astercapital

7th Letter to Investors

1H 2025

Dear investor,

We begin this letter with a brief review of the portfolio and the results for this half-year, leading into the central theme of our discussion in the final section: **the Brazilian Tax Reform, a profound change with underestimated challenges and opportunities for TOTVS.**

Despite the increase in the Selic rate from 12.25% to 15% over the semester, the 10-year fixed-rate interest rate declined by 170bp, closing the half-year at 13.3%. We also saw a surprising resilience among good businesses in Brazil.

The MSCI Brazil rose by a total of **14.0%** in the semester, while the **Aster FIC FIA** delivered a return of **29.6%**. The table below shows our performance over the windows of 12, 24, and 36 months:

	2025	12M	24M	36M
Aster FIC FIA	29.6%	19.7%	25.6%	52.9%
MSCI Brazil	14.0%	9.4%	17.5%	41.8%

The portfolio's 1-year forward P/E expanded by **18%**, higher than the 9% appreciation of the NTN-B 2040 – a bond with a duration similar to that of our equity portfolio. Thus, the primary driver of the movement in this first half of 2025 was multiple expansion.

The remainder of our performance in the half-year, completing the appreciation of **+29.6%** in the semester, mainly reflected **growth in the companies' earnings per share (EPS)**. The weighted average of all earnings revisions of the portfolio was only **–1%,** so they were not an important factor in the result.

Attributions: The most significant positive contributors were **Itaú (ITUB4), Equatorial (EQTL3)**, and **BTG (BPAC11)**, which together contributed with an appreciation of **+11 percentage points**. Below we detail the primary value creation drivers in each of these cases.

The positions making the largest negative contributions were **Suzano (SUZB3), RD Saúde (RADL3)**, and **VTEX (VTEX)**, with a combined contribution of **–1.2** percentage points.

We reaffirm a central point that has permeated our philosophy since we founded **Aster**: we view our portfolio as a non-operational holding company of some of the best businesses in Brazil, built to generate solid and consistent returns over the long term. The operational performance of this theoretical holding remains solid.

Weighted averages for the portfolio	1Q25 LTM vs 1Q24 LTM
Revenue growth	15%
Ebitda growth	22%
EPS growth	22%
ROIC	20%

Later in this letter, we provide an in-depth discussion of the **Brazilian Tax Reform**, examining its structural impacts and, above all, the opportunities it presents for long-term investors in Brazilian companies.

Main positive contributions

Itaú (ITUB4)

In this half-year, **Itaú** was once again one of the positive highlights of the portfolio. Our central thesis continues to prove itself: a bank with operational excellence, resilience in adverse scenarios, and now with an even more robust balance sheet. Delinquency remains under control, lower than peers, and the bank managed to accelerate growth in strategic lines such as credit for high-income individuals and small and medium-sized enterprises.

Our proprietary surveys indicate that **Itaú** is the only incumbent that gained share in main accounts[1] in the last four years. Moreover, it consistently appears as a highlight in both high-income and low-income surveys that we regularly conduct.

Itaú continues to combine double-digit EPS growth, increasing dividend distributions, with still depressed multiples, even after a significant appreciation in this half year. The stock continues to trade at a 1-year forward P/E of 8x, and with a dividend yield of 9%, the highest in the portfolio today.

Equatorial (EQTL3)

Equatorial continued to deliver solid performance in 1H 2025. Still, we note that the +34% rise YTD in 2025 is mainly explained by the sharp 22% decline in 2024 –

[1] Market share of primary accounts, with the primary account defined by the client themselves.

which had no support in fundamentals, since there were significant increases in intrinsic value throughout the year.

In our last letter, we wrote: "*We estimate that Celg and Sabesp have already generated at least BRL 10 billion in incremental intrinsic value for Equatorial's shareholders. However, the movement in the interest rate curve proved to be a more decisive factor, causing Equatorial's market value to drop by BRL 10 billion in 2024. This has created an asymmetry that we find highly attractive.*"

With a price only 6% above the 2023 close, our view is that the appreciation this year still does not reflect the company's intrinsic value.

