Investor Relations
equities.brasil@patria.com

Dear clients and partners,

As mentioned in our recent Patria PIPE update letters, January 2025 marked the beginning of a new chapter for Patria's Equities division in Brazil. Our business unit, formed through the merger with Chilean asset manager Moneda in 2021, consists of a team of 24 professionals with extensive knowledge and expertise in managing liquid assets in Latin America. We manage seven strategies, including two in Brazil, with a total of BRL 13 billion in assets under management.

With the transition of Patria PIPE to a Long Only approach and the reopening of our Long Biased strategy (Patria Long Biased) for fundraising, we would like to share our market outlook in this letter, which inaugurates this new phase.

Déjà vu?

Although we remain cautious about the country's upcoming political and economic movements, we begin 2025 with a renewed spirit, confident that the current crisis has distinct characteristics compared to past cycles that have similarly pressured our asset class.

As a team, we have navigated through Argentina's default in 2001, the global impact of the subprime crisis in 2008, the commodities market correction in 2015, the impeachment of President Dilma Rousseff in 2016, the COVID-19 pandemic, and now the challenges of 2024/2025. Each market correction is unique but shares similarities.

The quote often attributed to Mark Twain, "History doesn't repeat itself, but it often rhymes," aptly describes market cycles.

We enter 2025 with a weak Real and a very strong Dollar, the latter almost as high as it was at its peak in 2000. Back then, the U.S. market was highly overvalued, Latin American stocks were trading at very low valuations, and a tech bubble was about to burst. It's interesting how history rhymes: today, while the U.S. market seems perfectly priced, Latin America appears to be at the opposite extreme.

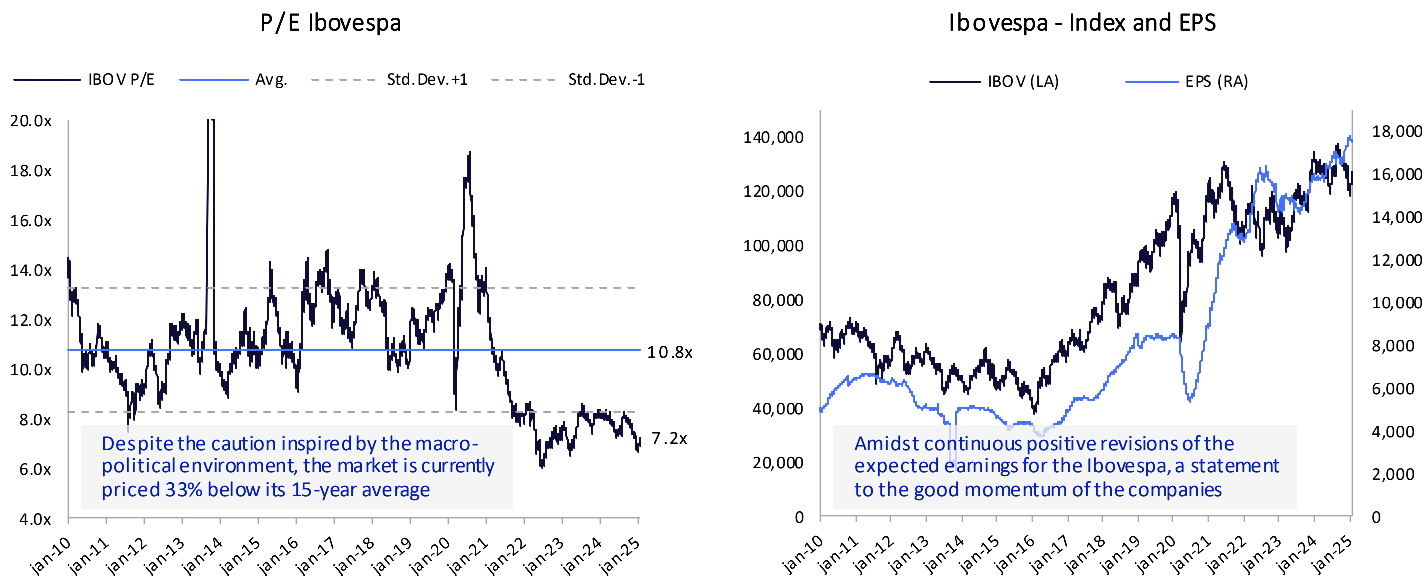
We believe the Brazilian market is anticipating a difficult 2025, using the "template" of 2015. The Brazilian government struggles to gain market confidence regarding the long-term sustainability of the country's public finances, a scenario reminiscent of 2015 when the lack of visibility related to reducing government leverage for budget balance and overall leverage resulted in significant deterioration in the domestic bond market.

