

**ENTREPRENEURIAL
INVESTMENT
PARTNERSHIP**

„The About You acquisition is a very value-accretive deal for the longer term.“

Sandra Dembeck, prior CFO of Zalando

October 20, 2025

Dear partners and supporters,

This is the Q3 2025 update of the Entrepreneurial Investment Partnership SICAV-RAIF (EIP). As of the reporting date of September 30, 2025, the capital under management amounts to EUR 43.8 million at a net asset value of EUR 10,676.06 per founding partner share, reflecting a 19.3% increase compared to the beginning of the year. The largest detractor during the quarter was DocMorris (EUR -0.4 million/-0.9%), while Alibaba (+1.0 million/+2.3%) and United Internet (also +1.0 million/+2.3%) contributed positively.

During the quarter, EIP received proceeds from the sale of all shares in Alibaba Group (EUR 2.8 million). Capital was reinvested in the new portfolio company Zalando (EUR 3.5 million), 1&1 AG (EUR 1.5 million), and to a smaller extent in BioNTech, ROVI and Ocado for a total of EUR 0.9 million. As of the reporting date, the portfolio is composed as follows:

Company	as % NAV
United Internet AG Namens-Aktien o.N.	30.1%
1&1 AG Inhaber-Aktien o.N.	10.6%
Rocket Internet SE Inhaber-Aktien o.N.	8.5%
Zalando SE Inhaber-Aktien o.N.	7.8%
DocMorris AG Namens-Aktien SF 0,01	7.8%
Laboratorios Farmaceut.Rovi SA Acciones Port. EO -,06	7.1%
Ocado Group PLC Registered Shares LS -,02	6.4%
Haier Smart Home Co. Ltd. Registered Shares D YC 1	5.9%
BioNTech SE Nam.-Akt.(sp.ADRs)1/o.N.	5.7%
Modern Times Group MTG AB Namn-Aktier B o.N.	5.0%
Articore Group Ltd. Registered Shares o.N.	0.7%
Cash in EUR	4.5%

At the reporting date, EIP owned squeeze-out improvement rights in Aareal Bank AG (EUR 5.3 million worth of shares squeezed out) and Software AG (EUR 4.1 million worth of shares

squeezed out) that do not contribute to NAV as the outcome is dependent on the court proceedings. You will find prior updates on www.entrepreneurial-investment.com via the partner login ([link](#)) and the password "p4rtn3r!".

Let's briefly revisit the pillars of the EIP investment philosophy and portfolio management approach for old and new readers:

- Industries with a long runway of growth, and a high and predictable return on capital.
- Good management teams that have skin-in-the-game, strong capital allocation track records, and the ability to lead people to do their best work.
- The stock price should imply a valuation significantly below what a private equity investor would pay for the whole company.

For an overview of how current and past companies fit this philosophy, please access the company overview ([link](#)). EIP reviews thousands of listed companies every year to find the best meeting these criteria. Not all portfolio companies will score equally high in each dimension. After investing, companies remain in the portfolio as long as the companies develop as expected and remain undervalued. This implies selling at a loss, if they don't and as I have to report for Alibaba in the next paragraph.

Alibaba Exit

After more than 4 years of being invested, the position was sold at a loss of -15% (-3.8% IRR). The investment hypothesis was described in the July 2021 update ([link](#)) and can be summarized as profitable growth at reasonable prices, what turned out to be not enough profitable growth and therefore too expensive in hindsight. The operating profit of the core e-commerce business did not grow during the last 4 years as the competition in China intensified. The massive investments in the international e-commerce segment increased revenues by c. 3x, but resulted in higher absolute losses. The operating profit of Ant Financial, its promising financial subsidiary, remains at c. 50% of its 2021 numbers and was regulated to death. While the cloud segment trippled its profits over the same time and solutions like the cited Amap software is now used by 400 million (4x increase to 2021), the segment only accounts for c. 8% of the total operating profit at a unimpressive 9% operating margin.

While I believe there is more margin potential in the cloud business, the company has now jumped on the AI train and quadrupled its CAPEX, what will challenge operating margins as CAPEX are now 4x the depreciation and amortization, and as such free cash flow decreased materially. The returns on these CAPEX seem anything but predictable nor do I believe they will be very high. While Alibaba's AI model Gwen is very good and widely used, it is open-source and can be hosted without license payments anywhere. The entire world seems to invest in AI data center capacity right now. If you remember the capital cycle model in figure 1 from prior updates, the usual next step of after all investors are optimistic about an industry are usually years of disappointment and painful industry consolidation. Interestingly, Alibaba's strategy to follow the herd has resulted in a 150% share price increase compared to the lows of last year while the cash flow has vanished. Keeping the investment seemed unwarranted.

