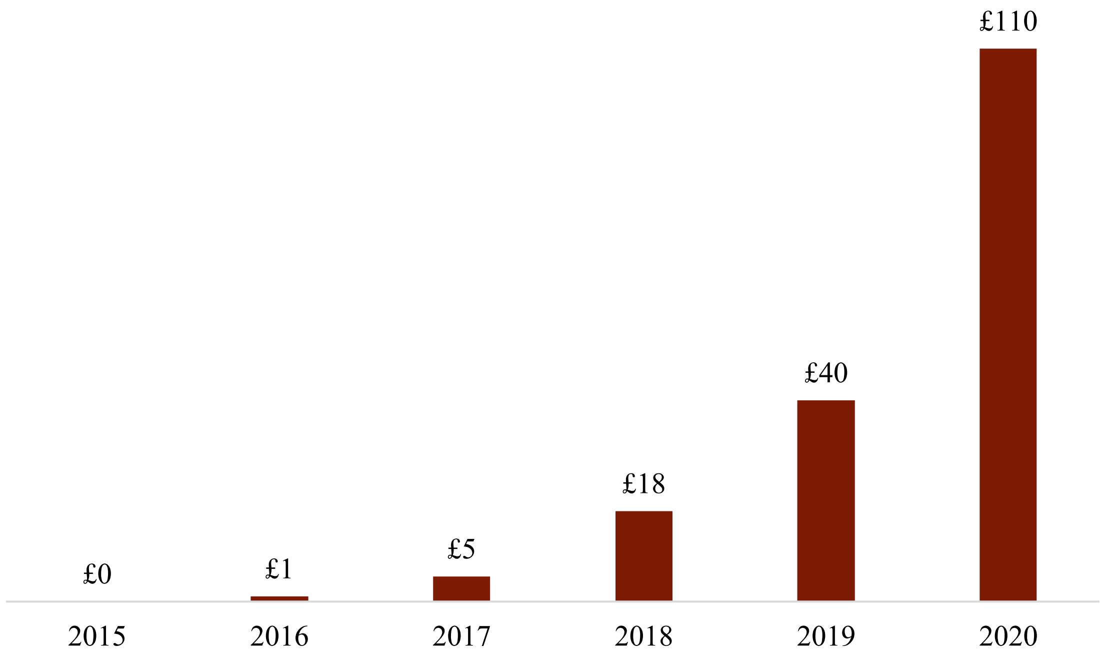
RD CAPITAL PARTNERS (RDCP)
2020 ANNUAL LETTER

RDCP's Growth in Enterprise Value (in millions)



In last year's annual letter, I compared RDCP's internal rate of return (IRR) to the S&P 500 and FTSE 100 annual returns from 2015 to 2019. Whilst this is an interesting exercise, since we do not manage or invest outside capital, the IRR figure is not that relevant to us. Instead, I am way more interested in the annual growth rate of RDCP Group's enterprise value (EV) or assets under management (AUM). We grow this figure by either organically growing our existing businesses or making accretive acquisitions. In 2020, we grew our valuation by a 175% from £40 million to £110 million. I plan to start every single future annual letter with an updated version of the above chart.

To the Stakeholders of RDCP Group:
2020. What a crazy year this has been. So much has happened in these past 12 months. In February, I was blessed to have become a father to my baby boy, Victor. Lockdown could not have come at a more appropriate time as I really bonded with the little one in this past year.

I am also pleased to share that we successfully achieved our goal of growing RDCP Group to over £100 million in our first five years of business. We did this without selling any equity. And more importantly, we did this without raising a fund and taking on outside capital. This makes me extremely proud. I cannot think of a single business or investment fund that has grown organically in this way.

Obviously, we cannot talk about 2020 without at least briefly mentioning the infamous virus. Everyone seems to have their own opinions on COVID-19. There are those that have effectively chosen to write off this year. I would call this the majority. And then there are those that have utilised this as one of the greatest acquisition opportunities in recent history. A generational shift of wealth. The minority. RDCP is most certainly part of this minority. Frankly, pointing fingers, blaming the government, and blaming others has never been a successful way of doing business or even living life. Why would now be any different?

