RDCP

2023 ANNUAL LETTER

Long-Term Investors Providing Permanent Capital

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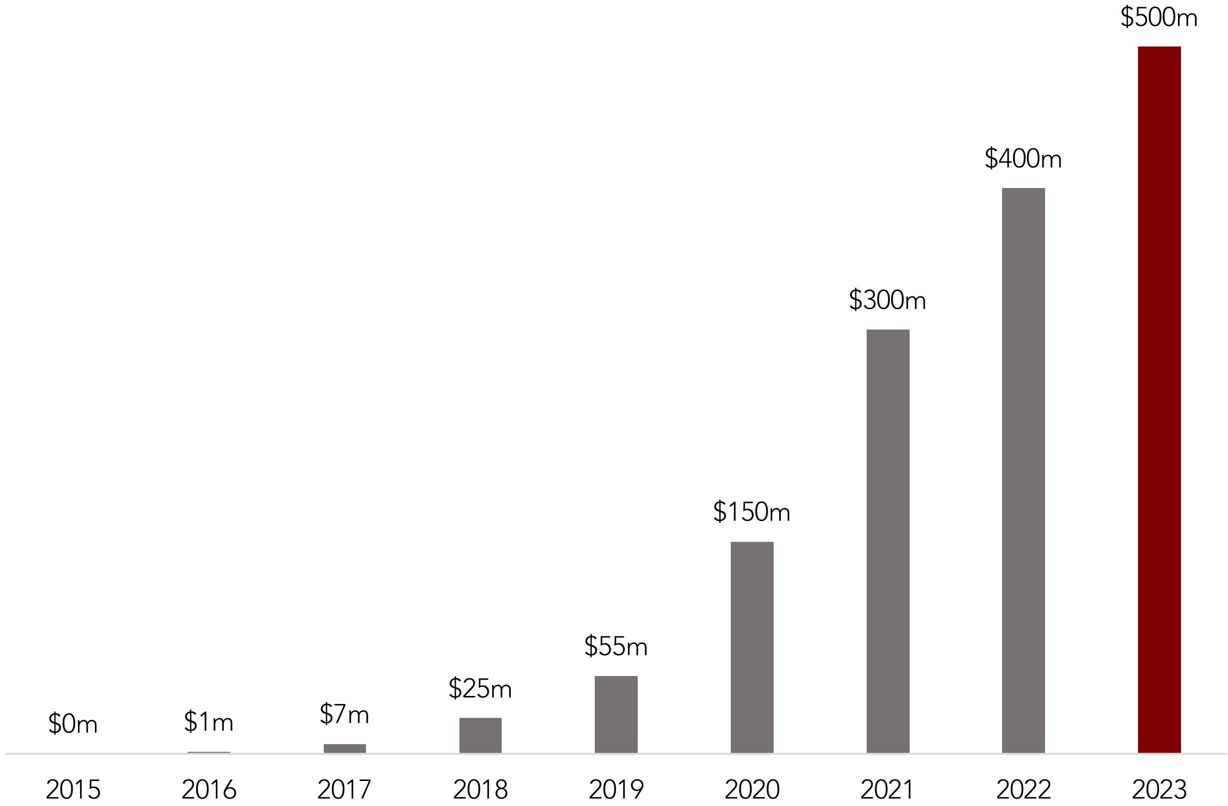
RDCPGROUP.COM

RDCP's Growth in Enterprise Value (EV)



In 2023, we have grown our enterprise value by 25%, from $400m to $500m by making a number of meaningful acquisitions.

RDCP's Performance vs. the S&P 500 and FTSE 100

	S&P 500	FTSE 100	RDCP Group
Annual Return 2015 – 2023	11.7%	1.3%	91.4%
Total Return 2015 – 2023	128.9%	10.2%	12893.0%

This is our eighth year in business and the first year where our average annualised rate of return has dropped below a triple digit internal rate of return (IRR), down to 91.4%. As mentioned in last year's annual letter, this was inevitable. With a growing portfolio and thus a larger capital base, a higher rates environment and a slower overall economic backdrop, a drop in our average annualised growth rate was something we could see coming.

To the Stakeholders of RDCP Group:
2023 has been our most challenging year yet. We have been in business since summer 2015, having made a total of 44 investments that are consolidated into 12 portfolio companies, generating, on an annual basis, a combined £175m ($225m) of revenue and £24m ($31m) of EBITDA. For the most part, we have acquired and built up this portfolio during an extended period of low interest rates and a two-year period where British lenders received guarantees from the UK government (CBILS and RLS) and thus threw capital at acquisitive investment firms. All of this allowed us to stay significantly more focused on the upside, with relatively limited focus on the downside.