Inflation, driven by significant uncertainties and a notable lack of appetite for the Real, which has been pushed above BRL6.00 to the Dollar, brings unpleasant memories to long-time investors in the country and raises questions about the sustainability of the local economy in an environment of high inflation and interest rates, which are expected to be above 15% by the end of 2025.

Such pessimism, as with all the past events mentioned, brings selling pressure and caution to the market. And as we know, the greater the pessimism, the cheaper the company valuations.

However, with the stock market trading at a 33% discount compared to its historical average over the last 15 years, exemplified by the Ibovespa's P/E ratio of 7.2x, we believe this is an opportune moment to position ourselves in companies that have all the necessary attributes to outperform the market when it resumes its growth cycle.

This is because, similar to 2008 and 2015, the current environment features a number of companies with strong operational fundamentals and growing profits, the latter exemplified by the consistent upward revisions of the expected earnings for the Ibovespa.



Given the current situation, and to avoid future regrets, we believe the best course of action is to take a position and buy at low prices—something most have been avoiding, either out of fear or lack of conviction.

Credit Cycle

If the Selic rate reaches 15% by November 2025, the central bank will have increased interest rates by more than 4% since November 2024. Such a high level of interest rates is likely to trigger a deterioration in banks' credit portfolios and a slowdown in overall credit growth. In fact, the R-squared of disposable income minus the cost of servicing debt and the level of non-performing loans in the banking system is above 0.8. By November, we should see an increase in the stock of non-performing loans by about 50 basis points, bringing this indicator to a level 30 basis points below the peak of 2015.

A downturn in the credit cycle has clear consequences: consumption, employment growth, and private investments are expected to cool down. We believe the market has already priced in this cyclical slowdown. This is why, in many cases, market prices do not seem to align with company performance. In fact, while the MSCI Brazil Small Cap index fell by 17.4% (BRL) during 2024, revenues, EBIT (operating income), and net income increased by 1.5%, 5.4%, and 18.0%, respectively.

Why is this time different?

One good thing about cycles is that they are cyclical. Short-term concerns can obscure the medium and long-term outlook, but we vividly remember 2009 and 2016, years when the asset class recorded its highest returns in the past 30 years.

After more than a decade of low investments, commodity prices are much stronger than in 2015, corporate leverage is lower, and dividend yields are significantly higher. Among the major companies, Vale and Petrobras are still expected to pay dividend yields close to or above 10% in 2025. In 2015, Petrobras had high leverage, and its bonds were trading well below par. In fact, the Ibovespa's Net Debt/EBITDA ratio has improved from 5.6x to just 1.5x today.

EBIT and IPCA (Inflation Index)

EBIT (Sectors) and IPCA	CAGR 2007 – 3T24
IT	15,8%
Homebuilders	15,2%
Financials	9,2%
Discretionary Consumption	8,9%
Utilities	8,7%
Energy	7,8%
Consumer Goods	6,0%
IPCA	5,8%
Industry	4,8%
Material Goods	1,3%
Communication Services	0,2%

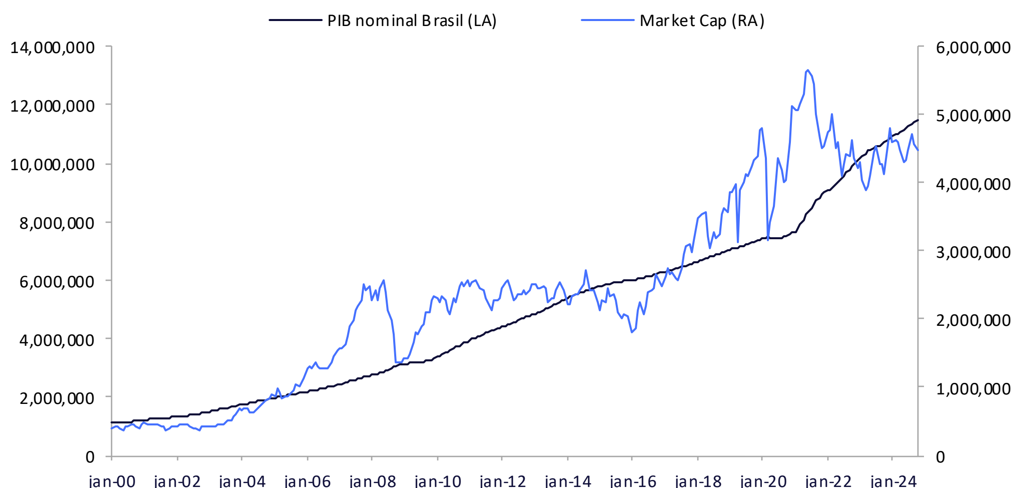
We analyzed 41 publicly traded companies with continuously published financial data from January 2007 to the third quarter of 2024. We then grouped these companies by economic sector and constructed sector indices using equal weights for each period, thus avoiding biases related to size, margins, or other factors. Out of the 10 sectors, 7 showed compound annual growth rates (CAGR) in operating income above inflation, while only three were below. This sample includes two major crises, a pandemic, and a challenging political cycle.