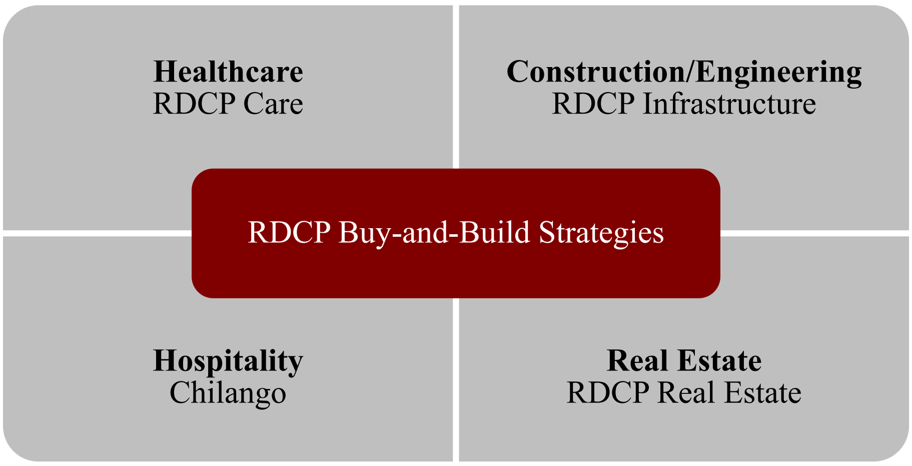
In terms of value creation, in this one year we grew RDCP by more than the last four years *combined*. This was no coincidence. This was compounding – the most potent force in business. It does not just apply to investments; it also applies to people and relationships. We invested early and maintained consistently.

In 2020, we acquired five different businesses in two distinct sectors. We entered the hospitality sector for the first time via the acquisition of Mexican restaurant group, Chilango. We also launched RDCP Infrastructure by successfully executing a buy-and-build strategy in the construction engineering sector via four acquisitions: Killingley, Macair, Su-Fix Precast and Buxton Water. Let's get into the details.

Sector Strategies

RDCP can no longer be classified as a healthcare-only investment firm. We are sector agnostic. Yes, we like and love certain sectors, but no one can compartmentalise us into a certain bucket anymore. We worked hard to make sure of that. Why? Because our opportunity pool was starting to get dramatically more limited. We would show interest in a certain business, and the response would be "but you have never invested in this sector before" or "you guys do just healthcare, right?" It was frustrating and one of my primary goals of Q1 2020 was to make sure this problem goes away.

As of December 2020, we are executing buy-and-build strategies in four sectors: healthcare, hospitality, construction/engineering and real estate.



1. Healthcare: RDCP Care

Healthcare continues to be one of the most robust sectors in the current market environment. Despite being in the middle of a global pandemic and a recession, healthcare valuations have not been discounted. If anything, I have seen a slight rise in valuations. As an owner of a £40 million healthcare portfolio (RDCP Care), this is great. However, as a net buyer in the sector, this is certainly a pain. We tried, but failed, on a number of occasions to negotiate more reasonable prices. This is not to say these potential acquisitions have subsequently been sold to other investors at higher valuations, but more so that neither the sellers nor their advisors were willing to budge. Nevertheless, we are confident that 2021 will bring more appropriate buying opportunities in the UK healthcare sector.

Vision: Our vision remains the same. Become one of the largest elderly care operators in the UK by 2025, providing care for at least 2,000 elderly residents.

Leadership: We are pleased that, in October 2020, Rosie Howell formally accepted the role of Managing Director of RDCP Care. I could not be more excited to have Rosie formally lead the business she has already been indirectly leading for years. Rosie is consistently the hardest working person in any room. She is honest, transparent and ethical. She successfully marries running a business that works not only for its shareholders and staff, but also for our elderly residents and their relatives. Rosie has worked extremely hard in the last few years, but in particular, in 2020, she has utilised every strain of business and nursing knowledge she has to steer RDCP Care through the most tumultuous time in our history.

