it does in Turkey. This difference is primarily attributable to economies of scale, and, as such, the group expects its food margins to increase in Russia as the store network grows. Management at DP Eurasia has reiterated every year its confidence in margin convergence, which it expects to manifest rapidly around the 350-400 store mark in Russia.



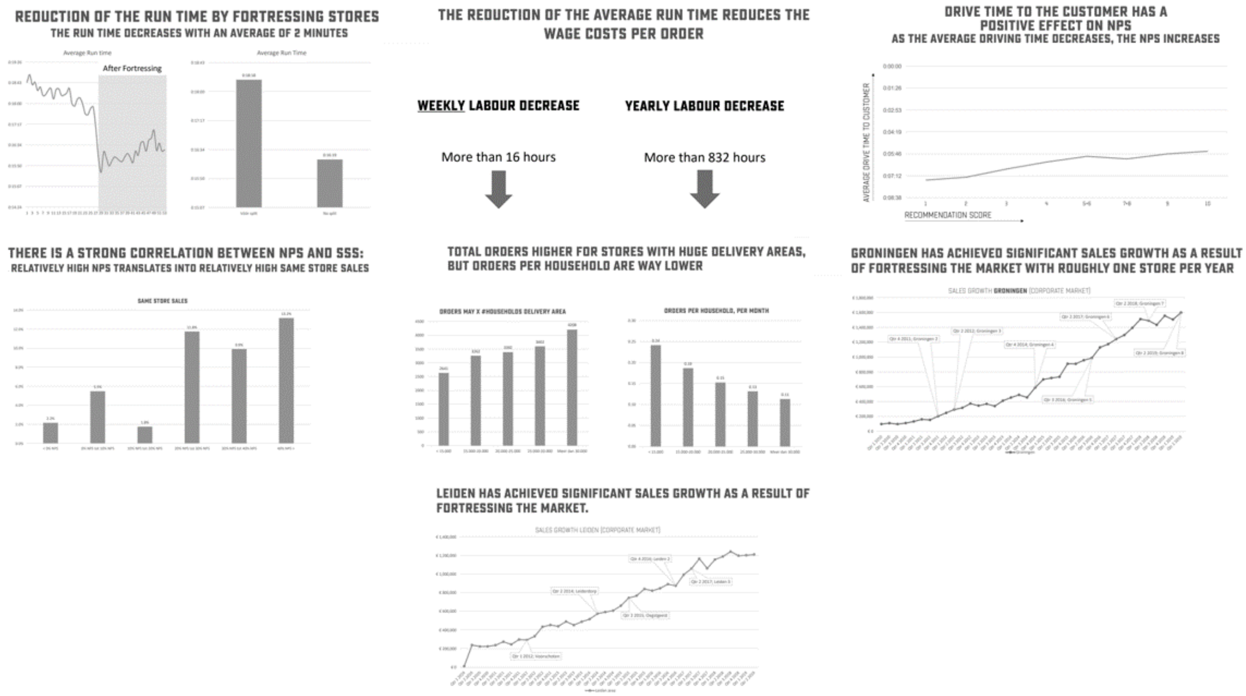
Digital Sales Penetration

DP Eurasia has a strategic focus on increasing its digital sales penetration to levels generally observed across global Domino's master franchisees (or approximately seventy to eighty percent of system sales). Orders placed using the group's online platforms have a higher customer ordering frequency, promote direct customer interaction at the corporate level, allow demand push marketing, and result in a better customer experience. Furthermore, this technology centric platform allows franchisees to become less reliant on their own marketing initiatives, which enables them to divert more focus to operational aspects. The group's digital sales penetration has more than doubled over the last five years, now accounting for more than fifty percent of system sales, and is a strong driver of like-for-like growth. In addition, in many ways DP Eurasia is a frontrunner on the technology curve compared to global peers. By 2019, DP Eurasia successfully rolled out its GPS order tracking system, which displays the location of delivery drivers to customers in real time and allows the group to capture and monitor driving routes, across every store in Turkey. This has improved the customer ordering experience, and DP Eurasia is already witnessing improved labor efficiency with an increase in deliveries per driver of twelve percent. This technology is being rolled out across the US but is still not widely available.