Companies are real assets

Companies are the value creators of an economy, so there is a long-term relationship between the size of the GDP and the market value of the companies that make up that economy.

This relationship is evident in the case of Brazil:

Brazil's nominal GDP (BRL tri) Vs Brazil's Market Cap (BRL tri)



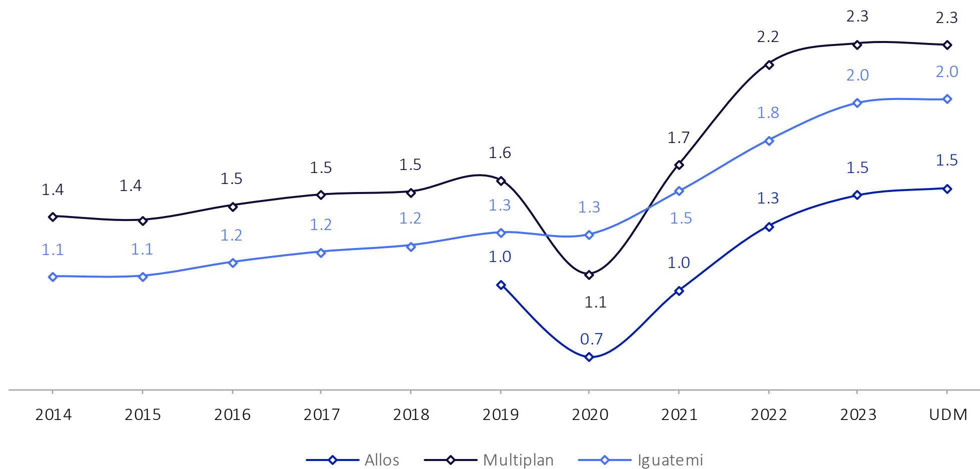
Companies are real assets. Over time, their results increase with inflation plus real growth. This should be an obvious fact, but we mention it because stocks in Brazil are currently trading at levels that seem to price in no growth. It's interesting to note that high-quality companies are priced for an endless recession or anemic growth, which is simply unrealistic.

Given the above propositions, we highlight three companies that we believe are good assets. These companies are leaders in their respective sectors, have outstanding levels of corporate governance, aligned managers and controllers, consistent execution and delivery, and, in our analysis, are excessively undervalued, making them good investments for the medium to long term.

Multiplan

Multiplan is one of Brazil's leading shopping center companies, with a diverse and well-located portfolio. With a 50-year track record, the company ranks number one in productivity (highest revenue/sqm), operates a stable business with high margins (EBITDA > 70%), returns above the cost of capital (15%), and lower profitability risk compared to retailers.

Productivity: Sales/GLA



The company also boasts strong cash generation capabilities, a significant investment plan (capex), controlled leverage, and a consistent dividend payment policy, highlighting its resilience during periods of economic volatility. With tenant Sales/GLA 2.3x above the national average, the company can pass on prices above inflation, which is one of its main competitive advantages compared to other listed players.

Main Indicators

Multiplan Vs Market (Brazil)	2019	2023
Sales/GLA	1.7x	2.3x
Mkt share (revenues)	8,5%	11,3%
% of Brazil's total GLA	5,0%	4,9%
% of Brazil's existing malls	3,3%	3,1%
% of Brazilian cities with a Multiplan mall	0,2%	0,2%