2. Construction & Engineering: RDCP Infrastructure

In our 2019 annual letter, under the section titled "Future Plans," I had said:

> *The sector we are very bullish on is infrastructure. Same as healthcare, infrastructure is a core aspect of the economy. Capital constraints on the part of government entities are increasing the attractiveness of private participation in infrastructure businesses. Civil engineering and construction businesses are under-priced in today's market. We can see a number of opportunities to build a large presence in a matter of months via inorganic acquisitions. Infrastructure will certainly be RDCP's second largest sector.*

Out of the five acquisitions we made this year, four have been in the construction and engineering sector. There is a backlog of infrastructure spending in the UK. Our roads, railways and ports are decades behind US and Canada, as well as certain European nations. The leaders in the UK Government recognise this and, hence, there is going to be a major budget allocation in the next 10 years towards spending on infrastructure projects. Additionally, in order to ensure the economy recovers coming out of this recession, the Government will undoubtedly be injecting capital into construction and infrastructure projects. With all this and the Prime Minister's "Build Build Build" strategy, we have positioned RDCP Infrastructure to take advantage of this budget allocation. In 2020, we acquired four market-leading businesses, all providing slightly different products and services in the construction/engineering sector:

- Killingley: civil engineering, commercial landscaping, earthworks & remediation
- Macair: mechanical engineering, facilities management
- Su-Fix Precast: precast concrete design, supply and installation
- Buxton Water: hydro-demolition, concrete removal, civil engineering

RDCP Infrastructure is now a business with a combined turnover of over £35 million and an enterprise value of over £40 million. This makes construction/engineering one of our biggest sector.

Vision: We want to become the next Keltbray in the UK, a £500 million turnover construction engineering specialist firm. However, we want to always ensure we are chasing profits and not turnover. In construction, chasing turnover instead of profits can be completely disastrous.

Leadership: We have terrific Managing Directors leading each individual business:

- Killingley: led by Gareth Dillon
- Macair: led by Sean Pointon
- Su-Fix Precast: led by Adam Smith
- Buxton Water: jointly led by Carl Pendleton and Mark Hothersall

We are also in the midst of figuring out what RDCP Infrastructure would look like with shared central functions. This is a work-in-progress. Gareth Dillon, besides being the MD of Killingley, was offered the role of Chief Operating Officer (COO) of RDCP Infrastructure in November 2020 and is taking the lead in slowly "merging" these businesses. Gareth is a robust leader, a tough negotiator and a detail-oriented manager of businesses. He made some very good, quick decisions early on in the first lockdown that ensured we continued work on most (if not all) sites, all in a COVID-secure manner. We will be working closely with Gareth in 2021 to grow RDCP Infrastructure organically.

3. Hospitality: Chilango

At the beginning of 2020, I could not have predicted that we would end up in this sector. Hospitality is a sector I have long admired. I have always wanted to own a business that I can "consume." Something I can point to on the high street. However, businesses in this sector have historically been quite overpriced, and thus we never had any entry opportunities.

This year, the government-imposed national lockdowns have had a disproportionate impact on hospitality businesses, creating once-in-a-lifetime buying opportunities in the sector. Frankly, not all businesses have the same long-term potential as Chilango. In fact, we were firstly introduced to an opportunity to acquire a casual dining restaurant group in an accelerated M&A transaction. This was back in April 2020, and frankly, we struggled to get behind a hospitality business that offered food that could not do well on delivery. At the time, it was hard to predict how long "lockdown life" would continue. Also, their product offering was unclear. Competitors such as GAIL's Bakery and Paul had been growing, all whilst this particular chain had been struggling. Hence, despite the low valuation, we chose not to move forward with that opportunity.

We were introduced to the Chilango opportunity in July 2020. This is a business Iryna and I were fans of from our RBS days. In fact, most of the RBS investment bank would take-away from the Brushfield Street Chilango branch near Spitalfields market in the City. Unlike the previous opportunity, the Chilango accelerated M&A was a highly competitive process, with over 10 bids made for the business. Although, our bid was the third highest, we negotiated a good deal with the secured creditors and officially become the approved buyer. The transaction completed within a month in August 2020.

Chilango is one of the strongest brands in the UK hospitality sector. There is no question about it. The corporate culture is vibrant and second to none. At the restaurant level, the business has one of the highest EBITDA margins in the industry. This is due to the company's robust operations. In addition, the quality of our ingredients and taste of the various menu offerings are market leading. In a "new normal" of being stuck at home, no other food delivers as well as Mexican food. So why did the business get into trouble as the lockdowns started? The previous shareholders had funded growth with the wrong type of capital. They had also focused on growth and not profitable growth. They had made a number of poor decisions when it came to site selection and lease negotiation. In addition, the head office was unusually bloated for a business of this size.

