

## Dear investors,

In this letter, we continue the discussion on the relevance of the core shareholder's presence in the companies in which we invest. In the first part of this discussion, presented in last year's letter (Core Shareholder and Key Man Risk, April/2025), we described the essential characteristics of this figure and analyzed one of the main risks associated with this model: the key man risk. To that end, we had valuable conversations with André Esteves, Chairman and principal shareholder of the partnership that controls BTG Pactual, and with David Vélez, founder, CEO and Chairman of Nubank.

In this second part, we discuss how the presence of a core shareholder is often decisive for the success of many organizations, underpinning our preference for investing in companies that have this figure. To illustrate this point, we analyze companies that stood out for relevant strategic moves closely followed by us in recent years, in which the benefits of this model were evident. To enrich the discussion, we spoke with some of the protagonists of these decisions: Milton Maluhy Filho, from Itaú Unibanco; Paulo Moll, from Rede D'Or; and Eugênio de Zagottis and Marcílio Pousada, from RD Saúde.

## THE CORE SHAREHOLDER – A BRIEF RETROSPECTIVE

Returning to the content of the first letter, it is worth recapping our understanding of the concept of the core shareholder. First, this figure can materialize through different structures: through founders and their family successors, through executives whose leadership becomes inseparable from the company's identity, or through partnership structures that exercise corporate control.

That said, regardless of the specificities of each corporate structure, we believe there are certain critical characteristics that define the core shareholder. The first of these is **long-term orientation** in decision-making. When the decision-maker, or those who directly influence them, is also an indefinite-term investor, there is a natural tendency for choices to be directed toward maximizing the company's structural profitability and perpetuating the business, even when such decisions are costly to short-term results. Associated with this first point, the core shareholder generally possesses a **sharper risk appetite** and a greater willingness to make critical business decisions.

Furthermore, the existence of a **strong culture** represents another typical trait of a company under this model. Core shareholders are generally responsible for shaping their organization's culture or, at least, ensuring that its values are preserved and applied. A strong culture fosters strategic clarity, team cohesion, talent attraction and retention, among other benefits.

We also observe that the **influence** and **knowledge** accumulated by this figure are valuable assets: they enable strategic connections and relationships for the business, favor the attraction and retention of human capital, and provide a privileged view of the industry's direction. Finally, their presence tends to confer greater **governance stability**, ensuring long-term strategic consistency and the preservation of the business course even in turbulent periods.

With the aim of illustrating the importance of decision-making at critical moments, we have explored cases of companies in which strategic decisions — sometimes non-obvious and costly in the short term — were pivotal in initiating cycles of business transformation and strengthening.

## ITAÚ UNIBANCO – MILTON MALUHY FILHO

Itaú Unibanco has a centennial history, having adapted and transformed itself to deal with turbulent economic scenarios, different political environments, and changes in consumption patterns, becoming stronger and more resilient. Success over decades can be attributed, in large part, to the vision of the founding families of Itaú (Villela and Setúbal) and Unibanco (Moreira Salles), who prioritized the bank's long-term perspective whenever they faced difficult decisions. Indeed, this posture of the families marked the origin of the conglomerate, as they accepted renouncing absolute control of the business in order to create a much more robust group with more value creation opportunities.

After the merger between Itaú and Unibanco in 2008, the initial governance arrangement established Pedro Moreira Salles as Chairman of the Board and Roberto Setúbal as CEO. The solidity of this structure was anchored in this partnership, with complementary visions between the Board and executive management, which helped to consolidate an extremely successful merger. In our conversation with Milton Maluhy Filho, CEO of the bank since 2020, he highlighted Roberto's fundamental role in this trajectory.

*"Roberto spent 23 years as CEO. During those years he had to reinvent himself in the role several times. The team he started with and the team he handed over are entirely different, as is the way he led the bank through cycles and events of all natures in the financial system. When he ended his term, everyone recognized that the bank had done extraordinary work, with a singular way of leading and developing high-performance talent. However, there was naturally a great weight on Roberto's figure, as he had an almost omnipresent role in managing the bank. It was a more centralized, more hierarchical model, with various committees and meetings."*

Today, the core shareholders exercise prominence through the Board of Directors, whose chairmanship is shared by the two families. The bank made the transition to this model at the end of 2016, with the appointment of Candido Bracher as CEO, for a term of approximately four years given the age limit for the position. In this process, Itaú had the challenge of overcoming the key man risk and preserving the positive attributes of shareholders with privileged industry vision and a long-term value creation horizon. To achieve this, it was not only important to choose the right person and prepare them for the mission, but also to define Roberto's new role.