New investments in Zalando & About You

When Zalando acquired EIP's portfolio company About You in December 2024, I was not happy as I remain convinced that it could have been sold at a higher valuation in two separate

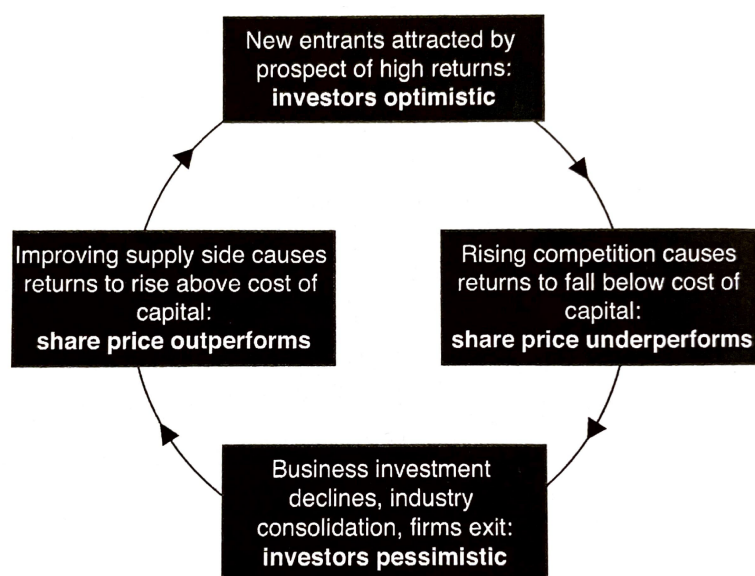


Figure 1: The capital cycle model, source: Marathon Asset Management

sale processes of About You's e-commerce fashion business and its software company Scayle. With the share price of Zalando decreasing materially in recent weeks, EIP was able to acquire the combination of Zalando and About You at a 0.5x enterprise value/sales multiple or c. 13x enterprise value/EBIT multiple for a net cash company that should grow its free cash flow to a c. 10% p.a. yield to EIP's entry price within the next 5 years.

Zalando was founded by its current Co-CEOs Robert Gentz and David Schneider in 2008. To a large extent, it provided the blueprint for what About You started in 2012 as you can refresh via the Q1 2023 update ([link](#)). Together the two companies have c. 60 million customers, EUR 13 billion revenue and EUR 20 billion of total value sold including market place transactions. As such, Zalando is the dominant e-commerce fashion player in Europe and has the scale to consistently achieve profitability in the last years. The following key factors will drive profitability over the next years:

- The core B2C business returns to profitable growth: After 3 years of no growth due to high churn rates in the cohorts of COVID-customers, the revenue basis should now provide enough stability, so that new customer cohorts grow the overall revenue around 5-7% p.a. for the next years.
- Zalando marketing services (ZMS) is offering ad placements in the Zalando / About You app and is part of the B2C segment. This segment is growing rapidly and will strongly increase profitability due to the high margin, high return on capital character.
- B2B segment growth: Zalando provides fulfillment services to its customers and thus provides the logistic infrastructure layer to the e-commerce fashion industry. As their warehouses are only c. 60% utilized, there will be profitability gains from the optimization of the combination of both companies' logistic assets.
- Cross-selling of Scayle software to Zalando B2B customers: About You has developed an e-commerce shop software rival to SAP and Adobe that is growing c. 30% year on year. Zalando did not have a similar offering before and it can integrate its logistic backend enriching the Scayle USP. Being part of a profitable listed company that is not controlled by Otto Group will improve the customer perception of Scayle as well.

- Brands shifting back from B2C to B2B: As I wrote in the Q1 2023 update, there was a strong push from Nike and others into B2C. As brands have experienced how hard inventory write-offs are in a downturn, they are pivoting back. As new brands, e.g., Hoka, and ON, have filled blank spots that Nike and Co. had created at their B2B customers, the negotiation power reverses to some extent to the retail players. You should see yourself the much cooler Nike shoes you can now shop on sale via the Zalando app!