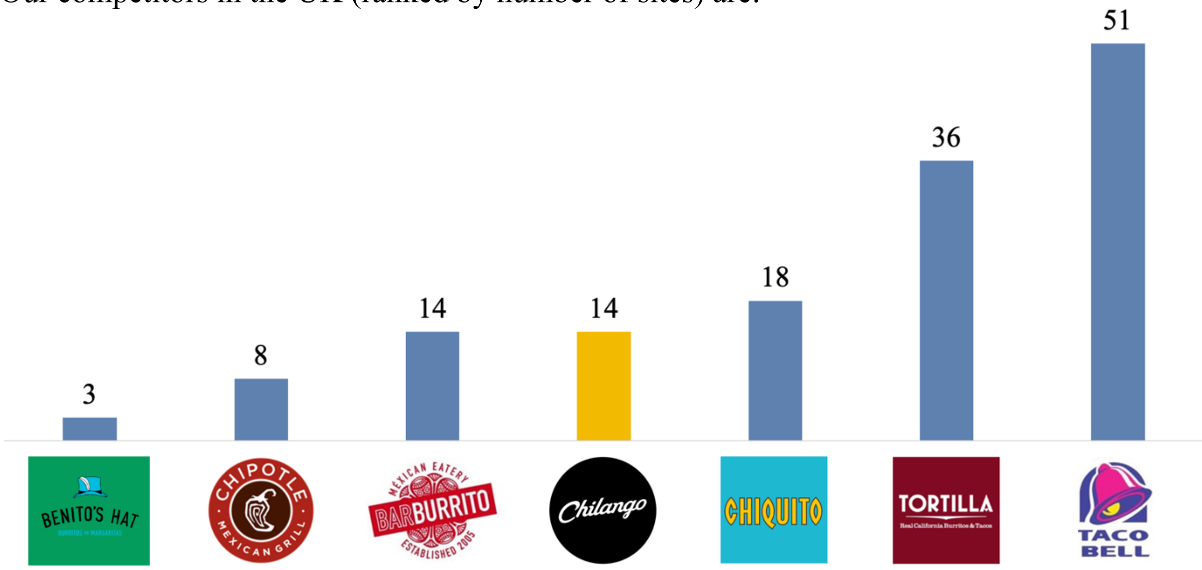
Fortunately for us, the way English law works has allowed us to save all 130 jobs, leave all of the historical debt and liabilities with OldCo, acquire just the business and assets, and set up a NewCo. This now means that we have a strong operating business, all of the brand recognition and brand identity, renewed leases at favourable terms, a clean balance sheet with no debt, a trimmed head office and an extremely bright future.

Our growth strategy for Chilango is focused on two simple principles:

1. Risk minimisation when it comes to site selection; we do this by getting Deliveroo data on area sales, as well as by testing a new location by firstly opening a very low capex 'Vibrant Kitchen.'
2. Reduction in investment required by focusing our site and EBITDA growth almost exclusively via the highest ROI sites, which are 'Vibrant Kitchens' and 'Chilango Express' style small-sized sites.

<u>Vision</u>: I have no doubt that Chilango could become the next Chipotle. This is my long-term vision for Chilango. We are a premium Mexican restaurant group and deserve to have sites across the UK. As for my five-year vision, as a bare minimum, I want Chilango to become one of the three largest Mexican restaurant groups in the UK. Including our three vibrant kitchen openings this year and some of our currently closed City sites, we currently have 14 locations.

Our competitors in the UK (ranked by number of sites) are:



We already have a greater footprint than Chipotle (in the UK) and the same footprint as Barburrito. Our goal is to have more sites than Barburrito before the end of 2021 and become larger than Tortilla before 2025.

<u>Leadership</u>: Chilango has one of the best operators in the hospitality sector leading the business. Richard Franks is extremely passionate about Chilango. His background is in operations management, which made him the ideal person for the role of Managing Director – a role he started in January 2020 and has been doing a terrific job in ever since. He has led the business through the single most difficult period in its history and came out the other side stronger than ever before. Out of our entire portfolio, Chilango was hit the hardest by the pandemic. Hence, this is also why the business will undoubtedly be riding the greatest bounce-back wave. We are excited to be working with Richard on executing Chilango's growth plan.