In 2023, all of our closely held beliefs and principles were tested. In fact, this year has been the most eye-opening year of my career and has allowed RDCP to form newer, better principles that will allow us to scale to our $1bn target AUM by 2025, but in a much more sustainable and risk-neutral manner. Yet, despite exiting a few small non-core and non-performing investments this year, we still maintain our dual perfect record of:

1. Growing our AUM every single year since our inception in 2015.
2. Never having lost our money on an investment.

The fact of the matter is that there are a small handful of investment firms that have never had a down year, i.e. their AUM or equity value has grown every single year, year on year. We are proud that RDCP is a part of this privileged group of investment firms and long may this continue. However, other than RDCP, there are no investment firms that I know of that have never lost money on an individual investment. Realistically, I cannot see this carrying on forever. As our group's free cash flow grows, we are able to either make larger investments or increase the number of investments we make in a year. Hence, it is inevitable that we will soon have an investment that has lost money for RDCP. Having said that, we will continue fighting hard to ensure we maintain this perfect record for as long as we can.

Portfolio Overview: 2023 Acquisitions
Over the past eight years, RDCP has made 44 investments that have been consolidated into 12 companies, employing a total of 2,700 of staff members. Below I detail the businesses we have acquired in 2023.

1. The Pexion Group

The Pexion Group

Month Acquired: Jan 23	Headcount: 500
Leadership: Dave Brindle	Revenue: £50m
Sector: Engineering	EBITDA: £6m

The Pexion Group is a precision engineering platform business with 14 subsidiaries. The business is led by Dave Brindle and Darren Turner, who executed a management buyout, followed by a buy-and-build strategy in the precision engineering sector with HSBC.

The transaction was brought to market as Pexion were looking for a partner that would allow the business to go on phase two of their buy-and-build journey. The deal gives RDCP a 51% stake in this £50 million turnover and £6 million EBITDA business. RDCP is also partnering with Pexion to support bolt-on acquisitions and grow EBITDA to over £20 million within 5 years. The incumbent lender HSBC continues to support the business.

Established in 1986 and headquartered in Chorley, Lancashire, the Pexion Group is a diversified group of high value precision and electronic engineering businesses. The business operates with 14 subsidiaries, offering a one stop engineering solution to some of the world's biggest original equipment manufacturers and tiered supply chain providers. Services include design, development, prototyping, medium to high volume production with fully integrated supply chain solutions. Clients operate across the aerospace, defence, oil and gas, precision automotive, power generation and medical industries.

We are pleased to be backing Dave Brindle as CEO. Dave joined Pexion as Group Operations Director in 2008. He has 32 years of engineering experience (both in the UK and internationally) in several industry sectors including aerospace, automotive and consumer electronics. Dave became Chief Executive Officer in 2016 following the management buyout (MBO) with Darren Turner and further developed Pexion's buy and build strategy after securing £16m of acquisition facilities from HSBC. Dave has a master's degree in mechanical engineering from University of Salford and an MBA from University of Hull.

Pexion is an important acquisition for RDCP Group as it gives us immediate and deep access to UK's precision engineering and precision manufacturing sectors, which typically have high barriers to entry. In addition, we have competed with Pexion a few times on potential acquisitions, where Pexion ultimately won the deal. Hence, I could not be more pleased to now join forces with Dave and Darren and continue this buy-and-build journey to grow Pexion's valuation to over £200million within the next 5 years.

2. i4Plus (CC Electronics and Hone-All)

i4Plus	Month Acquired: Nov 23	Headcount: 140
	Leadership: Dave Brindle	Revenue: £9.5m
	Sector: Engineering	EBITDA: £1.6m

In November 2023, we completed a sister-company acquisition of i4Plus which was jointly owned by Dave Brindle and Darren Turner. This acquisition brought two engineering companies, CC Electronics and Hone-All, into the RDCP-backed Pexion group of companies.

Collectively between all 16 Pexion/i4Plus subsidiaries, we now forecast 2024 revenues of over £60m and EBITDA of over £9m.

3. Coton Care

Month Acquired: Apr 23
Leadership: Rosie Howell
Sector: Healthcare

Headcount: 100
Revenue: £1.85m
EBITDA: £0.7m

In April 2023, we acquired the Coton Care Group, a group of two care homes, as a bolt-on acquisition for RDCP Care. The two homes bring a combined 56 beds into the portfolio. RDCP Care now is a £12m revenue and £3.7m EBITDA portfolio, with eight care homes located across the Midlands and Wales.