*"When Roberto turned 58, I think his biggest challenge was not delivering performance, but making the succession. And that is where the challenge of breaking free from this key man risk began. It was a very big challenge, to be honest. The first measure at the time was to extend the age limit for the term from 60 to 62 years, making it clear that Roberto's biggest challenge over those next four years was to work on the succession. This age change also helped because the candidate was also 58 years old when he took over."*

*So, from the beginning of the transition to Candido, Roberto began to discipline himself to understand how his role should evolve. At the beginning, he was to part executive, part Chairman. And over time, we learned what this transition meant — how to strengthen governance at the Board level, ensuring adequate committees and that the agenda and topics are really those that need to be discussed. We had to transition from an individual who had three hats: CEO, shareholder and Board member. Since he was all three things simultaneously, it was not clear until then which hat he was wearing in each decision."*

It is worth highlighting that, in this transition, we identified the presence of the main factors we had listed as essential for the successful mitigation of key man risk: solid and widely diffused culture, consistent development of strong leaders, and active and structured succession management. Indeed, the attention given to the transition process was, in our view, paramount for preserving the bank's success, resulting in the improvement of governance parameters followed throughout the organization.

*"It was important to ensure that the principles of management and governance were preserved. Indeed, the bank has always invested heavily in governance. This is a word that we talk about a lot here internally, although for some it sounds somewhat bureaucratic. Governance is how you define very clearly what the role of management is, what the role of the Board is, which topics are discussed, who decides what, and what are the authorities and attributions so that, in sum, the ground rules are perfectly clear."*

Thus, we found that governance, with the clear attribution of roles for management and the Board, was decisive in preserving the bank's competitive differentials, such as long-term vision, high discipline in capital allocation, and excellence in risk measurement, in which Itaú is a benchmark. The bank also managed to preserve the deep and singular knowledge about the financial system accumulated by previous generations through the relevant participation of Roberto and Pedro on the Board, contributing to decision-making at critical moments.

*"Topics such as risk appetite are clearly defined at the Board level, with very objective roles, authorities, and indicators. There is a risk and capital management committee that meets monthly, with extensive dashboards showing all limits approved by the Board, whether they are being respected, whether there was any breach and, when necessary, what the action plan is. There is also a recurring agenda combined with thematic deep dives. This structure ensures a clear view of the limits and how the bank is functioning, and creates an environment of discipline, transparency, and trust so that relevant topics are effectively discussed."*

The transition was also successful because Roberto and Pedro acted with discipline in redefining their attributions. By respecting management's authorities and decision-making forums, they preserved their role as guardians of the culture and long-term vision, creating the conditions for the new leadership to consolidate.

*"The role of the controlling shareholder is extremely relevant: defining appetite, limits, being a guardian of culture and values. Culture is not discourse — it manifests itself in incentives, evaluations, compensation, promotions and departures. Competent people, but culturally misaligned, end up leaving quickly. The partners program is a great driver, because it brings long-term alignment and transforms executives into owners. Executives are evaluated by the same cultural pillars, in addition to results and performance. This coherence creates an environment where people know exactly what is expected of them.*

*The relationship between the Board and management is based on discipline, openness, and trust. There is no parallel governance. Roberto does not speak to anyone in management without my knowledge, out of discipline, not by rule. Board members can speak with whomever they want, whenever they want, but any relevant interaction is shared. This level of discipline comes very much by example — including when there are potential conflicts, such as topics involving companies invested in by Itaúsa, where Roberto simply leaves the room. This reflects deep values and creates governance that actually works. The great challenge now is to strengthen and renew this culture in the Board's succession and in the controlling families, with structured processes, a leadership pipeline and institutional discipline, thus ensuring long-term vision, pragmatism, ethics and depth in decisions."*

A complementary element of this new dynamic was introduced by Milton after his appointment as CEO in 2020 — a transition perhaps more relevant than the previous one, given the prospect of a prolonged mandate in a more demanding competitive and regulatory environment. In this context, a regular, informal and disciplined communication channel was maintained between the CEO and the Chairmen, which reinforces the core shareholders' contribution to the bank without compromising the broad autonomy of executive management.