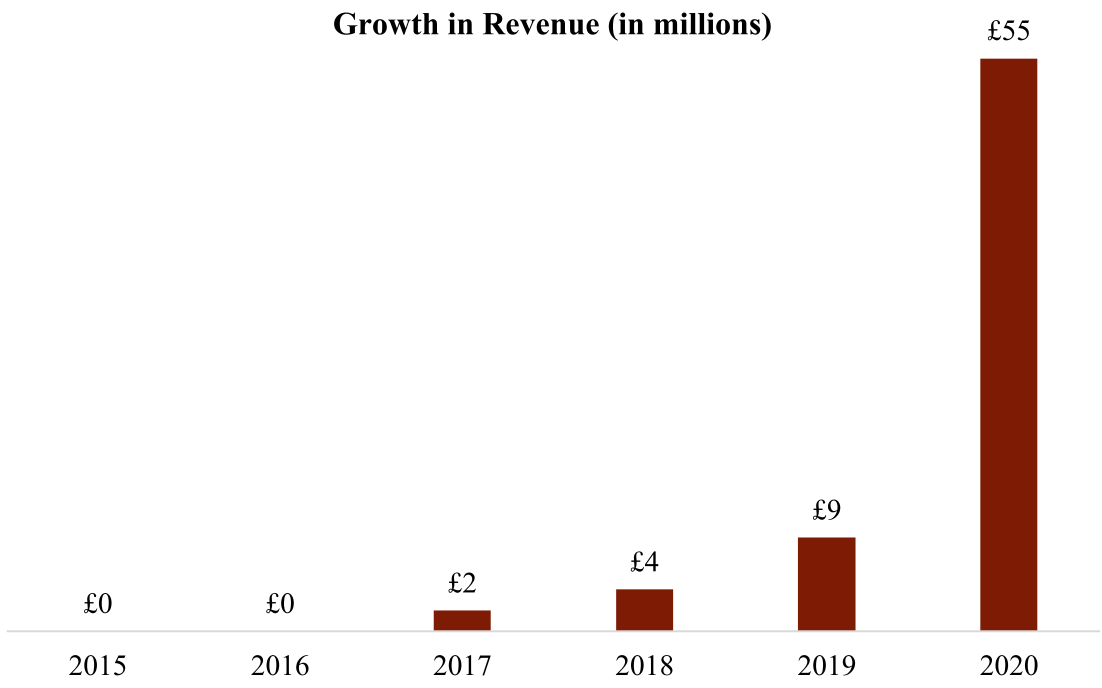
4. Real Estate: RDCP Real Estate
We did not make any real estate investments in 2020. In fact, even in the last few years, we have not done much to grow RDCP Real Estate. We found much greater value in non-real estate investments in sectors such as healthcare and engineering. For the most part, real estate in the UK is quite overpriced, and rental yields are typically as low as 3% to 4%. However, I am pleased to say that we have now determined a clear strategy for our growth in this sector over the next few years.

In 2021, we will be making buy-to-let and buy-refurb-let investments in South East England. In particular, we have identified residential hotspot locations in Portsmouth, Southampton and Brighton.

Vision: Our vision is to become a sizeable landlord of high-quality affordable housing in the UK, and the preferred choice for both young professionals and students.