BTG Pactual (BPAC11)

BTG Pactual (BTG) continues to demonstrate why it is one of the best businesses in the financial sector in Latin America. Its highly diversified business model, with consistent growth in the Asset Management, Wealth, and Credit divisions, more than compensated for the lower activity in its Investment Banking activity in the semester.

BTG Pactual reported another cycle of robust profit growth, maintaining ROE above 22%, even in a challenging macro environment. It continues to consolidate its positioning in high-income retail, and also open new growth avenues in the middle market. This movement reinforces our conviction that it has one of the best corporate cultures in Brazil, and is among the businesses most leveraged to the improvement in the business environment which may occur in Brazil next year.

Main negative contributions

Suzano (SUZB3)

The position in **Suzano** was the largest detractor of the semester, with an attribution of –0.92 pp. In our view the decline primarily reflects: (i) the global pulp price cycle, which remains under pressure; and (ii) the 12% depreciation of the USD against the BRL over this half year.

Even so, we continue to see **Suzano** as one of the best industrial assets in Brazil, with the most competitive cost structure in the sector, entering a period of strong cash generation, since the world's largest pulp project has ceased to be a source of cash consumption in investments, becoming instead a strong source of operational cash generation. In our assessment, current prices offer attractive returns to the patient investor.

RD Saúde (RADL3)

RD Saúde delivered a weaker performance in this half-year than we expected, pressured by a combination of: (i) lower same-store sales growth; and (ii) more aggressive competition in specific markets and categories.

We continue to believe that **RD Saúde** is the best retailer in Brazil, with a broad avenue for growth within the model it has refined over time. That said, we think that competition with horizontal marketplaces in the hygiene and beauty category – mainly *Mercado Libre* and *Shopee* – represents a new chapter in the company's history.

We place great weight on changes in the competitive landscape, and for this reason, we are reevaluating the investment case.

VTEX (VTEX)

The negative contribution of **VTEX** was only –0.10 pp. We continue to view it as a structural winner in digital commerce in Latin America, with a value proposition that remains the best enterprise solution for e-commerce. We also appreciate the development of new growth avenues, such as the Retail Media solution and the B2B market. We believe that the deceleration of sales growth in recent quarters is temporary, and that we should now see a combination of faster growth in sales and better margins – with significant cash generation – in a segment with secular growth, grounded in the transition from physical to digital in retail.

In the remainder of this letter, below, we examine in detail a topic of great importance for those investing in Brazil today: **the Tax Reform, and the opportunities for long-term investors in Brazilian businesses.**

Brazil's Tax Reform: A profound change, with underestimated challenges and opportunities for Totvs

In this second part of the letter, we offer a reflection on the **Brazilian Tax Reform (approved by Complementary Law 214 of 2025)**, and explain why it represents not only a structural transformation in Brazil's business environment but also a significant opportunity for one of our core portfolio positions — **Totvs** (TOTS3). Supporting our view, we draw parallels with Brazil's implementation of SPED (the Public Digital Bookkeeping System, conceived in 2007) – since we believe it serves as a good analogy for the opportunities that the tax reform now brings to Totvs.

Brazil's largest tax transformation in decades

The implementation of the **IBS (Tax on Goods and Services) and the CBS (Contribution on Goods and Services)**, which will replace ICMS, ISS, PIS, and Cofins, is much more than a simple acronym swap: it is a profound structural change that alters the operational logic of all Brazilian businesses. There is also **a Selective Tax (IS) on specific products** which comes into play.

The change will indeed lead to a significant simplification of the current tax system – but there will be a transition period **from 2026 to 2032 during which the two systems will coexist**, and this will result in a temporary increase in complexity.