We remain excited about the UK care sector, and RDCP Care continues to be the most resilient, robust and reliable portfolio company in our portfolio of businesses.

4. Majestic Group

Month Acquired: Apr 23
Leadership: Jim Martin
Sector: Manufacturing

Headcount: 57
Revenue: £8m
EBITDA: £2m

In April 2023, we acquired Majestic Windows Group, one of the country's leading windows and doors manufacturing business, based in Somerset. Majestic Windows is our first acquisition in the manufacturing sector and is an important step forward for RDCP as we increase our strategic capital allocation towards UK manufacturing businesses.

Frankly, it was a real win to get this transaction over the line when we did, because although Majestic has had a reasonably strong 2023, many companies in the sector are struggling. This is purely because of reduced consumer spending and not a long-term systemic issue. Hence, even though we would like to acquire more companies in the sector, and we have two targets identified, raising debt capital has proven to be a challenge.

5. Home Counties Pools

Month Acquired: Aug 23
Leadership: Paul Woodhead
Sector: Facilities Management

Headcount: 10
Revenue: £2m
EBITDA: £0.6m

In August 2023, we acquired Home Counties Pools as a bolt-on acquisition to Deep End Pools. Although consumer spending in the UK has pulled back, we continue to believe that this is a relatively short-term feature of the economy, and as rates (and inflation) start to fall in 2024 and beyond, we expect consumer spending to mean-revert to normal levels. Thus we remain reasonably bullish on the facilities management sector.

6. The Soft Drinks Company

The Soft Drink Company

Month Acquired: Sept 23	Headcount: 40
Leadership: Vipin Patara	Revenue: £15m
Sector: Consumer Discretionary	EBITDA: £0.5m

In September 2023, we acquired The Soft Drinks Company (TSDC) as a bolt-on acquisition to SOS Wholesale. Despite general market headwinds, our investment thesis remains that the food and beverages wholesale sector, which is a sub-sector of the consumer discretionary sector, is a recession-proof sector that will continue to showcase strong performance.

We are excited to be working with Paul Michael Broomhead as the General Manager of TSDC, who will be supported by Vipin Patara and her team at SOS Wholesale.

Exited Businesses

I said this last year and I will say it again: RDCP is not an exit-focused investment firm. We believe that outsized returns and significant wealth creation only occurs by holding investments long-term, allowing the companies' cashflows to deleverage any debts, and reinvesting profits into more businesses. This is how compounding is best supported.

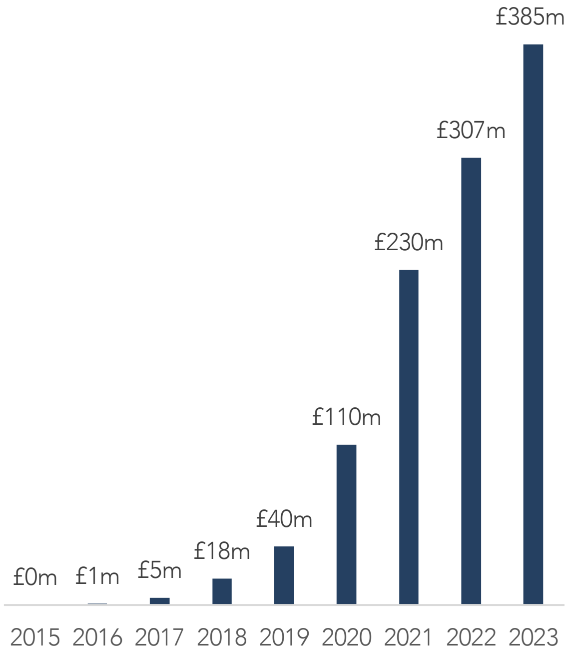
However, on occasion, we will exit an investment or a sector if we no longer believe in it or in the management team, or if we feel the need to create liquidity for other upcoming investments. In 2023, we have largely exited the construction sector, by exiting our main construction portfolio company Killingley Group.

Overall, in the four-year period that we were invested in the sector, we made significant profits. However, we do not believe this can carry on in the coming years. Construction sector income is highly lumpy. Profitability can change dramatically one year to the next depending on the project pipeline. We started to experience this in 2023 with a number of the Killingley Group subsidiaries, especially with major government projects like HS2 being stopped. When the economy contracts, the construction sector is one of the first sectors to get hit and one of the slowest to recover.