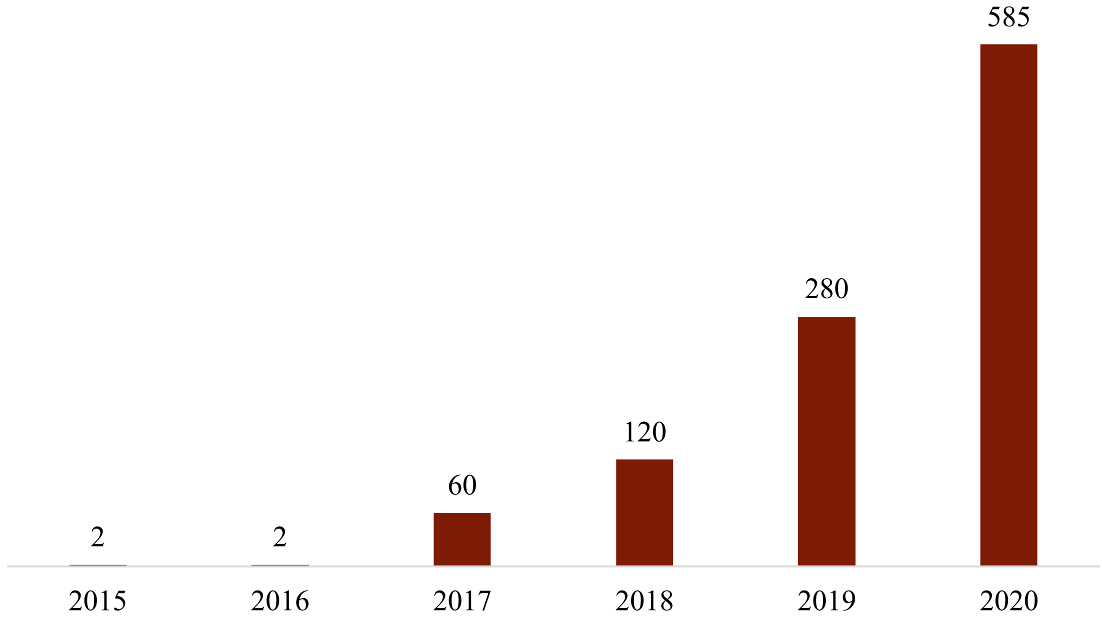
RDCP as a Snapshot in 2020
I opened this annual letter with a chart showing our growth in enterprise value:
2015: £0m
2016: £1m
2017: £5m
2018: £18m
2019: £40m
2020: £110m

From 2019 to 2020, our valuation increased by 2.75x. This is impressive, but our jump in run-rate revenue is even more unexpected – our run-rate revenue increased by 6.11x from 2019 to 2020. The reason for this is that most of our increase in revenue has come from RDCP Infrastructure. Construction and engineering, unlike healthcare, are relatively low-margin businesses. Hence, even though our revenue has increased by 6.11x, our valuation has only increased by 2.75x.



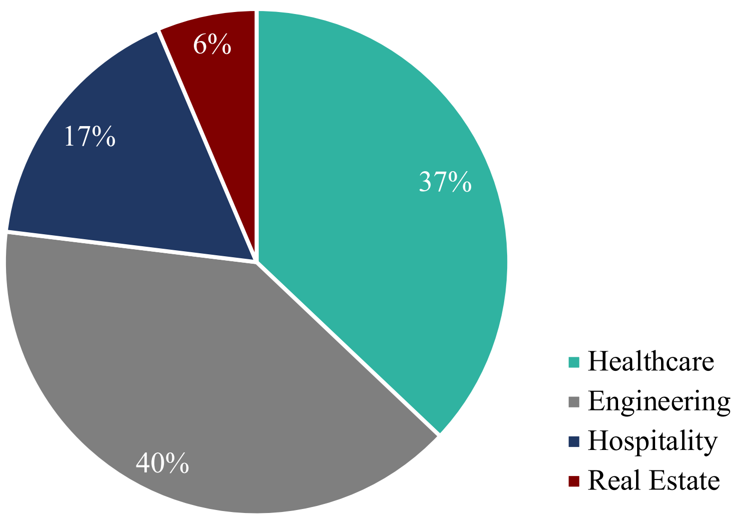
Our staff numbers have also increased steadily with our growth. As of December 2020, we employ 585 staff members across the group. This is 2.1x higher than 2019 numbers.

Growth in Number of Staff Members



Unlike last year, when our portfolio was almost exclusively healthcare, we now own a much more balanced and diversified group of companies. As discussed in the previous section, each sector has a very clear buy-and-build strategy.

Sector Diversification



Reasons Behind Our Success
We took RDCP from £0 to £100 million in just five years. We never sold any equity to fuel this growth. We never raised a fund or took on outside capital. So how did we do it? What are the real reasons behind our success?

1. We are nimble in our investment-decision making. Unlike other investment firms that take weeks or months to reach a conclusion, we typically take less than a day to decide on an investment. We also do not need a cadre of analysts building models. We do not feel the need to know and consider every data point: just the ones that matter. We have a great sense for what these are.