*"During Covid, Pedro and Roberto created a dynamic of weekly monitoring meetings, in a chat format, to discuss risks, operations, the network, remote work, things we still did not know well. I agreed with them that we would maintain this dynamic and it exists to this day. Once a week, without fail, we meet for one hour, without agenda or structure. It is not parallel governance, the bank's governance is the bank's governance; it is an update space. I bring topics that I consider relevant so that they, as Chairmen, know what is happening inside and outside the bank. It is light, open and works very well, because they are always up to date on the subjects that really matter."*

A clear example of how the governance model adopted allowed the positive attributes associated with the presence of the core shareholders in control to be preserved is the bank's digital transformation, in which long-term vision and the willingness to make difficult decisions were critical. In 2015, Itaú began a long cycle of investment in technology, which was intensified with the transition of senior leadership in 2021. The objective was to address the inherent challenges of legacy systems and, in this way, improve agility in decision-making and innovation capacity. In recent years, we believe the bank has invested several tens of billions of reais in this process, creating one of the country's largest developer teams. The intent was to "break" the mainframe into several thousand business microservices and run the relevant systems in the cloud.

*"The greatest responsibility of any Board is the appointment of the CEO, because from there you ensure that the executive committee will be up to the challenges. Management proposes structure, team, strategy and priorities in a bottom-up manner and brings topics to the Board to give visibility and deepen the debate. This was the case in the digital transformation, in the review of hierarchies, structures and business models. The level of support I had from Pedro and Roberto was something incredible: there was never any nostalgia or attachment to the past. The message was always clear: what brought us here will not take us forward, so make the transformation, do it well and do it quickly. Trust comes from delivering results.*

*This autonomy exists because there are very well-established pillars: culture, governance, risk management and capital allocation. This is the bank's backbone. Everyone, from the Board to the executive, has significant wealth invested in ITUB4, and this creates an almost perfect alignment. At the end of the day, the question is simple: is this better for the client? Is it better for ITUB4? If so, let's move forward. It is culture, it is transparency, it is trust. And that is what allows us to advance in the digital transformation without giving up discipline."*

Just as important as the digital transformation was the cultural transformation promoted by the current management. It is worth noting that, throughout all our interactions in recent years, Milton has always emphasized culture as a central element for the bank to face the challenges ahead.

*"The central point is culture. Without a strong culture, which transforms executives into owners and aligns the executive's vision — which tends to be short-term — with the shareholder's vision — which tends to be long-term — the transition does not work. It also involves compensation, evaluation, feedback and promotion, always with strong cultural alignment, in addition to the partners program and the values defined since the merger."*

Shortly after the beginning of his mandate, Milton demonstrated determination and willingness not only to strengthen the bank's cultural pillars, but also to revisit established concepts. He recognized that the existing culture, while responsible for past success, needed to evolve to sustain the future.

*"I always say that I was trained and promoted within Itaú's previous culture. I was an excellent executive within that culture, and there is nothing wrong with that. But, after approximately one hundred days in office, it became very clear to me that there was a deep need for cultural change. It was not just about the bank — I myself had gaps that I needed to work on. The first thing was to recognize that, in the direction we wanted to go, many people, including myself, did not yet know exactly how to do it. At the same time, 90% of people recognized that the bank needed to undergo a cultural transformation. The soil was fertile.*

*This transformation did not come with a ready-made recipe. I did not come from outside. I needed to learn this new culture together with everyone. I made an explicit invitation: 'I will also have to change.' And from there it was project, research, debate, conversations with clients, with the Board, with the leadership, monthly livestreams, open Q&A sessions, total transparency. Culture in day-to-day life, all the time. At the beginning it is more difficult, but when it gets going, it gains impressive speed. Today this is reflected in NPS and e-NPS, talent attraction, engagement and an organization much better prepared for the future."*

Despite this transformation effort, which also involved changes in organizational structure, results did not come immediately and have only recently begun to be harvested more evidently. Illustrating this evolution, we highlight the launch at an accelerated pace of new functionalities, such as the integration of mono-product apps into a single superapp.

As another example of long-term orientation, Itaú stands out in the adoption of measures focused on customer lifetime value. The flexible renegotiation of debts at the beginning of the pandemic under favorable conditions for customers and the encouragement of regulatory innovations such as Pix — even though these were detrimental to short-term results — corroborate this stance. We believe this approach will continue to direct the bank's decisions and, therefore, we expect Itaú to continue being more aggressive with initiatives that completely eliminate the charges on current account packages and credit card annual fees. Measures like these may penalize revenue growth in the short term, but have the potential to maximize competitive differential, strengthen the bank's franchise, accelerate market share gain and, ultimately, increase the value of the business.