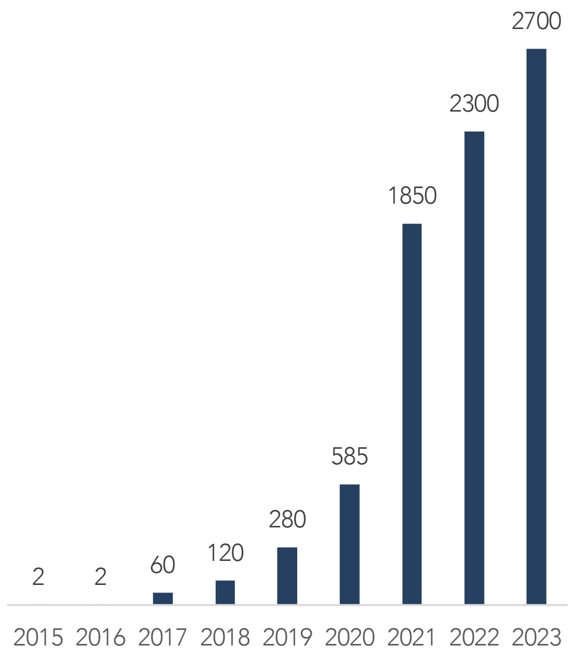
It is for these reasons that we exited the various Killingley Group subsidiaries over the course of this past year.

RDCP as a Snapshot in 2023

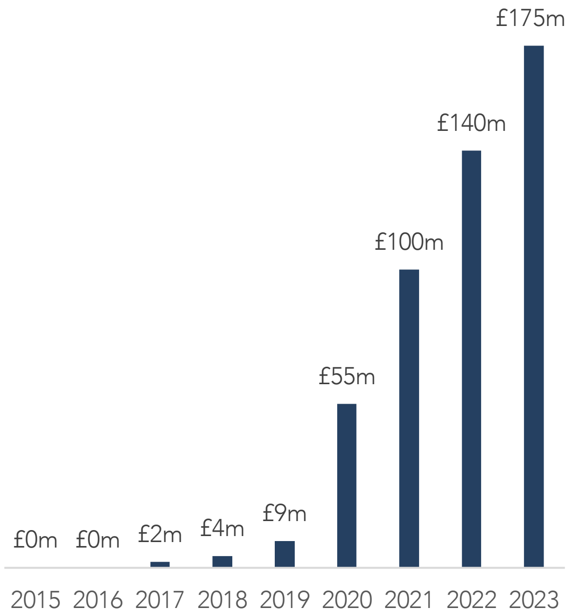
In 2023, we acquired six new companies and exited Killingley Group. This is what the RDCP portfolio looks like today.



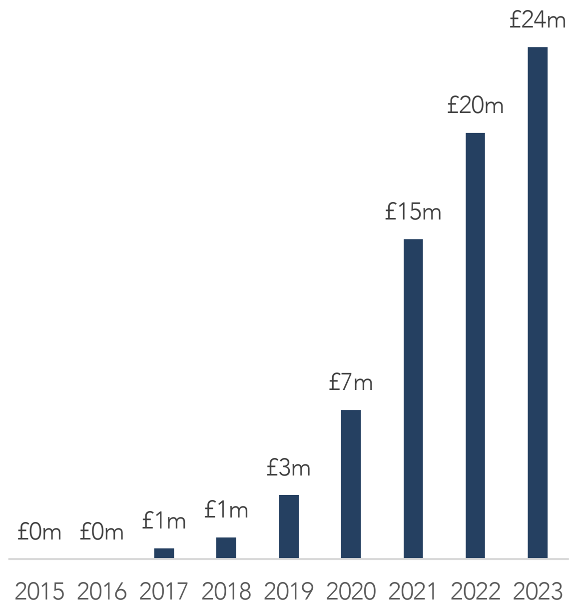
Growth in Enterprise Value (EV)