2. We stay within our circle of competence. Many investors think they need to be constantly keeping up with the latest technologies. On the other hand, we know what we don't know. We are highly aware of our "circle of competence" and generally stick to it. We only invest in industries we already understand or *can* understand relatively quickly.

3. We are flexible. Yes, we have a guiding investment philosophy. A year ago, we were pretty much just investing in healthcare. Currently, we are executing buy-and-build strategies in four different sectors. We are willing to change our opinions upon receipt of new information. It would be foolish not to. An investment philosophy should only supply guidance, and not rigidity.

4. We are fearful when others are greedy, and greedy when others are fearful. 2020 is case in point. We saw that healthcare assets were starting to get overpriced. Every imaginable fund is chasing the same group of assets. Private equity funds, REITs, hedge funds dabbling in illiquid investments, family offices, insurance companies, and pension funds are all in love with the healthcare sector. Understandably, this is starting to create a bubble. The same happened to student accommodations and dental practices a few years ago. Hence, we have not made any healthcare investments this year. On the other hand, hospitality is the least loved sector of 2020. Investors are selling left, right and centre. Valuations are at circa 1x pre-pandemic EBITDA. This is why we decided to enter the sector via the acquisition of Chilango.

5. We are willing to buy companies on the operating table. It is emotionally easy to invest when the economy is booming, companies are reporting higher earnings, asset prices are rising, and risk-taking is being rewarded. However, buying already appreciated assets, hoping to sell them for even higher, is not the key to superior returns. Rather, the greatest bargains are accessed by buying when the economy and companies are suffering. We did this a number of times in 2020.

6. We have a completely long-term focus. Most funds have a relatively short life cycle: three years, five years or seven years. Our favourite holding period is the same as Warren Buffett's – forever. This is also how we are able to utilise the potent tool of compounding.

7. We never overpay for a business. Within minutes of evaluating an investment, we know the maximum price we would be willing to pay for it. If the expectations are higher and negotiation does not bring it to within our range, then we simply walk away. Every single time. Unlike funds managing outside capital, we do not need to deploy "dry powder." This means we make our investment decisions completely unconstrained.

Why The UK?
We invest exclusively in the UK. *Why?* The UK is currently experiencing one of its most unloved decades in recent history. Brexit is not going according to plan. Out of the G20 countries, UK's GDP was hit the hardest by COVID-19. GBP is falling out of favour. All of this means that most investors (like sheep) are viewing the UK in quite a negative light. Less capital will be allocated towards investments. Other European countries will receive more of this reallocated capital. This unexpectedly creates one of the greatest investment opportunities right here in the UK. More and more baby boomers are retiring every day. Their sons and daughters have no interest in taking over their family businesses. They are too focused on working for big name organisations in the City. They are leaving behind fantastic mid-market businesses that are ripe for acquisitions and growth. We offer a much-needed liquidity event to these entrepreneurs. It's a win-win situation for both parties. If you look at this from a macroeconomic point of view, the UK itself is a contrarian investment right now. We at RDCP are excited for the future and are doubling, in fact even tripling down, on the UK.

Future Plans
We are going into 2021 and this new decade as a £100m+ (circa US$150m) investment firm. This is exciting. In our first five years of being in business, we had to fight to be taken seriously. We had to prove our worth countless times. We are no longer being asked to do that. There are certain situations which are now much easier. We have access to much better dealflow. Most lenders and advisory firms either know us, know of us, or a quick Google search gives them the comfort they need to move forward with us. Our covenant strength is good. We are able to differentiate ourselves as an investor due to the fact that we invest permanent capital, which also happens to be our own firm capital, rather than outside capital. All of our businesses are ring-fenced from each other. We have the best advisors working with us to manage all of our growth. We are also lucky to have great leaders within our business, leading each sector. Most importantly, we have not only survived the hardest year for our business, but also acted with conviction and grew our balance sheet by 2.75x in this very same year.

All of this means we are well-placed to take on any and all opportunities and threats that come our way in this next decade. Do we want to become a £1 billion conglomerate with interests in numerous sectors? Most certainly. Do we have a business plan and timeline for this growth? You bet.