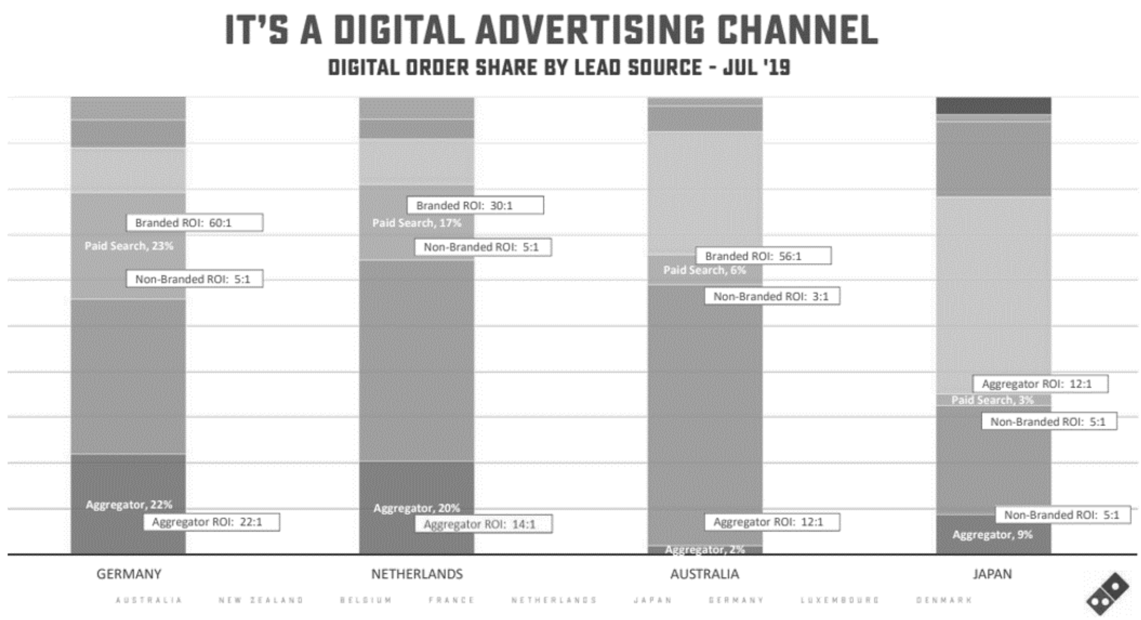
Fortressing for Growth

DP Eurasia and other successful master franchisees, like Domino's Pizza Enterprises, grow through employing a strategy called fortressing. In effect, Domino's continues to infill stores within a defined mapping area which serves to enhance its delivery position, increase customer satisfaction, and build a strong local brand presence. This tactic of splitting stores is counterintuitive, but it allows Domino's to leverage the benefits of network density to increase market share. On the surface, it would appear that the bigger the market per location, the better one would do – stores with more households would receive more orders. However, in a delivery centric model, not all orders are created equal. Within a large store territory, many orders earn substantially less profit due to delivery distance, which also results in customers receiving less fresh pizza, which then results in fewer recurring customer orders. In addition, physical store presence is a form of brand marketing, and without density the marketing burden per household increases. The bottom line is that faster delivery speed, which also results in fresher pizza, leads to happier customers who order more and increase total sales. There is, however, an optimum density and the global Domino's network has done a substantial amount of market research to figure out where this optimum exists – a data advantage that would be difficult for regional competitors to replicate. Below are a few slides from Domino's Pizza Enterprises' Investor Day, which highlights the fortressing strategy using the Netherlands region as a case study.