*"We are in a very strong and continuous transformation mode, which opens up new capabilities, new avenues and new ways of serving the customer. The focus is not just on growing the base, but on deepening relationships and increasing principality and engagement. This generates value, top line, new business lines and growth, allowing us to gain market in the segments that are the focus of our strategy, with more efficiency, better risk assessment and more capacity to evolve the bank, always looking at the whole and respecting the Brazil beta and competition."*

*Looking ahead, opportunities exist on all sides, and the organization is prepared both to accelerate and to adopt a more cautious stance when necessary. Talent pipeline, culture and technology are key to this reaction capacity. At the end of the day, it is the logic of the relay race: each CEO continues what is working, honors the past, adds their contribution and passes the baton forward, ensuring well-done transitions, strategic continuity and long-term vision."*

## **REDE D'OR – PAULO MOLL**

Rede D'Or was founded in 1977 by Dr. Jorge Moll and Dr. Alice Moll. The group began its activities focused on diagnostics, inaugurating its first hospital only in 1998 and, over the following decades, evolving to become the largest private healthcare network in Brazil.

Throughout our conversation with Paulo Moll, son of Dr. Jorge and current CEO of the company, we addressed several occasions in which long-term focused decisions were made, even if at first they did not seem obvious. As an example, it is worth highlighting the sale of Grupo Labs to Fleury in 2011, consolidating the company's strategic direction toward the hospital segment.

*"My father strongly believed in the concept of 'no roots' and understood that there was no competitive advantage in laboratories, while seeing a promising path in the hospital segment. At that time, few people were looking at reference hospitals as a main business, disassociated from the logic of serving a health insurer belonging to the same economic group. My father had no attachment and made the decision to sell the diagnostics business, concentrating financial resources and the team's focus."*

The company is still controlled by the family, which holds almost 50% participation, having even increased this percentage recently. Dr. Jorge, current Chairman of the Board of Directors, and his son Paulo are widely recognized as references in the industry and their perspectives have been important for the leadership position achieved by the company in the healthcare sector.

*"The presence of a family dedicated to the same industry for decades allows a much clearer view of where things are heading compared to the rest of the market. At the beginning of our hospital trajectory, our vision about sector movements was still more limited. With Rede D'Or's growth and our presence in different regions and healthcare segments, we came to have a much broader view of the system. Today we can see the board more completely — better understanding how providers, doctors, insurers and other agents interact within the ecosystem."*

We believe the Moll family emblematically explores the virtues of the presence of a core shareholder. The broad market knowledge accumulated by the family over decades was enhanced by the attraction of some of the leading talents in the healthcare sector, such as Heráclito Gomes, former CEO of Bradesco Saúde and a figure of great relevance in the industry.

These professionals are motivated precisely by the opportunity to join a group that seeks to be at the frontier of medicine and hospital management. The strategic direction focused on quality medicine, combined with a long-term horizon from the controlling shareholders and corporate stability, has also been important for attracting high-level professionals. These executives, in turn, strengthen the organization and expand its attractiveness to new talent, triggering a virtuous cycle.

*"It was important when building the business to bring people with a differentiated level of knowledge and relationships. The magnetism was present from the beginning of the company in Rio de Janeiro, attracting reference doctors in diagnostics. As the company grew and began to offer more opportunities, we added more human capital. Examples of this are Heráclito Gomes, in the area of management and strategy, and Paulo Hoff, in the medical area. For this, it is also essential to know how to identify who the people are that are making a difference in other businesses that are going well. But just as important as attracting external talent is developing and valuing those who grow with the company. Rodrigo Gavina, our Hospital CEO, is an example of this — he has been at Rede D'Or since 1999, since Barra D'Or, our first hospital. This combination between leaders who arrive from outside with a fresh perspective and people who built the company from within is what gives depth and continuity to our culture."*

Another striking example of the impact of the presence of a core shareholder and long-term orientation in strategic decisions was the pioneering adoption of alternative remuneration models, complementing the traditional fee-for-service model. Historically, the fee-for-service model was perceived as advantageous for hospitals as it allowed greater expansion of services and materials used. On the other hand, alternative models, such as packages and global daily rates, bring greater cost predictability for insurers and greater risk sharing. Rede D'Or understood early on that a system based exclusively on fee for service could generate significant cost pressures over time. By gradually migrating to alternative models, the company sought greater balance for the system.

*"When we began to discuss the adoption of these models, we made it clear to the insurers that this change would need to be accompanied by greater volume and scale for our hospitals. In other words, we accepted more moderate ticket growth in exchange for greater predictability and greater participation in healthcare networks. This combination helped to create a more sustainable model for the system and allowed Rede D'Or to grow with more volume."*

As a result, alternative models, which represented approximately one-third of revenues in 2015, have today become predominant. Furthermore, over time, this strategy also contributed to the company's expansion in other care areas.