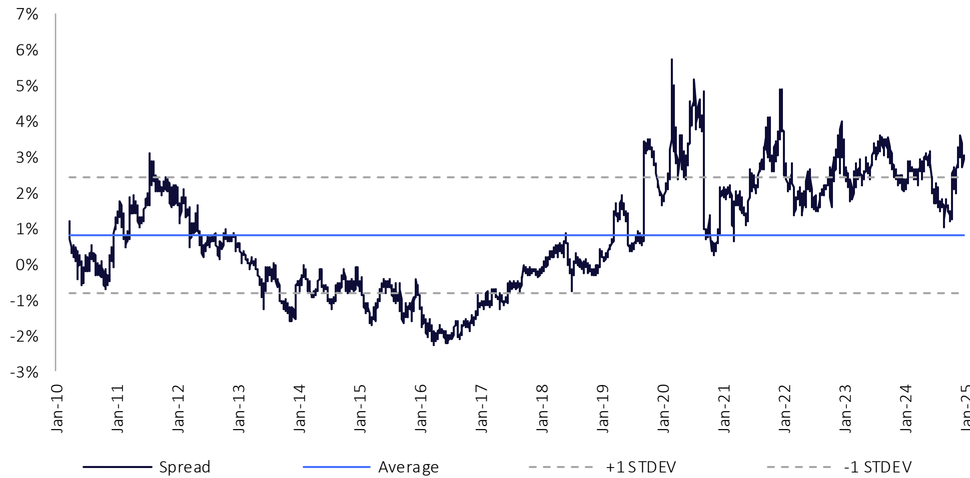
Multiplan

- BRL24.894/sqm
- BRL10.915/sqm
- BRL21.9bi
- BRL194.7 bi
- 880.852 sqm
- 17.837.297 sqm
- 20 malls
- 639 malls
- 11 cities
- 5.570 cities

Additionally, it has a cap rate of 13.5%, indicating a premium and highly profitable portfolio, placing the company in the top quartile of returns when compared even to real estate funds and construction companies. For comparison, real estate assets in prime areas such as Jardins in São Paulo or Leblon in Rio de Janeiro operate at a cap rate of 5-6%.

With its shares trading near the 52-week low and the spread between its FFO Yield and the 10-year long NTN-B at 1.5 standard deviations above its historical average, we believe this is a good time to position in a company that is likely to navigate the current macroeconomic scenario well.

Attractive Valuation: Spread FFO Yield Vs NTNT-B longa (10 anos)



All things considered, investing in MULT3 is based on (i) the solidity of its fundamentals, (ii) clear competitive advantages, and (iii) pricing that we believe is disconnected from the company's actual ability to generate shareholder returns.

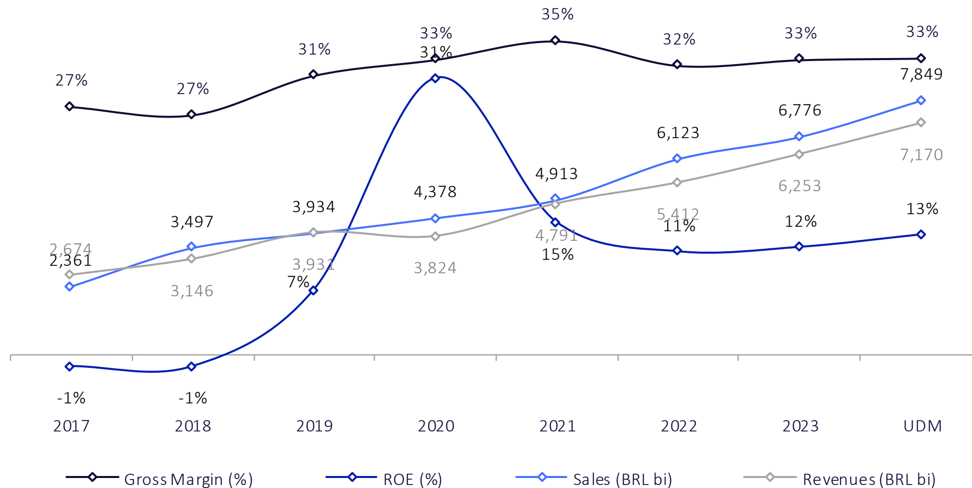
Cyrela

Cyrela is one of the largest real estate developers in Brazil, leading the market in medium and high-end residential projects, with a strong presence in São Paulo. The company also operates in the affordable housing segment through its Vivaz brand, created to support the Minha Casa Minha Vida program.

Recognized for the quality of its products and services, Cyrela invests in sustainable technologies and innovative construction practices, standing out for its competitive advantages.

Cyrela has consistently delivered growing results, with robust revenue expansion and healthy margins. In Q3 2024, the company reported a 25.0% increase in revenue and a net profit of BRL 473 million year-over-year, with an ROE of 17.6%. Additionally, its resilient and healthy gross margin of 33.3% reflects its operational efficiency. We expect 2024 to conclude with the continuation of the strong operational momentum observed in recent quarters.