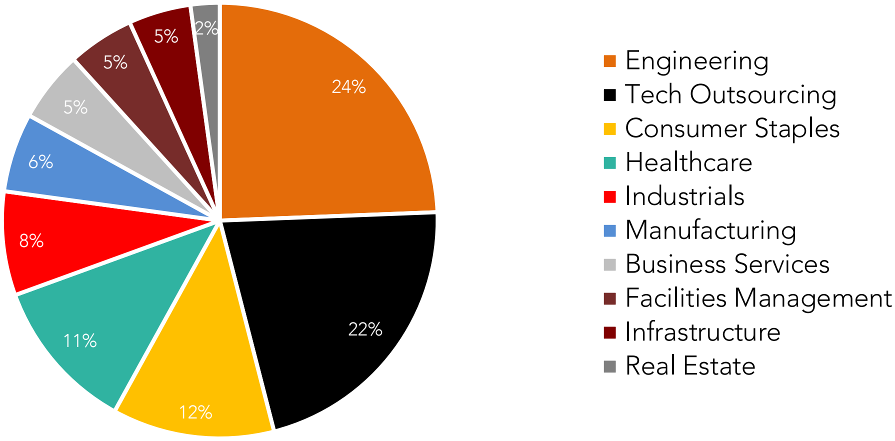
Growth in Staff Headcount



Growth in Run-Rate Revenue



Growth in Run-Rate EBITDA



Sector Diversification

Portfolio Companies

The RDCP portfolio today comprises 12 portfolio companies across 10 sectors, generating a combined £175m ($225m) in run-rate revenue and £24m ($31m) in run-rate EBITDA.

Engineering

The Pexion Group

Precision engineering group with 16 companies

Tech Outsourcing

intelling

Tech-enabled contact centre business

Consumer Staples

SOS

£45m revenue food wholesale business

The Soft Drink Company

£15m revenue soft drinks distribution business

Healthcare

RDCP Care

Elderly care provider with 8 nursing homes

Industrials

Worcester Electrical Distributors

Electrical equipment distributor: 6 branches

Manufacturing

Majestic Designs (UK) Ltd

Windows design and manufacturing business

Infrastructure

ACES

Mechanical & electrical building services

Alma Rail
www.almarail.co.uk
Railway track and civil engineering

Railway track and rail engineering business

Facilities Management

Deep End Pools

Luxury swimming pool installation group

Business Services

Ancient House Printing Group

Web and sheet-fed printing business

Real Estate

RDCP Real Estate

Private real estate portfolio valued at £7m

Charlie Munger – a Tribute

Charlie Munger was one of the greatest investors of all-time. The company he ran alongside Warren Buffett, Berkshire Hathaway, is the single best example of long-term compounding and wealth creation for sensible, logical and patient investors. Berkshire, Buffett and Munger have been the greatest inspiration not only for me personally, but for RDCP as an investment firm, and we have tried our very best to mimic their rational investment principles and approach. Sadly, Charlie Munger passed away on 28th November 2023, at the age of 99. May he rest in peace.

There are numerous Charlie Munger quotes, anecdotes, and general pieces of wisdom out there, but the below story really stuck with me.

In 1953, Charlie Munger was 29 years old.

Recently divorced. Lost the house. Huge social stigma of divorce back then.

His 8-year-old son, Teddy, was diagnosed with cancer. The leukemia was incurable. No medical insurance – Munger paid for all his medical care. Charlie would visit Teddy in the hospital every day -- and then walk the streets crying.

Teddy died at the age of 9.

Charlie was broke, divorced and just lost his child. 99.9% of people would have turned to alcohol, drugs, or suicide (and you'd understand why). Munger never did.

Fast forward to 52 years old, a failed surgery left him blind in one eye with the potential of going fully blind one day. Charlie was an obsessive learner who read every book he could get his hands on. When confronted with the possibility of going blind and no longer being able to read, he said: "It's time for me to learn braille!"

The only thing that might be more impressive than Charlie Munger's intellect were his actions, and this lack of self-pity.

This is what Charlie Munger himself had to say on self-pity:

"Generally speaking, envy, resentment, revenge, and self-pity are disastrous modes of thought. Self-pity gets pretty close to paranoia… Every time you find your drifting into self-pity, I don't care what the cause, your child could be dying from cancer, self-pity is not going to improve the situation. It's a ridiculous way to behave. Life will have terrible blows, horrible blows, unfair blows, it doesn't matter. Some people recover and others don't. There I think the attitude of Epictetus is the best. He thought that every mischance in life was an opportunity to behave well. Every mischance in life was an opportunity to learn something and that your duty was not to be immersed in self-pity, but to utilize the terrible blow in a constructive fashion. That is a very good idea."

Investment in Human Capital
A large part of RDCP's success is down to its people. Up until recently, this idea mostly just referred to the strong management teams that lead our portfolio companies and allow us to grow profitably as a group. However, this year, we brought on two key recruits at a RDCP Group level.