The Role of Aggregators

A common question for all operators in the QSR space, particularly Domino's, is what impact the rise of second generation aggregators will have on business. The higher quality Domino's Master Franchisees, like Domino's Pizza Enterprises and DP Eurasia, have taken a different outlook on the role of these intermediaries – viewing the platforms as digital advertising channels, rather than competitors. Domino's has advertised for many years on Google and Facebook and has witnessed strong ROI on platform spend. Today, after years of experience across several geographies, spend through aggregator platforms has proven to result in similarly compelling rates of return. In fact, Domino's believes that they are able to effectively segment the market and add less price sensitive incremental business via the aggregators. Pizza fanatics are offered a level of customization through the Domino's app that does not exist over an aggregator platform, and Domino's regular promotions and discounts are only offered through their own app. Thus, aggregators allow the group to capture customers who value the convenience of online ordering but are otherwise less interested in price and customization. It is also important to note that both DP Eurasia and Domino's Pizza Enterprises interact with all of their aggregator relationships under a first generation model wherein they complete the physical delivery themselves. This is essential to controlling the customer experience and ensuring a commitment to their thirty minute delivery guarantee. Finally, the interplay between aggregators and brands needs to be assessed at the local level, and I would posit that DP Eurasia is exceptionally well positioned in this regard. In Turkey, there is one aggregator, Yemeksepeti, that has ninety-nine percent of the market share. The company is a first generation aggregator (meaning they do not offer physical delivery themselves), and DP Eurasia has worked with them since the early 2000's. More than half of DP Eurasia's digital sales in Turkey come from Yemeksepeti, and the margins per order are the same as the group's own digital platform. In Russia, the landscape is entirely different. Until five years ago, there was no real presence of aggregators. Today, both Yandex.Eats and Delivery Club are competing aggressively to establish market share as second generation aggregators. Notably, the former head of DP Eurasia's Russian division, Guvenc Donmez, left the company in 2019 to become the CEO of Delivery Club. After many years on the sidelines, DP Eurasia began a fifty store test on Delivery Club's platform at the beginning of 2020, only three months after the arrival of their former employee. They were able to negotiate favorable economics and secure the right to operate under a first generation model where the group delivers all its own orders. The initial results were impressive, and DP Eurasia announced in March their intention to roll out all stores on the platform, which was completed in early June. This is particularly important because Domino's largest competitor in Russia, Dodo Pizza, has been outspoken against aggregators for some time and will almost certainly cede market share to DP Eurasia with this transaction.



Management Talent

In addition to benefiting from Aslan Saranga's experience, DP Eurasia has been able to attract key talent to its operations. Guvenc Donmez was essential in turning around the Domino's Russia segment after being acquired by DP Eurasia in 2013, and being named the CEO of Delivery Club is a testament to his caliber. The former CFO, Mustafa Ozgul, has replaced Guvenc as the CEO of the Russia division, and to complement his skillset Aslan recruited Tarun Bhasin, a twenty year veteran of Domino's, to join as COO. Tarun last served as the President and COO of Domino's India and was responsible for successfully scaling the business from one hundred to one thousand units. Tarun started in February 2020 and will prove to be a tremendous asset to DP Eurasia. In addition, Anna Masalova, who most recently served as finance director of McDonald's Russia, was appointed as the CFO of the group's Russian segment. Finally, in September 2020, DP Eurasia announced that Andrew Rennie, a twenty-five year executive of Domino's, will be joining the board as a strategic director. Andrew last served as the CEO of European operations of Domino's Pizza Enterprises and increased sales ten fold over his thirteen year career there. Intriguingly, the largest shareholder of DP Eurasia, Turkven, granted Andrew a four million share call option with a strike price of £1.05 and an expiration date of September 30, 2022 as an incentive. As a minority shareholder, one is able to participate in the value creation without dilution.

COVID-19

While Domino's has broadly been a beneficiary amidst the global upheaval of the restaurant industry, DP Eurasia has not been without its own short term headwinds. Both Russia and Turkey issued strict national lockdown measures with seventy-two straight days of curfew in Russia and twenty-six straight days of curfew in Turkey. Moreover, the group entered the pandemic with a higher than average sales mix favoring dine-in and takeaway, which was severely disrupted. In the first months of the spring lockdown, DP Eurasia's Turkish division experienced meager like-for-like sales, while the Russian division suffered negative thirty percent like-for-like results. This performance was markedly worse than the broad Domino's network. However, DP Eurasia was able to operate at cash flow neutral throughout this trying time, and by October store level results had improved significantly. For example, in Turkey September and October like-for-like sales grew forty-four percent, bringing the Turkish year to date like-for-like figures to positive twenty-three percent. In addition, Russia improved dramatically as DP Eurasia rolled out an improved pizza offering with a new dough formulation as well as key toppings all backed by a greater Moscow TV campaign. Though it is early days, Russia witnessed slightly positive like-for-like results by the last weeks of October. Finally, while it is an unfortunate circumstance, it looks highly probable that DP Eurasia will exit this pandemic with materially less competition from the fragmented universe of restaurant operators.

