Bilbel Capital

Semi-Annual Letter - 2nd August 2024

Returns Since Inception	Bilbel Capital Gross	Bilbel Capital Net	S&P 500 Index
2022	210.5%	158.4%	-15.0%
2023	53.7%	31.6%	26.3%
1H 2024	113.4%	92.6%	15.3%
Total Return	**918.4%**	**554.6%**	**23.7%**

Returns were independently verified by The Spaulding Group. Net returns deduct a yearly 1% management fee and a 25% performance fee (over a 6% annual hurdle). For more information, refer to the footnotes.

Portfolio

Reysas GYO	59.5%
Intellego Technologies	25%
Dream International Limited	5.4%
Tianjin Development Holdings Limited	5.1%
Reysas Logistics	5.1%

Portfolio allocation percentages are rounded to the nearest tenth of a percent (1 decimal place).

Dear partners, we hope our returns are just as rare as your trust in us. We appreciate you greatly.

We wrote this document using simple English. And we did so on purpose. If ideas seem complicated, maybe it’s not the reader's fault after all. Maybe we can’t think clearly enough.

Fund Changes

We now own a small collection of good companies. All selling for low prices compared to their profits. If we're right about the quality of these companies, we'll do well.

Our goal is to make the smartest choices with the money we have. We only buy new investments if it’s worth paying less attention to our other investments.

What We Did

This April, we moved our Reysas Logistics’ shares to Reysas GYO.

Our reasoning at that time was as follows:

“We think it’s likely that Reysas GYO’s market cap reaches our estimate of its true value of $2B within 5 years.

(Note: when we transferred from Reysas Logistics to Reysas GYO:

- *Reysas Logistics’ market cap was $630M*
- *Reysas GYO’s market cap was $400M)*

Reysas’ Market Cap $630M*	**– Reysas’ share of Reysas GYO – $250M** *(62% of 400M*)*	**= Reysas’ Logistics Businesses = $380M**

*We're (implicitly) paying $380M for Reysas' Logistics Businesses, which we think will earn about $20-30M this year. For this to be a better investment than Reysas GYO, we need to be confident it will be valued at $1.9B ($380M*5) within 5 years.*

For that to happen, 2 things are needed:

1. *Profits grow at least 25% a year for 5 years.*
2. *Investors pay more than 20 times earnings for Reysas’ logistics businesses in 5 years.*

It's possible, but we think buying Reysas GYO will probably make us more money.”

Our choice to switch became clear. And the transfer worked out well. Reysas GYO's share moved up faster than Reysas Logistics. Today, both Reysas and Reysas GYO are priced at around $700M. We think they're both worth similar amounts.

New Portfolio Positions

Intellego Technologies

Intellego Technologies makes cards that change colour in ultraviolet light, called UV-C dosimeters. The colour change on dosimeters shows if there was enough UV-C light to inactivate harmful bacteria or viruses.

This technology looks simple, but designing it is hard.
Making them consistently, and in large quantities, is even harder.

We think our investment results from Intellego Technologies mostly depend on 2 factors:

1. UV-C disinfection vs chemical disinfection.
2. Digital radiometers vs Intellego's dosimeters.

We don’t need to predict the magnitude of these factors. Knowing their direction is enough.

Currently, most disinfection procedures are done with chemicals.
Each year, over 4 million patients in hospitals in the EEA (European Economic Area) are affected by healthcare-associated infections (HAI’s). Many more are infected across the globe.

“Healthcare-associated infections pose a significant challenge to patient safety in hospitals throughout Europe. These recent numbers highlight the urgent need for further actions to mitigate this threat. By prioritising infection prevention and control policies and practices, as well as antimicrobial stewardship and improving surveillance, we can effectively combat the spread of these infections and protect the health of patients across the EU/EEA,” ~ Dr Andrea Ammon, Director of European Centre for Disease Prevention and Control.

This isn't just a problem in Europe. On any given day, about 1 in 31 U.S. hospital patients gets at least one HAI; and on average, 1 in 10 of those patients will die from it.

Clearly, the current safety procedures are failing to prevent infections effectively.

Until recently, UV-C disinfection was only done by lamps or robots that didn't move. They aren’t very good at disinfecting because light only travels straight and can't go through solid objects. Light from one fixed spot can't reach every area that needs disinfecting.

Now, companies are making autonomous robots that effectively disinfect all areas. They’re proven to be more effective than static robots; and in most cases, more effective than chemical disinfection.

The reasons are as follows. The important factors for effective disinfection are:

1. **Kill rate** (Log Reduction) - How many bacteria & viruses are killed.
2. **Regrowth** - How fast bacteria & viruses grow back over time.
3. **Speed** - How fast bacteria & viruses are killed.
4. **Cost** - How much disinfection costs.

To make a fair comparison, we’ll assume that chemical disinfection will be done by autonomous robots too.