Firstly, we asked Paul Clunn to step up to the role of Investment Director. Paul leads one of our key portfolio companies, Worcester Electrical Distributors, as Managing Director, and earlier this year started assisting RDCP Group as an Investment Director, working with the RDCP founders on identifying, evaluating and executing transactions, whilst also supporting portfolio companies throughout RDCP's investment hold period, working with the management teams to help them deliver on the potential of their respective businesses. Paul is predominantly focused on the industrials sector. Prior to RDCP, Paul spent over 25 years working in leadership roles in the electrical products sector, at blue-chip companies such as City Electrical Factors, Rexel, Eland Cables and Cleveland Cable Company. Paul has a Masters in Law from University of Central Lancashire. Paul has also spent over 5 years with the Royal Navy.

We have also recruited Martin O'Donoghue as Chief Legal Officer. Martin has previously worked at major law firms, including Armstrong Teasdale, Eversheds and Teacher Stern. Martin leads the legals on all mergers and acquisitions, strategic exits, joint ventures, corporate finance transactions and commercial contracts at RDCP. He has over 20 years of legal experience, having advised clients on commercial transactions in the UK, Ireland, the US, Europe, Africa and Asia. Prior to RDCP, Martin was a Partner at Armstrong Teasdale, advising on several large M&A transactions. Previously, Martin worked at Teacher Stern and Eversheds. He is consistently recognised by the Legal 500 for advising on M&A transactions. Martin studied Law at University College Dublin and is a member of the Law Society of England and Wales and the Law Society of Ireland. Martin also has an MBA.

As our portfolio continues to grow, Martin is keenly focused on downside mitigation and risk management – areas of our business that I deemed most underdeveloped until Martin's arrival. Bringing this key role in-house has been a game-changer, not only because of the massive savings in legal spend with various law firms, but the relationship-compounding that occurs with Martin overseeing legal matters of the various portfolio companies and of group.

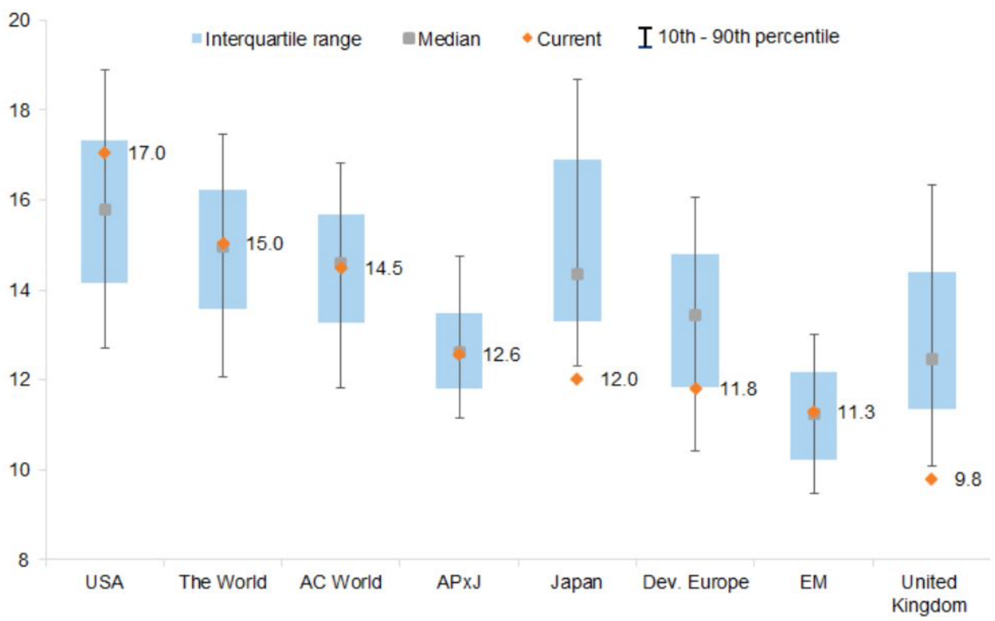
Having an in-house counsel has inspired me to bring more outsourced functions in-house. We currently outsource financial due diligence and financial modelling to third-party accounting and corporate finance firms, spending a significant amount on fees. Post-acquisition, there is also limited accountability on tracking how these companies perform against the original acquisition model.

Successfully bringing these roles in-house would further strengthen RDCP as an investment firm and have strong team members fighting for sustainable growth as part of the core team.

UK Equities/Companies Remain "Cheap"
Whatever way you slice it, equities look cheap in the UK and in Europe.

When comparing the attractiveness of public and private companies in different regions, you want to look at valuations from two angles: from the way a region's valuation stacks up against other regions, and from how it stacks up against its own history. If the region ranks high on both measures, it is most likely overvalued. If it ranks low on both counts, it is most likely undervalued.