Risks

Every investment involves risk and the risk section of the Q1 2023 update still applies. Risks include the tough e-commerce competition as Chinese players directing fashion products to Europe due to the higher US tariffs. While some analysts have highlighted TikTok shop as a risk for Zalando, the average Zalando customer is a lot older than the average TikTok user and spends on average EUR 300 p.a. on c. 5 baskets. If the baskets are a lot smaller, logistics and fulfillment cost will render it unprofitable. During a year, Zalando logistics now sends c. 300 million parcels outbound and receives c. 120 million inbound to process returns. As such, sellers relying on TikTok shop or Shopify would most likely select the Zalando logistics API to achieve best in class unit economics. Last but not least, the unfavorable outlook of all major European economies does not promise much overall fashion market growth. The investment is based on continued market share gain of the e-commerce channel.

Overall, the investment in Zalando is ticking most dimensions of the EIP investment philosophy and it should provide returns of mid to high teens over the next years. In the last weeks, EIP has acquired shares in About You again, as the valuation of the squeeze-out price of EUR 6.50 per share is unfairly low to minority investors and there is a decent chance of an improvement by court similar to the Aareal Bank and Software AG cases.

United Internet (UI) and 1&1

UI and 1&1 represent the key investment for EIP at this time. UI share price has roughly doubled from its lows around two years ago and 1&1 is up c. 70% this year since EIP has acquired its first shares. As stated, EIP has acquired more shares during the quarter as the success of the own network becomes obvious.

UI also acquired more 1&1 shares at EUR 18,50 in a tender offer and now owns c. 85% of 1&1. It was puzzling, that the published fairness opinion considered the offered price to be not fair to shareholders and it speaks to an extent for the integrity of 1&1 CEO and controlling shareholder Ralph Dommermuth. My experience from several takeovers, including EIP's investments in Software AG, Aareal Bank, and now About You, shows that the fairness opinion that is paid for by the controlling shareholder should really be called unfairness opinion as it is usually an unfairly low, made-up valuation to not having to pay minority shareholders the fair price.

Even more puzzling, 5% of the shares were nonetheless tendered in the offer. The efficient market hypothesis does not offer an explanation.

Operationally, almost all customers are now transferred to the own network powered by 1&1 and Vodafone roaming. Several events should provide tailwinds in the near term. First and foremost, the company stated more than EUR 100 million in one-time migration costs in 2025 that will not occur next year. Next is the option to switch on low-band frequencies in Q1 2026 the latest that will decrease roaming costs paid to Vodafone. Thirdly, Vodafone and Vantage

Towers are suspected of impeding 1&1 in violation of competition law by not delivering the agreed antenna sites in the agreed time. A ruling should arrive any day now and should result in the obligation to immediately start with the provision of the agreed antenna sites and therefore massively accelerate the network build-out to increase profitability.

Telefonica has recently stated their motivation to further consolidate the market in Europe and there are rumors that Telefonica wants to acquire 1&1. Telefonica should give more info next month during their capital markets day. In addition, several key managers of the German Telefonica team were fired. It therefore seems the current price war led by Telefonica might be a thing of the past once the new management team takes over.

Ocado Group

EIP is approaching four years of being invested in Ocado Group, so it is time for a review. First, let us look at what the company has achieved since the time of investment in 2021.

To briefly recap, the company has two main assets, the historic core of the company in B2C grocery e-commerce in United Kingdom (UK) and its B2B technology segment, where it began renting its technology to other grocers worldwide in 2017. Revisit the November 2022 update for a refresher ([link](#)).

UK grocery e-commerce joint venture with supermarket chain Marks and Spencer

The UK joint venture will exceed GBP 3.0 billion revenue this year (up c. 30% from 2021 GBP 2.3 billion revenue). Weekly deliveries reached 500.000 orders per week, up c. 40% from 360.000 in 2021. 2022 was a poor year as customers flocked back to stores and underutilized assets led to high costs and low profitability. Since 2023, the segment is growing at c. 15% p.a., currently achieving a 1% underlying cash flow margin.

The retail joint venture should achieve c. GBP 5 billion in revenue within the next 5 years at c. 3-4% cash flow margin. Similar to Zalando, increasing advertising revenue and providing brands with data insights is driving profitability. As such, c. GBP 150 to 200 million in cash flow should be doable within 5 years. At then c. 10% bottom line growth, that should trade at least at a 15-20x multiple on cash flow leading to 2.3-4.0 billion enterprise value. As the joint venture is 50%, this would result in 1.2-2.0 billion in value.