*"As we gained scale within the insurers' networks, we began to observe significant growth in different lines of care, especially in outpatient services and external exams (SADT). This reinforced Rede D'Or's presence within the system and expanded our capacity to serve patients at different moments of their health journey."*

It is also worth exploring the bold — and, in retrospect, quite visionary — decision by the organization to enter the insurance segment through the acquisition of SulAmérica in 2022, its second largest payer. Although integrated models were not new to the sector, they had historically been concentrated in lower-ticket segments, generating doubts about the benefits of this integration in higher-profile plans. Furthermore, the insurance segment was going through a particularly challenging period in the post-pandemic era, with rapidly growing medical costs and premiums still in the process of recovery.

*"We know that in Brazil great opportunities often appear over time. It may take years for them to materialize, but it is important to be prepared. In our case, this meant having currency — the shares of Rede D'Or — and, above all, having a team prepared to execute when the opportunity arose. Until the IPO, our plan was to continue growing essentially as a service provider. However, between the IPO and 2022, the landscape was changing. We began to understand that the sector was moving toward a configuration with greater alignment between insurers and providers."*

More than three years after the acquisition, not only have the initial risks been addressed, but it is already possible to observe significant cost and expense synergies, as well as operational improvements resulting from the integration. Furthermore, the group unlocked revenue growth opportunities from cross-sell initiatives and gained greater predictability in its expansion plan. The company also became more resilient, given that the results of insurers and hospitals tend to exhibit partially complementary behaviors throughout the cycle.

The SulAmérica acquisition also reinforced the importance of strategic alignment between healthcare payers and service providers, stimulating reflections and relevant moves among the sector's main agents. As a consequence of this process, in May 2024, Bradesco and Rede D'Or announced the creation of the Atlântica D'Or joint venture<sup>1</sup>. The initiative deepens a decades-long partnership between the two institutions and creates a solid foundation for the development of new hospital projects. In our view, the initiative was only possible given the Moll family's network of relationships and deep sector knowledge.

*"The JV is a marriage and, therefore, it was essential to have the security that comes from decades of relationship — the Chairmen of Rede D'Or and Bradesco have known each other for more than 30 years. The moment also reflects a convergence of interests: on one side, Bradesco with growing interest in participating in the development of hospital infrastructure; on the other, Rede D'Or expanding its growth capacity with strategic partners."*

In our view, the transaction is a strategic alignment with significant value creation potential over time. With Bradesco economically aligned in hospital projects, the joint venture's undertakings tend to present lower execution risk and faster ramp-up, since they are born with strong insertion within the country's leading healthcare networks.

Another development arising from the presence of a core shareholder concerns strategic clarity. We believe this clarity is more present in companies with this figure, given the accumulated knowledge and conviction of the path to be followed. Clear direction is decisive in preventing companies from making moves driven by third-party pressure, such as market participants with shorter investment horizons — avoiding, for example, "fads."

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<sup>1</sup> Atlântica D'Or initially included three hospitals in advanced stages of construction — São Luiz Guarulhos (SP), São Luiz Alphaville (SP) and Macaé D'Or (RJ) — and two greenfield projects in Ribeirão Preto and Taubaté. Subsequently, the incorporation of the hospitals São Luiz Campinas, Glória D'Or and Maternidade Star into the joint venture was announced.

*"We were quite questioned during and after the IPO about acquisitions that ended up being made by competitors. The largest transactions between 2020 and 2022 were not made by Rede D'Or. We were convinced that the prices of those assets did not make sense and we concentrated our efforts on medium-sized hospitals. For us, the central criterion has always been to evaluate the real economic return that these assets could generate over time, especially the capacity for cash generation and dividend distribution from hospitals after the maturation period."*

Finally, it is worth highlighting that the family's role as a core shareholder has also been reinforced recently, with significant share purchases over the past years.

*"A significant portion of the family's resources is managed jointly precisely to support the company if necessary. These resources can be a differential for executing strategic moves when opportunities arise. And, naturally, if we see our shares at attractive prices, we can continue increasing our position. My father, if he could, would probably never sell a single share of the company."*

## **RD SAÚDE – EUGÊNIO DE ZAGOTTIS AND MARCÍLIO POUSADA**

RD Saúde, the leader in the Brazilian pharmaceutical retail sector, with more than 3,500 stores spread throughout the country and almost 20% market share, is the result of the 2011 merger between the Raia chain, of the Pipponzi/Zagottis family, and Drogasil, of the Pires and Galvão families. During the first two years after the merger, the company was led by Cláudio Ely, an executive with extensive knowledge of the sector, who had already been Drogasil's CEO for more than 13 years. Antônio Carlos Pipponzi, who had been Raia's CEO for 35 years, then became Chairman of the new company.