Valuation ranges (MSCI regions) over a 20-year timeline
12m fwd P/E multiple



Source: Factset, Goldman Sachs Global Investment Research

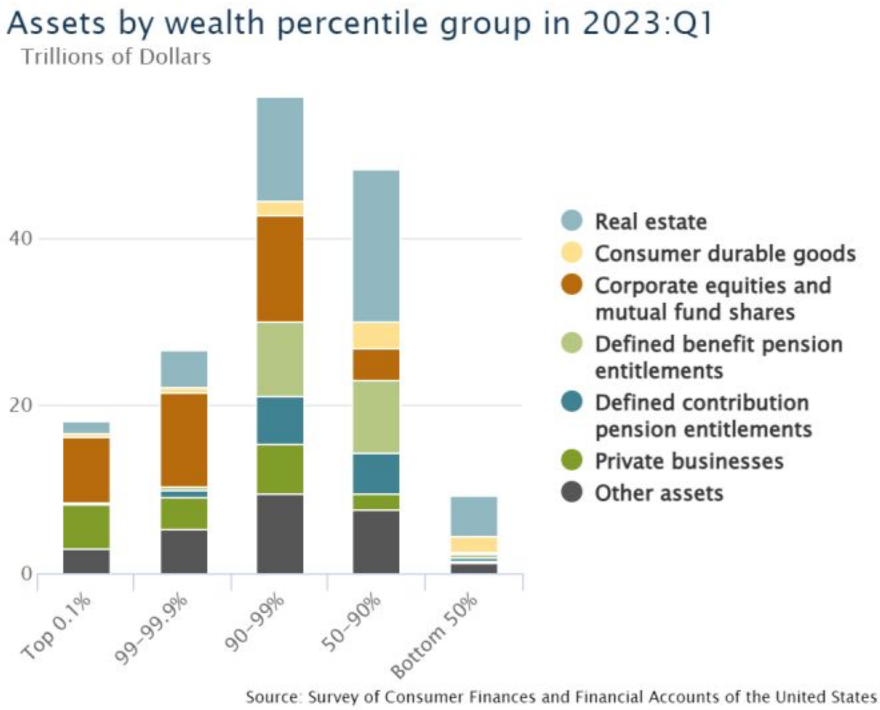
Take US stocks, for instance: they have not only got the most expensive 12-month forward price-to-earnings (P/E) ratio right now, but their current multiple is also near the top of their 20-year range. US stocks then are probably expensive. On the other end of the spectrum, there are UK stocks: their P/E ratio is the lowest across the globe, and they are extremely cheap relative to their own history. So, UK stocks are undoubtedly inexpensive.

Of course, different regions have different sector exposures, which also vary over time. That means you are not exactly comparing apples to apples, and that can bias the results. For example, the tech sector grew significantly in the US over the past 20 years, and now represents a much higher share of stock indexes than it does in other regions. Tech stocks have a higher growth profile, and so they deserve a higher multiple, so it is easy to see why US stocks have that elevated multiple relative both to other countries and their own history. That being said, the gap is so wide that differences in sector compositions cannot explain it all (and sector-adjusted price-to-earnings ratios between Europe and US, for one, support that view).

Valuations are a major driver of long-term returns. So, if you have a long-term horizon, buying UK equities continues to be a sensible strategy, providing a higher margin of safety.

Equities – The Superior Asset Class

A study done by a US government department, called Consumer Finances and Financial Accounts of the United States, looked at what assets were owned by the various wealth percentile groups (the bottom 50% all the way to the wealthiest 0.1%)



Whilst 99% of the population had real estate as a significant proportion of their net worth, the wealthiest 1%, but more importantly, 0.1% predominantly derived their net worth from ownership of public and private companies. This essentially means that almost all millionaires reached that net worth status by owning a property over a long time-horizon or inheriting a property, but all centi-millionaires or billionaires own businesses.

Lessons Learned / Reasons Behind Our Success

In 2023, our portfolio was tested for the first time ever: UK corporate insolvencies rose to an all-time high, base rate topped out at 5.25% and inflation peaked. This has not only tested our portfolio, but also tested our resolve as investment managers in navigating a group of companies through these rather treacherous waters. These were some tough moments, and even tougher decisions that we had to make. But guess what, we are here, we have managed to grow the portfolio, our companies are strong, and I (and RDCP) have learned more in this one year than the entire history of RDCP combined. 2023 has humbled me. Yet, it's proven to me just how resilient RDCP really is.