Technology segment

The slower than expected roll out of the technology to its global customers is responsible for the negative share price development. Despite an increase in revenue by c. 7x to GBP 500 million in 2024 from GBP 70 million in 2021, the segment is loss making and will only achieve cash flow break even in the course of next year.

Ocado initially assumed that its B2B customers would quickly utilize the provided capacity by effectively driving customers to their new or improved e-commerce offering. Contracts were structured so that partners paid for the allocated capacity regardless of usage with the expectation of quickly adding more capacity in each center. However, some partners lacked e-commerce experience and struggled with key challenges such as attracting customers, choosing the right product mix, and integrating the Ocado system into a coherent online-offline strategy. As a result, the solution could not perform everywhere and some partners were unsatisfied. The

demand for additional capacity did not increase as expected. Normally, a company would just focus on other customers with more e-commerce or technology experience, but country-wide exclusivity agreements prevented Ocado from adding other customers. To mitigate, Ocado hired large support teams to assist customers - eroding profitability. Kroger, Ocado's most important customer and exclusive partner in the US had more than its fair share of the mentioned issues.

As such, the investment is down c. 50% compared to the average entry price and trading around the 10-year share price low. It is not what one would expect in the current AI bubble from a company with the core competency of applying robotics and AI to solve real world problems. Neither seem the recent advancements in autonomous driving to affect Ocado's valuation, even though the delivery remains the key cost driver (no pun intended) for grocery e-commerce. Google's Waymo is operating c. 2,000 autonomous taxis by now in US cities and achieves c. 250,000 paid rides per week (+150% year-on-year). The UK company Wayve is raising capital at a USD 8 billion valuation and is piloting autonomous vehicles in London ([link](#)). Ocado has invested in Wayve in 2021 and its stake of c. 3% would be worth c. GBP 200 million or 10% of Ocado's market capitalization if the announced valuation holds after an IPO. If growth rates above 100% continue, it is not unreasonable to expect autonomous cars becoming mainstream in the next decade. It would result in a reduction in last-mile delivery cost and improve the online grocery value proposition further.

If Ocado's US customer would be a technology e-commerce company like Amazon, the roll-out of Ocado's technology would be quicker and more fruitful for both parties. The exclusivity agreement with Kroger ends at the end of this year. Either Kroger decides to double down and fix its issues or Ocado should find someone else. In any case, Kroger needs to pay for its existing capacity until the contracts run out. Afterwards, Ocado would be able redeploy the robots elsewhere.

A scenario where Ocado won't find a new US partner seems unlikely as the technology is highly attractive. Ocado has been improving the solution by R&D investment of over GBP 700 million since 2021, resulting in productivity improvements traditional grocers cannot match. While measuring the improvements by a single KPI is wrong, a directional idea how fast the technology is improving is the unit per hour (UPH). It measures the labor productivity in Ocado fulfillment centers, i.e., how many single items all attributable fulfillment center workers are picking per hour. In 2015, the average UPH in the prior conveyor belt fulfillment technology achieved c. 150 UPH, while the newest robot operated centers are reaching c. 300 UPH. As such, productivity improves by c. 7% p.a..

The remarkable capital efficiency of Ocado's technology can be observed in the financial statements of its UK joint venture. The business achieves c. 3.0 billion in revenues with only c. GBP 250 million in net assets, of which more than half are land and buildings. Even at the current depressed 1% cash flow margin, this translates to a c. 10% return on capital. At the targeted 3-4%, the returns on capital should reach 30-40%. Pretty sure, someone in the US would be interested in earning similar returns.

The market doesn't seem to believe that these returns on capital exist for Ocado partners or any potential partner in the US. Ocado trades at GBP 2.0 billion market capitalization and net debt of GBP 1.0 billion. If the UK joint venture value matches the net debt, you get the technology business for 4x revenue with the potential to multiply revenues over the long term as global grocery e-commerce revenues are increasing, as it takes share from less attractive offerings as Instacart, and as it expands to new verticals as pharmaceuticals. From a margin

potential, the segment has the potential to achieve high, software-like, margins.

While the last four years have been painful for Ocado investors, the business has made massive progress despite headwinds. At the current valuation, the hurdle seems to be as low as ever.

This update is long and hopefully interesting to you. As always, please contact me with any questions.

Thank you for your continued trust and support,

A handwritten signature in blue ink, appearing to be 'TJ' or 'Tim Jeck', written in a cursive style.

Tim Jeck

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