In July 2013, the Board, under the leadership of the three controlling families and Pragma<sup>2</sup>, chose Marcílio Pousada, from Saraiva, to be the group's new CEO. Marcílio had extensive experience in retail, with a differentiated view on store experience and consumer behavior, and a growth orientation, which were the attributes sought by the shareholders. Furthermore, his status as an outsider ended up facilitating the consolidation of alignment among the families. The structure aimed to preserve the contribution of the founders' strategic expertise, while establishing the autonomy necessary for management.

*Marcílio: "My relationship with the families has always been a strength for the company — they provide long-term stability. We have the three families in the control block, with one participating more actively in day-to-day matters, but the others also have very important and close shareholders. When I took over, I proposed to Antônio Carlos a way for us to work together and we composed very well. He stayed close in store expansion, which is his strong suit, but in the day-to-day business I had total autonomy and he accepted me as a leader. Antônio Carlos is intense, knows everything, and always contributed."*

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<sup>2</sup> Pragma represented the founding shareholders of Natura, who were investors in Raia since 2008 and remained as members of the control group until 2021.

The controlling families, therefore, preserved their influence in management. In addition to active participation on the Board, certain members remained as important executives, with some still present in senior management today. Eugênio and Marcello de Zagottis, great-grandchildren of founder João Batista Raia and nephews of Antônio Carlos Pipponzi, are examples of this. Eugênio served as VP of Business Development and IR of RD until 2024, remaining today as a central figure on the Board of Directors, and Marcello took on the role of COO of the group in 2025, after a long period as VP of Sales.

*Eugênio: "Unlike the American corporation model, where the Board acts only as a validation body or in extreme situations, our dynamic with the controlling families is one of constant strategic alignment. We have a strong disbelief in the corporation model. The CEO retains autonomy over execution and the team, but finds in the Board a very active governance. It is not a procedural or passive rite. It is an environment of questioning and validation of steps, where the representatives of the controlling shareholders (Antônio Carlos, Kika and I, members of the Pipponzi/Zagottis family, Caco and Renato Pires, and Paulo Galvão), as well as Marcílio himself as Chairman of the company, act as stewards of governance and strategy.*

*Before every Board meeting, we hold a control group meeting. My family's representatives have hands-on experience: my uncle, my cousin Kika and I were all executives. Antônio Carlos is very focused on expansion, culture and people, Kika is more focused on strategy and sustainability, and I bring an economic focus, looking at value creation and capital allocation. Caco, Renato and Paulo were not executives, but have been present for many decades in governance and bring a strong shareholder perspective. They have different vocations and perspectives, but they complement each other. Caco, for example, is very active in capital structure and G&A. Paulo is very attuned and always has a sharp eye on new competitive threats. Renato also looks a lot at people. Marcílio, being Chairman, also participates in the forum and brings deep business knowledge from having led it for more than 10 years. When a red light turns on in the business, the shareholders react with force, as when we had issues with employee engagement and store losses. They have an important memory of the business; they have seen things that even Marcílio, with more than ten years as CEO, sometimes did not see."*

The importance of long-term orientation and appetite for difficult decisions became more evident from 2018, when the company decided to invest significantly in digital channels. At that time, online sales represented only 1% of revenue and the pharmacy sector did not appear to be a natural candidate for experiencing increased e-commerce participation. Furthermore, there were no global success benchmarks.

*Marcílio: "In digitalization, the process was different from the debates about expansion, which Antônio Carlos led. I was the enthusiast, who kept pushing for investment all the time. We arrived a little behind the competition, having already had an obsession with the Amazon model. The penny dropped completely during a trip I took with Eugênio to China, in April 2018. We were at McKinsey's office in Shanghai, in unbearable heat, and their partner wanted to make a demonstration: he ordered an ice cream through an app and said it would arrive before we finished the meeting. When the ice cream arrived, perfectly, I realized: it is the physical store that was delivering! We returned from there with this conviction, set up the 'pick up from store' model and from that point the business really began to take off.*

*There was also a turning point in our governance: the approach of Marco Bonomi, who ended up joining our Board. Pedro Passos from Natura introduced me to him. Bonomi brought the experience of Itaú and showed a chart that was unbeatable: their digital operation was already more profitable than the physical branch. That helped to hold the Board together and gave us the backing we needed to invest heavily."*

In this process, the importance of well-structured governance became evident, with definition of Board authorities — through which core shareholders exercise more influence — and of the executives. Management, with a more direct pulse on day-to-day matters, has the autonomy to react agilely to market dynamics. The core shareholders, in turn, foster an environment so that decision-making is oriented to the long term, acting as guardians of strategy.