In 2020, in the midst of a global pandemic, we stayed above the noise and acquired five businesses, including in unloved sectors such as hospitality. In 2021, we will continue developing buy-and-build strategies into our four core sectors of healthcare, hospitality, engineering and real estate. We will focus on both organic growth via increased sales and improved margins, and also inorganic growth via acquisitions. The next milestone is £200 million. Only time will tell how long it will take to get there.

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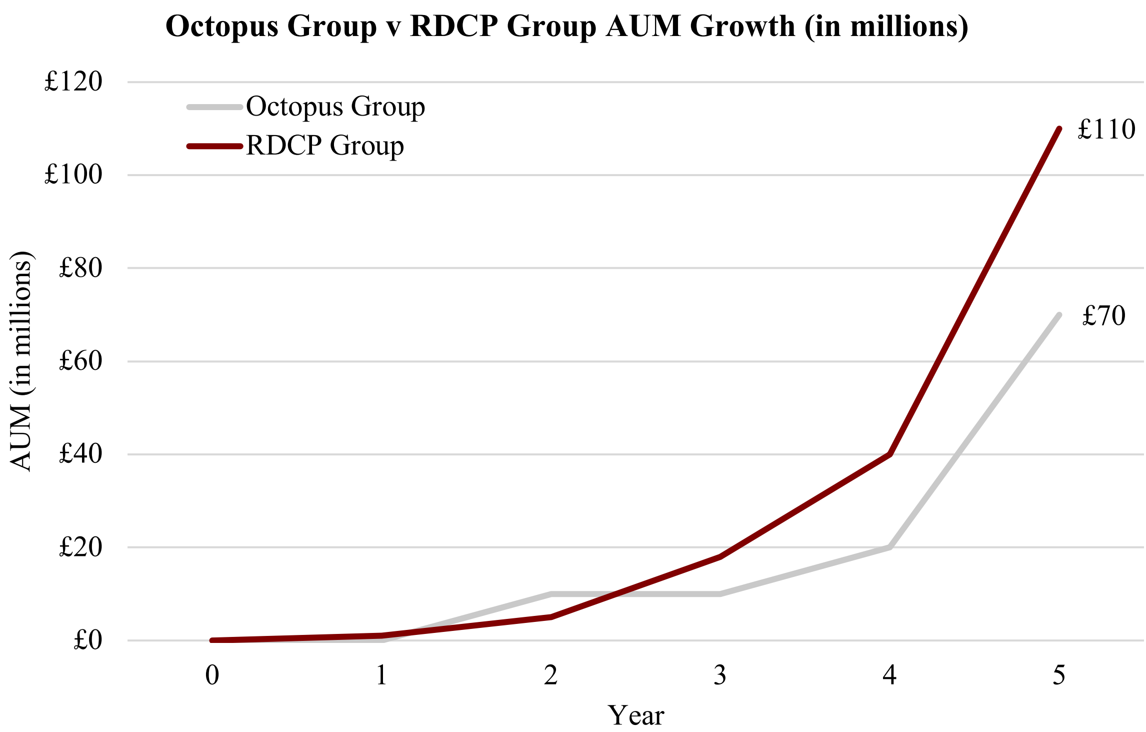
In last year's annual letter, I compared RDCP's performance to that of Berkshire Hathaway in their early years. This time I would like to present a more local comparison. Up until 2019, Octopus Group (https://octopusgroup.com) used to share their AUM figures on their website. They had a graphic which showed how their AUM has grown each year. I cheekily noted this down in an excel file last year, hoping to use it for a future annual letter. The figure below compares our "AUM" with that of Octopus' in our respective first five years of business.



Octopus was launched in 2000 and by 2005, they were managing £70 million in assets. We set up shop in 2015, and now, by 2020, are managing £110 million in assets. This puts RDCP 57% ahead of Octopus. *Yes, I know, I have not adjusted for inflation.* 20 years in, i.e. as of this year, Octopus Group is now one of the largest conglomerates in the UK and manage over £9 billion in assets.

We have a long way to go. We are constantly focused on finding the right drivers for growth. And most importantly, we take a lot of pleasure in our journey.

Respectfully,

Sameer Rizvi, CFA
Chief Executive Officer (CEO)
December 10, 2020