From 2026 to 2032 companies across various sectors will have to navigate **two parallel tax systems:** the prior one (ICMS, ISS, PIS, and Cofins) and the new one (IBS and CBS). This transition alone demands an organizational capacity that cannot be addressed with mere system updates.

Beyond this, the reform will impact **price formation, contracts, logistics, supplier management, compliance, accounting, working capital, and, in some cases, even companies' commercial policies.** And – as happened with the implementation of SPED in the past decade – in our experience, the market usually underestimates the investment and reorganization that this will require within companies.

SPED as a case study

The **SPED** public digital bookkeeping system created a public technological infrastructure that unified, in electronic format and with legal validity ensured by digital certification, the receipt, validation, storage, and authentication of all required accounting and fiscal books and documents from taxpayers, integrating federal, state, and municipal tax administrations. As a result, companies were forced to modernize or acquire ERPs that consolidated purchases, inventory, sales, accounting, and fiscal matters into a single database, automated digital signatures, and ensured data consistency before submission to the tax authorities.

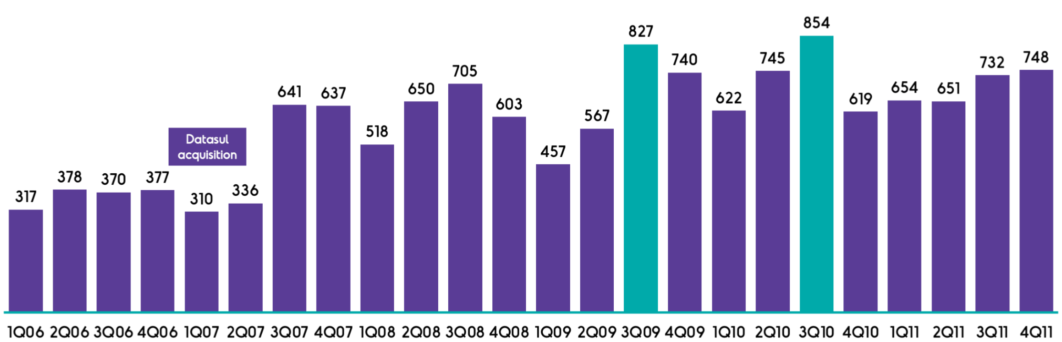
The impact on the ERP software sector was significant. Companies such as **Totvs** experienced an exceptional demand cycle at that time, both in their existing client base (with updates, customizations, and services) and in acquiring new clients, many of whom were compelled to abandon legacy systems that could no longer meet the tax authorities' new requirements.

SPED accelerated the digitization and integration of Brazil's – and companies' – tax infrastructure. The **tax reform** now underway is a **transformation of the very logic of consumption taxation in Brazil.** The change is profound; for example, today, many business rules are based on gross revenue, including sales commissions, and they will require adaptations to the new reality.

In 2008, as companies began preparing for SPED, **Totvs** recorded its highest growth in many years: organic revenue growth of +27.6%. In 2009, even with GDP contraction amid the global financial crisis, the company grew by +17%, from a challenging starting point. Between 2007 and 2011, the timeframe when SPED had the most significant direct influence on its results, **Totvs** delivered an organic revenue CAGR of 18%. Over that period, analyst consensus projected 15% p.a., meaning Totvs delivered 3pp of additional growth per year over 4 years. This phase thus posted accumulated growth of 94% in 4 years, 18pp more than the expected 75%, and we attribute this mainly to the exceptional demand generated by the adoption of SPED.

Another indicator that illustrates this impact is new clients. The two quarters preceding the major SPED milestones – **3Q09** and **3Q10** – were also those with the highest addition of new clients in **Totvs's** history up to that point. We believe that the introduction of the new tax system could trigger a similar movement, with a significant surge in demand for robust solutions aligned with the new tax model.