*Eugênio: "I think Antônio Carlos showed a lot of wisdom in understanding the boundaries of his area of competence and strength. If the subject is expansion, culture or evaluating an acquisition, he is unbeatable to this day — he is vocal, present and has very clear ideas. Now, in the online business, his great virtue was recognizing that it was not his area of domain. I do not even know how much he believed in it at the beginning, but he had the discernment to let himself be led. There, he opened the way and the true protagonist was Marcílio for making the transformation."*

*When Covid came, the game changed entirely. The Board's buy-in to invest heavily came then. We realized we needed an app, squads... and, being very honest, we barely knew what that was in 2019. At that moment, governance supported it very strongly: we decided to invest for real, accepting that the short term could suffer. We had to bring in G&A, but the store margin kept up and provided the necessary breathing room."*

It is worth highlighting that, in a fragmented industry with structurally compressed margins, any significant investment without an immediate revenue counterpart requires quite a lot of conviction. This is a decision that directly impacts profit and the shareholders' own remuneration. Despite this, the company was firm in investing intensely in its digital transformation, especially after the pandemic, such that administrative expenses accelerated from growth of 13% per year between 2012 and 2018 to 30% per year between 2019 and 2024. In other words, administrative expenses increased from 2.5% of revenue in 2019 to 3.5% in 2024.

*Marcílio: "I had an immense fear of losing too much profitability along the way. This digital business can be very damaging if Google and delivery become your partners. Our challenge was to take these players out of the game. We held down sales expenses firmly and managed to increase the store's contribution margin to finance the G&A spend, especially technology and people to enable digitalization. If you look at the balance sheet of those who tried to digitalize, almost everyone had a very abrupt margin drop. I was terrified of this, but it did not happen to us. We had significant G&A pressure, but digitalization increased recurrence and generated growth in mature stores above inflation. We managed to defend the margin while investing heavily and always improving."*

In order to underpin the investment, RD maintained a rigorous focus on the digital channel's unit economics, consistently working on various levers to ensure the long-term sustainability of the initiative (e.g. user experience, customer acquisition, shipping, pricing). In retrospect, the company's precision in identifying the levers that would allow improving the profitability of this channel is impressive; it is today a relevant source of value generation for the group.

*Marcílio: "We created something that was controversial at the company: the digital P&L. At the beginning, people looked at it and did not understand anything. But we kept hammering on the P&L every month, line by line, until we proved that the business was profitable and that digital brought a very good margin. The secret was rigor: taking care of marketing, pricing and, above all, shipping — which is a heavy cost that we needed to solve. We built this with the Board's support and today we have a very strong digital business. Sometimes I stop, look at where we have come and think: it is remarkable how we managed to build something genuinely great. Our great achievement was getting two things right that are extremely difficult. The first was getting the customer to the app: we understood that we needed to improve the experience and, at the same time, use the physical store as a digital engine. The second was the insight about shipping. At that time, shipping was a mess, all based on guesswork. I arrived and said: from tomorrow, shipping is R\$ 4.90. People complained, but that solved the problem in the customer's mind. We solved this logistics challenge and that is when the business really took off."*

Five years on, the digital channel today represents almost 30% of the company's sales and, if considered independently, would be the fifth largest pharmacy chain in the country. We also highlight that the company has five times more users on its applications than the second-placed competitor in the sector, with 95% of digital sales occurring on proprietary channels. Finally, while RD has just under 20% market share in the total market, this share increases to approximately 40% if we consider only digital channels. In this way, the initiative, which was decisive for accelerating mature store revenue in recent years, resulted in yet another significant competitive advantage over competitors who did not possess the same vision, determination and investment capacity.

