

Dear Shareholders,

I am thrilled to share with you that our first year in existence is behind us. Unity was incorporated in April 2023 as a Bulgarian-based joint stock company. I am writing you the letter now because I wanted to have a full-year result to comment on and report. The performance results are from 04.2023–04.2024 and are the following: The return on invested shareholder equity for the period is 43.5%. The return for the same period of the S&P 500 index is 21.5%. The average returns of the S&P 500 index for the last 10 years are 15.3% (that is a high barrier that we should jump over). We promised you that we would use the S&P 500 index as a benchmark because everyone of you can buy the S&P 500 index fund and enjoy the returns from it with very little cost (Vanguard and Fidelity provide good options for that). So, if an actively managed investment company cannot “beat” the unmanaged index fund (for some meaningful period), then probably it is not a good idea for it to exist. I also want to remind you that the results for any particular year do not mean much, especially in our first one. It was going to be totally fine if our returns this year were -43.5%. The reason for this is something that I shared with you in my first letter: you should judge us on at least a 3-year period (more likely 5 years), because the assets that we are buying need time and attention for the investment to “bear fruit.”.

“The Rule of 72” and investment strategy

There is an interesting “game” with numbers called “the Rule of 72” that I find worth sharing with you. It states the following: if you divide the number 72 by the rate of return that you are receiving from an investment, the result will show you after how many years your investment will double. For example, if someone invests \$1,000 and receives a 10% return on his investment every year, then his money will double approximately every 7 years ($72:10 = 7.2$). That means that his \$1,000 investment will grow into \$2,000 in approximately 7 years (if the return of 10% is compounding every year). If somebody invested in the S&P 500 index fund before 10 years (2014) and was receiving the 15.3% compound annual return, then his investment will double approximately every 5 years. So, for the 10-year period, his money will double twice.

Apart from this enjoyable numbers game, I want to share with you how we approach investing and what our strategy is. Unity is investing in small/micro companies that have revenues ranging from 500 000 BGN to 10 000 000 BGN. We are looking for assets that have a long history of doing business, a long history of earning profits, and, last but not least, a seller with a high level of integrity. If the last “requirement” is not there, we will skip the deal, no matter how great the financials look.

So, some of you are probably asking yourself, “Why would someone sell his asset if it is producing profits and going strong?”. Well, apart from the trivial reasons such as “burnout, sickness, and divorce,” a little statistic will help me explain the topic: at the end of 2022, there were around 22 000 private businesses in Bulgaria, with 10–50 employees and revenues of 400 000 BGN and above. More than 75% of those businesses are owned by the “baby boomer” generation (the wealthiest generation in history until now), and these people will have to look for retirement in the next 3–7 years.

Some owners have kids who could inherit the businesses, but many of them do not have an “exit strategy.” That leaves Unity with a big “universe “of potential sellers, where we can help them monetize their long-built assets and prepare for their retirement in the next years without the hassle of operating the business at “full speed.” And, in the meantime, produce an above-average return for our shareholders.

The "bad" news

Since the good news are taking care of themselves, I will share most of the time where our problems are and how we are fixing them. The biggest issues we are experiencing now are in one of our acquisitions, Print Reclama Bulgaria. In our first year, we saw a decrease in revenues, and in the first quarter of 2024, there were some problems with the staff. The issues have already been addressed and discussed with our Board of Directors, and we are acting towards solving them. In our letter to you at the end of 2024, you will receive a full update on the situation. Apart from that, in our two other acquisitions, we’ve been treated extremely well, and the results are showing it. We are looking forward to doing business with more sellers who share our intentions and vision for their businesses.

General information and „real “economic performance:

In our first year of existence, we managed to acquire three companies from two different sectors. 2 of our acquisitions are in the manufacturing of marketing materials sector, and 1 acquisition is in the dental clinics sector. You must know that the true earnings for you as shareholders (the owner's earnings or free cash flow) will look different from the “accounting profits” in the statutory financial statements. In my reports to you, I will try to explain our way of thinking when we analyze potential acquisitions and show you that “accounting profits” are just the starting point for valuing a particular company. Because of “not so correct” accounting practices in the past (before we acquired the companies), the statutory financials of some of our subsidiaries will look very different from the real economic performance (that is what we are interested in). With effort and time commitment from our team, we will improve the financials and accounting practices in every acquisition we do, so the accounting and economic profits look similar.

Also, you will see that the return on capital of our subsidiaries is different from the return of our holding company (Unity Investment Partnership JSC). This is so because the amount of equity invested in Unity IP (your money) is different than the underlying equity capital that our subsidiaries are working with (some years it will be less, some years it will be more). So, the results of our Hold Co, should be judged based on its equity base, and the returns of our subsidiaries should be judged based on theirs.