1. Opt for insourcing instead of outsourcing. This only really applies for a business of a certain scale. If a firm only does one or two transactions per year, then outsourcing is the most cost-efficient way to grow. However, for RDCP now, as detailed earlier in this

annual letter, when it comes to advisors (legal, corporate finance, financial modelling), as an acquisitive investment firm, by bringing key business functions in-house, there are significant benefits. Firstly, there are the obvious and rather meaningful cost savings. But actually, this is not the main benefit. The greatest benefit is the corporate culture "compounding" that occurs when a group of highly driven senior management team members are focused on delivering a shared vision.

2. Most decisions are reversible. Life is all about reversible vs irreversible decisions, and pretty much, other than having a child, most decisions are reversible. Unhappy with an investment, try to exit it. Unhappy with a recent hire, ask them to leave. However, due to classic investor biases such as confirmation bias (where investors seek information that confirms their existing beliefs and ignore information that contradicts them) or anchoring bias (where investors fixate on specific prices or values, often the purchase price of an investment, and make decisions based on this anchor, which can lead to reluctance to sell a losing investment), we as investors sometimes forget that we can always unwind a decision. Admit when we are wrong, act on the newly presented information and move past an old decision. This can be a powerful decision-making tool.

3. Be a player and not a spectator. While this year has been a challenge, the lessons learned came from actually being in the arena, and not commenting from the sidelines. The vast majority of principles that the greatest of investment firms (e.g. Berkshire Hathaway or Bridgewater Associates) have formed and then leveraged are because of the fact that they invested through recessions and learned principles the hard way by losing money on bad investments. An investor can read about the mistakes of others, but there is no greater teacher than trying to unwind a bad investment.

4. Successful entrepreneurs show up every day. The biggest difference between winners and losers is that winners never really stop, or give up, or stop showing up. You should never bet against the individual that just keeps showing up. So much of life just comes down to showing up, day in, day out, doing the simple things well. These unremarkable daily actions turn into remarkable long-term results.

5. Do not dwell on past success. Dwelling too long on past successes can hinder growth. It can lead to a sense of contentment or complacency, which prevents us from seeking new challenges and striving for further achievements. Rent is due every single day.

6. Pain plus reflection equals progress. Ray Dalio famously said that "pain plus reflection equals progress." Truer words have never been said. In life and in business, there are only wins or lessons.

Future Plans

We remain focused on growing our enterprise value to $1bn by 2025. How? The average conglomerate trades at 15x EBITDA or more. $1bn divided by 15x equals $67m of EBITDA (or £52m of EBITDA). In essence, we need to grow our EBITDA from £24m to £52m in the next 24 months. This is undoubtedly going to be challenging, but we remain fervently determined in achieving this goal.

Interestingly, what has changed this year is that although this goal is incredibly important to us, we only want to achieve it in a sustainable way, without a "growth at all costs" type of mentality that we have previously had. In fact, this drive for sustainable growth has pushed us to focus on five key areas as an investment firm:

1. <u>Sustainable AUM Growth</u>: Not just inorganic growth via acquisitions, but also organic growth of our portfolio companies via increased revenues and profits. This also involves our portfolio companies selling their services to each other and cross-selling to clients.
2. <u>Cash Generation</u>: Until recently, we have reinvested and poured all our cash constantly into more acquisitions, fueling our growth. However, we are now incredibly focused on cash generation and cash retention, and no longer wish to purely be an asset-rich investment firm, with limited cash reserves (relative to our enterprise value).
3. <u>Cash Compounding</u>: As some of our companies start to become debt-free, our cash generation will continue to increase each year, and the impact this has on overall growth will be incredible.
4. <u>Downside Mitigation and Risk Management</u>: There are some proprietary ways in which we are now managing downside risk and applying other risk management methods to ensure our growth is sustainable and repeatable. These are unique to us and part of our proprietary intellectual property. The ones I can publicly share are (i) identifying problems early, (ii) hiring A-players and (iii) managing our reputation.
5. <u>USA Expansion</u>: The US midmarket alone is the third largest economy in the world. It is 3x larger than UK's entire economy. As RDCP gets to $1bn in enterprise value, and looks ahead towards further growth, a focus on North American expansion (both US and Canada) is inevitable and is something we are already starting to work on as a firm. We will always have a meaningful presence in the UK but want to now expand into the US.

There is a lot of hard work ahead of us in 2024 and 2025. We can only achieve this goal by following the above five key focus areas, and ensuring we surround ourselves with smart, driven and high-integrity senior management team members that are all working towards our common goal.

Respectfully,

Sameer Rizvi
Founder & CEO
30th December 2023