*Eugênio: "We doubled the company's revenue with the buy-and-pick-up model, but since digital went from 0.7% to 1.3% of revenue, no one in the market paid much attention. The real trade-off moment was in the post-Covid period. We were at 1.5% digital participation, and the effect of the pandemic, combined with the work we had already been doing, took us to 7.6%. The point is that, for most companies, those 7.6% were the peak and then digital sales began to fall. For us, they did not. We never stopped rising."*

*Marcílio: "In the end, the market believed in our thesis. What impresses me most today is that our model is far superior to our competitors'. They could not do what we did. Eugênio was right in his pitch: competitors would not have the capacity to invest what we invested due to the difference in scale. In the end, we built a real business. And today, with the strategy mature and after having completed the CEO succession with Raduan taking over and my move to the Board, we carried out an important restructuring, making the administrative structure lighter and more agile and increasing investment in the store (staffing, career plans and even prices), which was what funded the G&A in the past cycle. The initiative came from Raduan, but everything was extremely discussed and aligned in governance."*

It is interesting to observe that, just as in the conversation with Paulo Moll from Rede D'Or, the importance of the core shareholder became clear in guaranteeing strategic clarity and, therefore, ensuring that the company remains true to its convictions, independent of external pressures. The deep knowledge of the business and the differentiated view of the industry, typical of a core shareholder, are the pillars of this assertiveness.

*Marcílio: "During Brazil's economic crisis of 2014 and 2015, all companies halted their expansion. We did not stop for a single moment. And this was a shareholder decision. Antônio Carlos was the one who drove this. We decided to keep going, measuring results in detail. At another point, there was a great deal of pressure to acquire large chains, with other groups growing very rapidly with market consolidation theses. Do you think the financial market and the Board did not question us? But Antônio Carlos always stood firm for us to remain focused on organic expansion, together with the other two families. He opened store number 47, when he was CEO of Raia, and recently participated in the opening of store number 3,500."*

Additionally, the presence of the core shareholders is a central pillar in the preservation of culture, which consolidates itself as one of the company's most resilient competitive differentials. By acting as guardians of the fundamental values and purpose of the business, the controlling shareholders ensure that rapid expansion does not undermine engagement and service quality at the front line.

*Eugênio: "People look at our in-store service and frequently ask: 'What training company do you use?' I respond that we do everything in-house, but that we could even publish all our manuals on the internet and it would make no difference. Training is only 20% of the story; the rest is culture. You have a person in the store who does not earn commission, who has a variable bonus that is not even that aggressive, but they do what they do because they are engaged, because they believe in the purpose and know that there is a career plan. This culture is far more powerful than any training."*

## THE ROLE OF THE CORE SHAREHOLDER

The examples presented illustrate various contexts in which core shareholders acted as the backbone of long-term vision, making difficult decisions or providing the necessary backing for the executive team to make them. The contribution also manifested itself through deep sector knowledge and a privileged strategic vision, fundamental for sustaining courageous moves, maintaining strategic clarity, even in the face of external pressures. We also note that the existence of well-structured governance was decisive in maximizing the contribution arising from the expertise of the core shareholders analyzed.

It must be emphasized, however, that this corporate structure should be seen as favorable, but by itself insufficient, for the success of a business. Several recent business stories were not successful despite the presence of a core shareholder, who may even have contributed to value destruction in certain cases. First, we observe various examples where the shareholder became excessively distant, without sufficient dedication and/or adequate monitoring mechanisms. A poorly planned withdrawal can also cause cultural erosion and degradation of the knowledge accumulated by the organization.

Moreover, for the perpetuity of value generation, it is essential that the shareholder recognizes the limits of their circle of competence, surrounding themselves with qualified leaders and delegating execution when necessary. Structures that centralize strategic decisions in an excessively restricted nucleus limit the scalability of the business, raise execution risk and reduce the probabilities of long-term success.

Another risk lies in possible misalignment of interests, specifically when certain ambitions of the controlling shareholder do not translate into value generation. This ambition may manifest itself, for example, in an ill-founded pursuit of sectoral or geographic diversification, resulting in loss of focus, deterioration of execution, transactions at very high multiples, and/or excessive debt.

We also observe the risk that the core shareholder has unrestricted autonomy and makes poor decisions motivated by overconfidence. It therefore becomes critical that governance and organizational culture institutionalize checks and balances mechanisms and encourage counterpoints in strategic discussions.

Furthermore, even when structures are adequate, companies are still subject to strategic and execution errors — which are inevitable in business activity. Therefore, the success of companies is also a result of the shrewdness of the controlling shareholders and, invariably, of the quality in the formulation of strategy and execution.

Finally, revisiting what we wrote in our last letter, we do not disconsider investments in companies lacking a core shareholder. In such cases, we prioritize a robust corporate culture, shaped by previous generations and preserved by current executives, so as to ensure a decision-making process focused on the long term.

In this context, at Absoluto Partners, in our capacity as minority shareholders, we dedicate continuous and rigorous effort to scrutinizing the leadership and governance architecture of the companies under our analysis, also focusing on the quality of their strategic moves and the effectiveness of their execution.

Thank you for your continued trust,

Absoluto Partners