Return on equity for subsidiaries:

On a consolidated basis, our subsidiaries produced revenues of 2,567 000 BGN and an operating profit of 398 000 BGN (profit before interest and taxes). This gives us a 15.5% operating margin. The operating earnings, after interest expenses are 354 000 BGN (398 000 minus interest on loans of 44 000 BGN).

The profits alone do not mean much, since they should be examined in relation to the equity capital that was invested to produce them. The total tangible equity that our subsidiaries worked with was 1 695 000 BGN (73.6% of net fixed assets and 26.4% of net current assets, where a big chunk of them is in cash, or 17.2% from equity). I am mentioning tangible capital because, in our statutory balance sheet, you can see that there are purchase price accounting adjustments that were created from the acquisitions and the prices that we paid for them. There is a Goodwill item created that goes directly on our balance sheet, but it is an intangible asset, and this is the reason why we don't include it in the calculation of returns (we want only the amount of tangible capital that the companies worked with). Also, this Goodwill asset is amortized in the expense column in the P&L, but again, it is not a real economic expense, so we exclude it when calculating the operating profits for some of our companies (the ones that have a Goodwill on the balance sheet). That gives us a return on tangible equity for our 3 companies of 20.8% (354 000BGN/1 695 000 BGN). This is an important metric that we will strive to improve constantly. This can happen by improving the margins of the businesses or by running the same level of business with less capital employed. At the end of 2024, we will provide you with another letter where we will talk more about the different sectors and their performances and metrics.

Company/Period (In BGN)	Revenues	Owner's earnings (before loan interest and taxes)	Net tangible Equity
Print Reclama (04.2023- 04.2024)	1 475 000	160 000 (excluding Goodwill amortization)	1 325 000
Kris Design (from 09.2023- 04.2024)	596 000	99 000	190 000
EMADENT (for 2 months)	496 000	139 000	180 000

Return on equity for the Holding company (Unity Investment Partnership JSC):

As I wrote a little earlier, the returns of the subsidiaries and the Holding company will differ because of the different equity bases that they worked with. So, we already know that our acquired companies produced 354 000 BGN of operating profits. As you know, with every new deal that we do (successful or unsuccessful), we are enduring costs for legal and financial Due diligence and notary taxes. So, to calculate the real earnings (free cash flow) for the Hold Co, we should take out these expenses from the operating earnings of the subsidiaries (these costs are not an operational expense for the underlying companies but

are true costs for Unity IP). So, we have 184 000 BGN of expenses for the holding company, which includes acquisition expenses, overhead, and maintenance capital expenditures. “Maintenance cap. Ex” is an expense that we must incur every year to keep our printing machines intact. Some years it will be more, some years less, but we should always spend some money on this. The bottom line for our first year is 170 000 BGN in free cash flow, or money that belongs to you, the shareholders (354 000 BGN-184 000 BGN = 170 000 BGN). That brings us to our return calculation from the beginning of the letter: we invested 390 000 BGN of shareholder money (your money), so our return is: $170\,000/390\,000 = 43.5\%$.

The magic of compounding

Compound interest is the power engine of investment, and this is what we are aiming to achieve for everyone who invests capital with us. Einstein said that compounding is the 8th wonder of the world, and in my opinion, this subject should be taught at school to 7-8 grade students. In investments, the compound effect has two components that make it work its magic. They are the rate of return and the time horizon that you have in front of you. If you have a long-time horizon, you don’t need a high rate of return or large amounts of starting capital for your investment to grow exponentially. But if you have shorter time horizons, then you must find an investment vehicle that gives you an above-average return on your capital. A large amount of starting capital is always a plus, but for our example, we assume that we start with 10,000 BGN. So, if someone starts with 10 000 BGN and has a 10-year time horizon in front of him and wants to have 1 000 000 BGN at the end of the period, then his money should compound at 58.4% annually to receive the desired amount (a big hurdle for every investment to reach). But if you have 25 years of an investment horizon and you still want to receive 1 000 000 BGN at the end (starting with 10 000 BGN), then your money should compound at 20.2% annually to receive the desired amount at the end. In both scenarios, we assume that there are no dividend payments and that all earnings are reinvested (so the amount can compound). You can see that time is of great importance, if someone wants to create sustainable wealth. Our goal in Unity is to provide the highest annual compound return on your investment. We think that the possibilities for that are high because we have a big “investment universe” (a lot of potential deals) in front of us and a long-term horizon. The combination of these two factors is a good platform for us to produce above-average returns. For the rest, we will leave compound interest to do its magic.

Miscellaneous

We made some changes to the Board of Directors of Unity. We welcomed Mr. Arien van den Berg, Mr. Pieter Rink, and Mr. Daniel Damianovitch. We believe that they will add a lot of experience and wisdom to the company and its future development. You can find more information about them on our website. Our next communication with you will be after January 2025, so we can report the full year 2024. Any questions or feedback will be welcomed!

Sincerely,

Nikolay Dimitrov

CEO