Valuation

Over the past ten years, the four largest international Domino's master franchisees have created 2,942 percent total shareholder value in US dollar terms. DP Eurasia is a relative newcomer to the public markets but trades at a substantial discount to these comparable operators of scale. For example, DP Eurasia is currently valued at 7.4x enterprise value to EBITDA versus an average 28.9x enterprise value to EBITDA for the listed peer group. On a multiple of system sales basis, the discount appears equally as steep. Domino's master franchisees globally follow different business models ranging from one hundred percent corporate owned (Jubilant Foodworks) to ninety-seven percent franchised (Domino's Pizza Group Plc). One would expect networks with a higher percentage of corporate owned locations to trade at a higher multiple of system sales, given that they capture a higher percentage of profit for every dollar spent. However, even with a network that is sixty-eight percent franchised, DP Eurasia trades at a fifty-seven percent discount on a multiple of system sales basis to Domino's Pizza Group Plc and a seventy-five percent discount to Domino's Pizza Enterprises, which are ninety-seven percent and seventy-eight percent franchised networks, respectively. Jubilant Foodworks, which owns all of its locations, trades at a multiple of system sales that is 16.5x higher than DP Eurasia. Meanwhile, the group has grown its store network at a faster rate than all international master franchisees with the exception of Domino's Pizza Enterprises, and its store level economics are among the highest in the global Domino's network. Finally, DP Eurasia has whitespace to grow to 2,400 units in its core markets, which makes the group the least penetrated network among the international master franchises.

	DP Eurasia	Domino's Pizza Group Plc	Alsea	Jubilant Foodworks	Domino's Pizza Enterprises
Markets	Turkey, Russia, Azerbaijan, Georgia	United Kingdom, Ireland	Mexico, Spain, Columbia	India, Sri Lanka, Bangladesh	Australia, New Zealand, Japan, Belgium, France, The Netherlands, Germany, Luxembourg, Denmark
Population Served (M)	247	72	225	1,551	342
Total Domino's Stores	754	1,192	1,223	1,264	2,668
Other Stores	-	-	3,013	26	-
Total System Sales (USD M)	199.2	1,768.0	2,800.0	544.0	2,550.0
EBITDA (USD M)	16.8	159.1	384.0	80.7	236.0
Enterprise Value (USD M)	123.8	2,482.0	2,725.0	5,362.0	6,240.0
EV/EBITDA	7.4x	15.6x	7.1x	66.4x	26.4x
EV/System Sales	0.6x	1.4x	1.0x	9.9x	2.4x
% Franchised	68%	97%	33%	0%	78%
Net Debt (USD M)	35.1	306.0	1,600.0	-	468.0
Net Debt/EBITDA	2.1x	1.9x	4.2x	-	2.0x
Total Store Potential	2,400	1,900	1,575	2,800	5,400
% Developed	31%	63%	78%	45%	49%
5-Year Store Growth	48.0%	28.0%	45.0%	36.0%	77.0%

On a forward looking basis, one can also consider the incremental value accretion of each cohort of new store openings. DP Eurasia expects to open sixty-five to ninety new stores per year over the next several years. These new store builds are weighted approximately one-third to Turkey, where the group expects to grow primarily through franchised openings, and two-thirds to Russia, where openings will be balanced between corporate and sub-franchisee locations. DP Eurasia earns approximately ten percent margins on sub-franchisee system sales, and its own corporate stores operate at a mid-twenties percent contribution margin. In addition, new corporate store builds cost roughly ₺1.2 million, while the group receives ₺140 thousand net for each sub-franchisee opening. Therefore, each annual store cohort will require ₺18 million to ₺27 million in upfront net CAPEX but will go on to produce ₺17 million to ₺25 million in recurring annual free cash flow (the average U.S. Domino's franchisee has operated for over eighteen years). In other terms, based on the year end price of £0.45 per share, each new store cohort will accrete two to four percentage points to DP Eurasia's free cash flow yield per annum. It is also worth noting that while the group is conservatively financed, its business model provides several levers to expedite debt paydown while continuing to grow system sales. For example, if DP Eurasia opted to lean on sub-franchisee openings for all new builds in a given year, it could generate an additional ₺21 million to ₺32 million in immediate cash flow without sacrificing system sales growth. Furthermore, because there is robust demand for units from new and existing sub-franchisees, the group's network of 241 corporate owned stores are highly liquid assets. While it would be almost certainly detrimental to long term shareholder value, DP Eurasia could repay all existing debt by transferring its corporate owned locations to sub-franchisees at the cost of a new build. This transaction would significantly lessen the capital intensity of the business and position DP Eurasia for a long runway of growth from a base five to seven percent free cash flow yield. Finally, we can estimate a range of values for DP Eurasia by projecting unit growth by country, like-for-like growth, system profitability, capital intensity, and other key inputs. The table below highlights the base case scenario for DP Eurasia, which equates to £0.92 per share, or roughly double the December 31st, 2020 share price.