Totvs: Gross client adds



The transition is an opportunity for Totvs

The expected impacts of the reform create an important growth avenue for companies at the center of digitizing business processes in Brazil. **Totvs is the primary beneficiary.**

We highlight some factors that reinforce our conviction:

- Implementing the reform will not be a one-time event – **the process will extend until 2032**, with recurring demands for ERP updates, tools for comparing the prior and current models, and a need for specialized support services.
- **The challenge is transversal: it impacts all departments of companies** – **fiscal, accounting, financial, purchasing, sales, and operations.** The tax reform will affect the entire organization, requiring the reparameterization of product registrations and tax documents, both incoming and outgoing. During the transition period, the percentages related to the application of the IBS and the reduction of the ICMS will be changed annually, demanding that companies continuously review and adjust their pricing strategies.
- As with SPED, there is an enormous number of legacy systems – many of them incapable of absorbing the complexity of this transition. This should generate demand not only for new users and services within Totvs's base, but also for the **replacement of systems**, especially in clients operating with solutions that lack the same depth of regulatory adherence.

In conclusion, SPED and the tax reform are distinct yet comparable phenomena: they both call for preparation, investment, and cultural change in companies. SPED modernized the relationship between the tax authorities and taxpayers. It is true that at the same time, the tax reform seeks to simplify and rationalize the structure of consumption taxes, promising a more neutral, efficient system conducive to long-term economic growth – but in the short and medium term companies will face considerable transition challenges. Those that have invested in technology, have remained attentive to the waves of transformational technology, and are capable of reacting swiftly to fiscal and regulatory changes will be one step ahead in successfully absorbing the reform, minimizing risks, and identifying opportunities in Brazil's new tax landscape.

This transformation favors good businesses in Brazil that understand the transformative power of technology and are capable of using their systems and data for more than just procedural controls and fiscal obligations. And, as long-term investors, we remain vigilant not only to the risks but also to the asymmetries and opportunities that arise when changes of this magnitude occur.

Totvs is one of our long-term investments, and it is very well positioned to benefit from this significant change. Its competence and the solidity of its business model have led to surprising growth in its core business – the Management division, responsible for 95% of its consolidated Ebitda.

Throughout this half-year, we have interviewed dozens of companies under our coverage to understand their level of preparation. About 60% of the responses indicate a good level of organization, with dedicated internal structures and action plans in execution. The remaining 40%, however, suggest little preparation – either due to the absence of dedicated teams, low clarity on next steps, or generic responses that imply there is still much work to be done on this front. Among the points most cited, systemic challenges stand out – especially adaptation of ERPs, issuing invoices for previously exempt activities, and adjusting to new fiscal layouts, as well as regulatory uncertainty around split payment[2] and the coexistence of the old and new regimes until 2032. These companies are among the best prepared in the country, and the scenario among SMEs is even more challenging.

With nearly BRL 6bn in ARR, **Totvs** is the undisputed leader in software in Brazil, and market consensus indicates expectation of a significant deceleration in the growth of recurring revenue from the Management segment, moving from a 21% CAGR over the last 3 years to 16% over the next 3 years.

If our scenario materializes, and **Totvs** delivers a CAGR of +19% instead of +16%, we would have grounds for slightly better margins due to the scale effect, typical of the software business, where marginal costs are very low. **This earnings acceleration from the tax reform alone would bring us an additional 4pp in our expected 3-year IRR, vs. the analyst consensus today**. We believe that a high-ROIC business, with barriers to entry, high switching costs, and inflation-adjusted recurring revenues could still receive a multiple premium if it continues to deliver 20% annual profit growth for another 4 years — **and this potential multiple premium suggests to us a 3-year IRR 7pp higher than would result from the consensus numbers**.

[2] It's a system in which, at the moment the buyer makes a payment to the seller (e.g., via bank slip, credit card, or PIX), the portion corresponding to taxes is automatically split and sent directly to the government, and only the net sale amount is transferred to the seller.

We reiterate our commitment to building a close, transparent, long-term relationship with our investors. We want our partners to understand us well.

We sincerely thank you for your trust.

The Aster Capital Team

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