Operation/Financial Evolution



The company maintains a balanced capital structure, with a Net Debt/EBITDA ratio of 1.8x and a current liquidity ratio of 3.45. Due to its operational segment and robustness, the company demonstrated exceptional solidity during the pandemic compared to other listed players, standing out for its control of defaults and the expansion of results and margins.

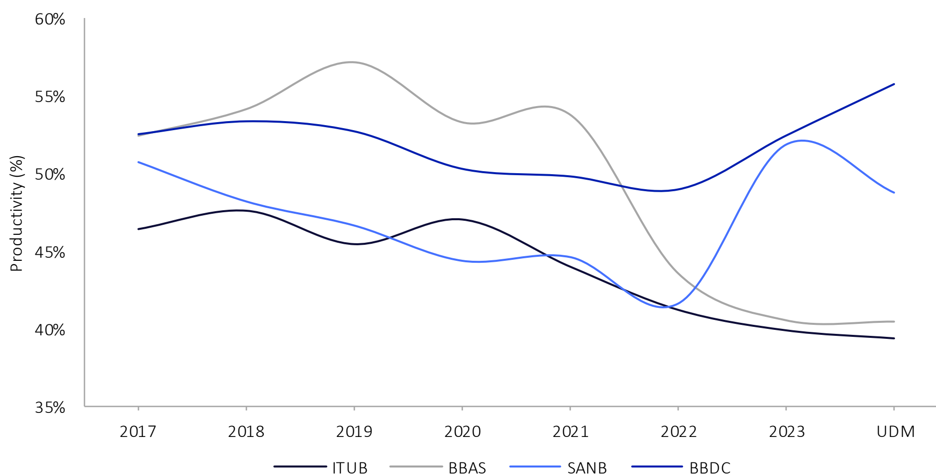
With an attractive dividend yield for 2024 and 2025, and the prospect of maintaining strong operational performance for the upcoming cycle, the company is priced below 5x earnings. We believe this presents an attractive entry point for a company that (i) has excellent execution and long-term aligned executives and controllers, (ii) operates in a market segment more protected from macroeconomic impacts, and (iii) has a robust and well-balanced capital structure suited to the current uncertainties.

Itaú

As the largest incumbent bank in Latin America, we see Itaú as the best name in the sector to navigate a macroeconomic scenario of low growth and high interest rates.

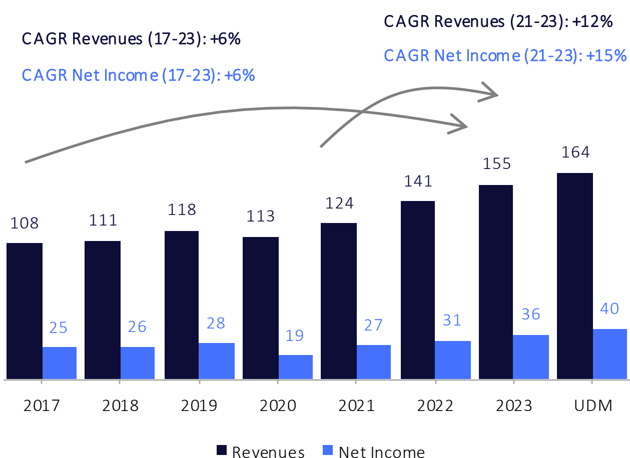
With an extensive network of branches and significant investments in technology, the company stands out for its wide range of products and excellent customer experience, being recognized as one of the most valuable brands in Brazil and the most efficient player in the sector.

Productivity – focus on the digital journey: largest efficiency gains within the industry

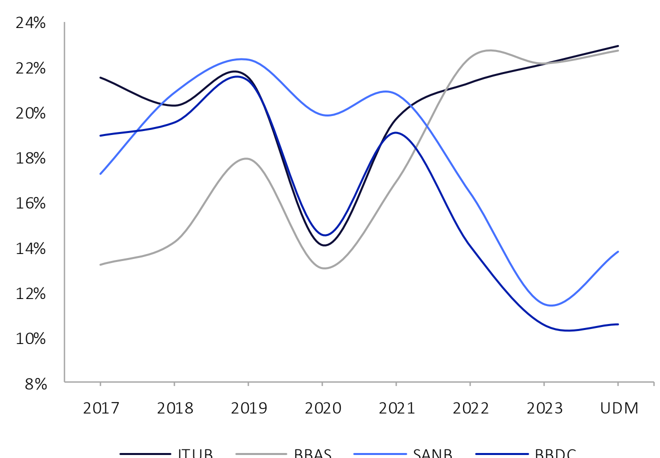


These attributes result in solid and growing results, with Itaú showing lower default rates than its competitors and the highest ROE in the industry, justified by its efficient and profitable execution.