DP Eurasia - Base Case

	FOR THE YEAR ENDED				
	Year +1 (TRY Million)	Year +2 (TRY Million)	Year +3 (TRY Million)	Year +4 (TRY Million)	Year +5 (TRY Million)
Turkey Stores:					
Beg. Turkey Stores	550	570	595	620	650
Turkey Store Openings	20	25	25	30	30
End. Turkey Stores	570	595	620	650	680
Russia Stores:					
Beg. Russia Stores	200	235	280	330	390
Russia Store Openings	35	45	50	60	70
End. Russia Stores	235	280	330	390	460
Financials:					
Turkey Sales	868	966	1,078	1,206	1,351
Sales/Unit	*1.55*	*1.66*	*1.77*	*1.90*	*2.03*
SSS Growth		*7.0%*	*7.0%*	*7.0%*	*7.0%*
Russia Sales	544	734	991	1,333	1,795
Sales/Unit	*2.5*	*2.85*	*3.25*	*3.70*	*4.22*
SSS Growth		*14.0%*	*14.0%*	*14.0%*	*14.0%*
Turkey EBITDA	104	116	129	145	162
margin	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*
Russia EBITDA	27	44	64	117	197
margin	*5.0%*	*6.0%*	*6.5%*	*8.8%*	*11.0%*
Total EBITDA	131	160	194	261	360
Maintenance Capex	(36)	(43)	(52)	(63)	(77)
% corporate	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*
capex/unit	*0.12*	*0.14*	*0.16*	*0.18*	*0.21*
infation		*15.0%*	*15.0%*	*15.0%*	*15.0%*
Interest Expense	(39)	(37)	(35)	(31)	(24)
Pre-Tax Operating Profit	56	79	106	167	258
Tax Expense	(11)	(16)	(21)	(33)	(52)
After-Tax Free Cash Flow	45	63	85	134	207
Growth Capex:					
Turkey Corporate Openings	2	3	3	3	3
% new build	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Russia Corporate Openings	18	23	15	18	21
% new build	*50.0%*	*50.0%*	*30.0%*	*30.0%*	*30.0%*
Total Corporate Openings	20	25	18	21	24
capex/unit	*1.25*	*1.44*	*1.65*	*1.90*	*2.19*
inflation		*15.0%*	*15.0%*	*15.0%*	*15.0%*
Growth CAPEX	(24)	(36)	(29)	(40)	(52)
Debt Outstanding:					
Beg. Net Debt	260	250	236	208	161
Debt Paydown	(10)	(14)	(28)	(47)	(77)
End. Net Debt	250	236	208	161	84
Interest %	15.0%	15.0%	15.0%	15.0%	15.0%

Valuation	
Terminal Value (16x)	3,305
Discount Rate	20.0%
NPV	1,328
GBP/TRY	0.10
NPV (GBP)	133
Upside to IV	104.4%

Elephant(s) in the Room

As a US dollar denominated investor, currency devaluation poses a significant risk to shareholders of DP Eurasia. For example, over the last ten years the Turkish Lira has devalued against the dollar by over seventy-five percent, while the Russian Ruble has devalued against the dollar by over fifty percent. These macro drivers of return can quickly transform excellent local operating performance into abysmal investment outcomes for foreign owners. Moreover, forecasting the direction of currencies is complex, highly dependent on geopolitical considerations and sentiment, and lies firmly beyond my circle of competence. However, there remain several elements that give me confidence in the prospective real returns of DP Eurasia. First, as mentioned previously, DP Eurasia purchases all of its raw ingredients in local currencies, leaving its profit structure unexposed to currency fluctuations. Second, in 2018 the group refinanced all of its euro denominated debt with ruble and lira denominated debt to match the underlying revenues of the business. Third, DP Eurasia's Russian operations are becoming an increasingly significant proportion of total system sales, and Russia's economy is far less reliant on foreign flows than Turkey. Recall that the 2014 financial crisis in Russia generated the lion's share of ruble devaluation over the last decade, which was instigated by a collapse in oil price. In 2014, Russia required $100 /bbl oil to balance its fiscal budget, but today that figure stands at less than $40/bbl. Fourth, while by no means a predictive measure, goods and services in Turkey and Russia in real terms are some of the most affordable globally. For instance, consider the infamous Big Mac index. The Big Mac index was invented in 1986 as a lighthearted guide to assess whether currencies are at their "correct" level. It is based on the theory of purchasing power parity (PPP), the notion that in the long run exchange rates should move towards the rate that would equalize the prices of an identical basket of goods and services (in this case, a burger) in any two countries. According to *The Economist*, the Turkish Lira and Russian Ruble rank 54th and 55th, respectively, of fifty-six total countries surveyed, with an implied sixty-four and sixty-eight percent fair value discount to the US dollar. Fifth, DP Eurasia's scale and brand recognition allows the group to manage raw input inflation better than competitors and pass on heightened costs to consumers in the form of price increases. Sixth, in the event of currency collapse induced recession, Domino's Pizza has proven to be a globally resilient business as consumers trade-down into lower price food offerings during a recession. Finally, I use a twenty percent discount rate to calculate the net present value of cash flows for DP Eurasia in our financial model. In addition to a standard eight percent discount rate, this allows for a sixty-five percent local currency devaluation over a ten year period.

Conclusion

At a time where the investment community eagerly confers revenue multiples of 10x, 30x, or even 100x upon collectively agreed champions, our partnership is comfortable opting for different battlegrounds. We cannot control the prices others are willing to pay for assets, and, thankfully, those prices similarly have little bearing on the fundamental performance of our own portfolio. Our sandbox is large by design, and today our opportunity set of assets that are underappreciated, run by operators with high co-ownership, and available at attractive prices remains robust. As always, I am happy to speak with you at length about any of our companies, and I remain grateful for your trust and partnership.

Appendix A: Realized Investments

Ticker	Company	IRR*	MSCI ACWI	Delta
FIG	Fortress Investment Group	94.69%	17.29%	77.39%
CMG	Chipotle Mexican Grill	3.19%	13.84%	-10.65%
FCPT	Four Corners Property Trust	46.07%	14.10%	31.96%
WFM	Whole Foods	37.70%	17.21%	20.49%
AMS:VPK	Koninklijke Vopak N.V.	3.29%	8.86%	-5.57%
WMT	Walmart	28.08%	14.16%	13.92%
KKR 1.18.19 Call @25	KKR & Co.	10.00%	2.09%	7.91%
GOOG	Alphabet Inc	38.91%	21.19%	17.72%
BRK.B	Berkshire Hathaway	20.01%	14.81%	5.20%
EBAY	eBay Inc	27.84%	17.45%	10.40%
MMI	Marcus & Millichap Inc	29.94%	14.95%	14.99%
LON:ARR	Aurora Investment Trust Plc	18.71%	16.74%	1.97%
NVO	Novo Nordisk A/S	37.17%	15.28%	21.89%
DKS	Dick's Sporting Goods	42.56%	-2.85%	45.41%
ASX:RHP	Rhipe Ltd	93.23%	3.95%	89.28%
LON:BDEV	Barratt Developments Plc	25.79%	5.39%	20.40%
OSE:CRAYON	Crayon Group Holding ASA	152.89%	8.50%	144.39%
DKS	Dick's Sporting Goods	30.52%	6.80%	23.72%
YTRA 12.16.21 Warrant @ 11.5	Yatra Online	-45.74%	6.17%	-51.91%
YTRA	Yatra Online	-27.90%	8.14%	-36.04%
LON:FRAS	Frasers Group Plc	52.40%	12.64%	39.75%
COG	Cabot Oil & Gas	1.79%	-9.64%	11.43%
COG Put Option (Various)	Cabot Oil & Gas	-27.62%	0.00%	-27.62%
DKS Put Option (Various)	Dick's Sporting Goods	-47.93%	0.00%	-47.93%
DKS	Dick's Sporting Goods	-23.85%	-5.67%	-18.18%
KKR 1.15.21 Call @ 20	KKR & Co.	7.17%	-6.36%	13.53%
	Average	24.19%	8.27%	15.92%

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

Appendix B: Unrealized Investments

Ticker	Company	IRR*	MSCI ACWI	Delta
BSM	Black Stone Minerals LP	12.88%	23.50%	-10.61%
LON:BUR	Burford Capital Limited	140.27%	56.15%	84.12%
DESP	Despegar.com	8.07%	9.41%	-1.34%
LON:DPEU	DP Eurasia NV	13.37%	28.05%	-14.68%
KKR	KKR & Co	36.38%	16.42%	19.95%
LON:LOOP	LoopUp Group Plc	-12.90%	29.64%	-42.54%
NOAH	Noah Holdings Ltd	81.80%	17.77%	64.03%
ASX:RHP	Rhipe Ltd	12.30%	22.37%	-10.07%

**Table above reflects the IRR of unrealized portfolio investments (unannualized if < 1 Year), and the equivalent IRR that would have been achieved to date had each invested dollar been allocated to MSCI ACWI. As of 1/22/2021.*

Disclosures

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

Contact

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