Revenues and Net Income (BRL bi)

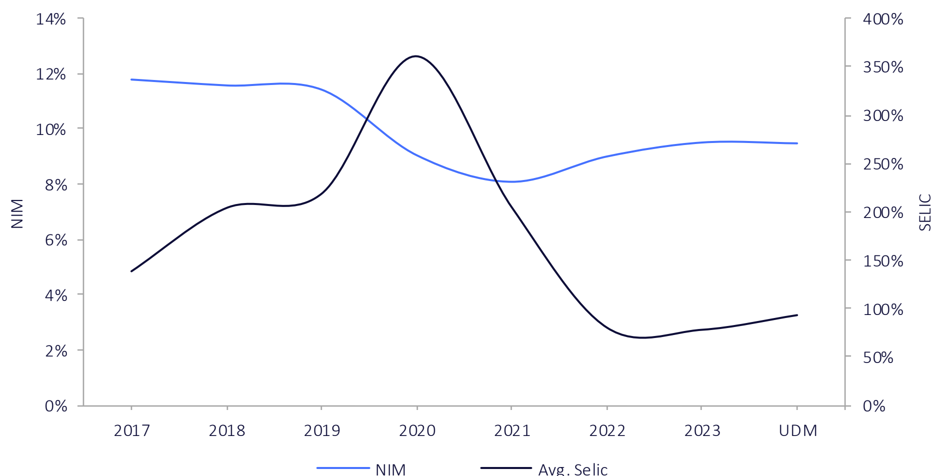


Industry's largest ROE



The bank has also demonstrated resilience during economic crises. For example, during the COVID-19 pandemic, it maintained solid financial performance, with growth in its credit portfolio and control of defaults. In 2024, it reported a recurring net income of BRL 10.7 billion in the third quarter, an increase of 18.1% compared to the previous year.

Resilient margins even in adverse macroeconomic scenarios



Another highlight is the company's dividend policy, recognized as one of the largest in the industry. The prospect of extraordinary dividends announced for 2024 and an expected dividend yield of 12% for the next twelve months position it as one of the top payers in the Ibovespa.

Despite this, the company is attractively priced compared to its peers. With an expected P/B (price-to-book) ratio of 1.6x for 2025, we see the company having the highest expected return among private banks for the next three years, with an IRR of 19.0% vs. 16.5% for Bradesco and 17.0% for Santander.

From another perspective, with expected earnings for the 2025-2027 cycle growing at an average of 7% per year, slightly above the projected inflation for those years, and a base annual dividend yield of 9%, generating around 30% return just in dividends over the next three years, our analysis that companies are real assets suggests that Itaú's current pricing level seems to consider little or no growth for the company, which we find contradictory.

All things considered, we see (i) its spreads benefiting from the higher Selic rate environment, (ii) the continuation of its robust operational execution, and (iii) maintaining its outperformance compared to other sector players. These attributes combined reinforce our positive outlook for the company and justify our investment in a world-class asset at an attractive valuation.

About Patria Equities Brazil Strategies:

Patria Pioneiro Long Only

The fund aims to outperform the market across different cycles and macroeconomic environments. It follows a long-term, bottom-up strategy without sector restrictions, with ESG parameters as a value differentiator and leveraged on Patria's ecosystem and know-how as business owners within different industries. It invests in companies with competitive advantages, sector leadership, consolidation potential, and aligned managers and controllers. The long-only approach includes positions representing 3% to 12% of the fund, with net long exposure ranging from 80% to 100%, and rigorous risk management controls, along with continuous monitoring and reassessment of all investments and opportunities.

Patria Long Biased

The fund aims to outperform the market across different cycles and macroeconomic environments with a structural portfolio based on a long-term, bottom-up strategy leveraged on Patria's ecosystem and know-how as business owners within different industries. Additionally, the fund uses other instruments to protect its structural portfolio from the different macroeconomic variations. The fund holds positions representing 3% to 12% of the fund, with net long exposure ranging from 0% to 100%, and rigorous risk management controls, along with continuous monitoring and reassessment of all investments and opportunities.

Investor Relations
equities.brasil@patria.com