	Kill Rate	**Regrowth**	**Speed**	**Cost**
Chemical	High	Low	Slower	Low
UV	High	Lower	Slow*	High*

Kill Rate: If used right, both procedures have very high kill rates.

Regrowth: Chemicals leave residue, which looks like a good thing. But, bacteria and viruses are good at adapting to their environment. This means they can get used to the chemical over time, making re-growth more likely to happen.

UV-C inactivates bacteria and viruses by damaging their DNA/RNA, making them unable to reproduce.

Speed: At a distance of 10cm away, UV-C deactivates the average bacteria/virus in 15-20 seconds. Chemicals typically need 2-10 minutes of contact time to kill most germs. Currently, a full autonomous UV-C disinfection procedure takes 10-20 minutes. In contrast, A full chemical disinfection takes around 30-60 minutes.

For quick disinfection between patients, aren't chemicals better?
Not really. With chemical disinfection, the relationship between contact time and kill rate (log reduction) is exponential. For example, you might only kill 20% of germs 5 minutes after applying the chemical, and the remaining 80% in the last 2 minutes.

Applying chemicals and wiping indeed *feels* like it's working. But not given enough time, it's nothing but a false sense of safety. We can't reduce chemical disinfection time without significantly reducing its effectiveness. In contrast, with UV-C disinfection, the relationship between contact time and

kill rate is linear. Even though a full cycle is optimal, a short UV-C exposure can still provide strong disinfection.

Due to these hard limits; as autonomous robots get more efficient, the difference in speed will only move more in favour of UV-C disinfection.

Cost: As autonomous robots do the work, the price of manual labour goes to zero. That means that total cost will roughly equal the raw material costs.

Currently, UV-C is more expensive due to the high upfront cost. However, over time, we expect the cost difference to decrease to the point where it becomes negligible.

All things considered, UV-C disinfection is better in many areas, especially hospitals and clinics. We can understand why the UV-C disinfection industry is growing fast.

The most likely scenario is that both chemical and UV-C disinfection are used together. But it is clear that, at the very least, UV-C disinfection needs to be added to current hospital procedures.

Now comes the important question.
“Since UV-C disinfection is invisible, how do we know when it is working properly?”

There are 2 tools for testing UV-C disinfection effectiveness. Digital radiometers, and Intellego's dosimeters. To know which is better, there are 5 important ways of comparing them:

	Accuracy	**Consistency**	**Cost**	**Speed**	**Use Cases**
Digital Radiometer	High*	High*	High	Fast	Few
Intellego's Dosimeters	High	High	Low	Fast	Many

Accuracy & Consistency: Digital radiometers are very accurate when used correctly, but their accuracy can be influenced by several factors. The 2 most important ones are:

- ***Inverse square law***: UV light intensity decreases with the square of the distance.
- ***Lambert's Cosine Law*****:** The intensity of light from a surface is directly proportional to the cosine of the angle between the light direction and the normal to the surface.

(Accuracy also decreases with solarisation, differences in temperature, and reflective surfaces)

Digital radiometers have a high margin of error. They must be placed at the correct distance, at the correct angle, and must be regularly calibrated and maintained.

In contrast, Intellego's dosimeters require no skill to use, and are just as accurate as a perfectly calibrated, and perfectly used digital radiometer. There is little to no margin of error.

Cost: Digital radiometers cost around $4-10 thousand, but can be used for 2-5 years. Dosimeters cost $1, but can only be used once.
For radiometers to be worth the cost difference, they must be used 2000 times a year, or 6 times a day. That is without including maintenance expenses.

Sure, using radiometers in labs that run regular experiments might be cost-effective. But for most cases, it's reasonable to see the costs not matching up. (This is without considering the compromises you pay in addition)

Speed: Both give results almost immediately.

Use cases: Digital radiometers are bulky. Dosimeters are thin, and can fit anywhere. There are many markets where dosimeters will be the only option for validation.

All things considered, digital radiometers certainly have their place, especially in controlled environments like testing labs. But for many real world applications, dosimeters are more practical.

Intellego has 3 patents on their technologies, which prevent other companies from making similar products.

1. **UV Radiation Response Indicator**: This patent covers materials that change colour in UV-A and UV-B light, mainly used in wearable devices to monitor sun exposure.
   This patent will expire on December 18, 2029

2. **App System for Quantifying Color Changes**: This patent covers a system that captures an image of the dosimeter and processes this image to accurately quantify the results in numerical format. This data can then be stored and tracked over time.
   This patent will expire in 2041.

3. **Photochromic Ink Technology***: This patent covers photochromic ink that changes colour under different wavelengths of UV-C light. This is the core feature of Intellego's dosimeters.
   ****While not yet official, Intellego Technologies has been informed by the patent offices that their application for this patent has been approved and will be officially granted.***
   This patent would expire in 2042.

We also expect Intellego Technologies to come out with more patents in the future.

The best way to predict outcomes is to predict incentives.

Since static lamps and robots don't work well, the companies that make them avoid advertising tools that highlight their flaws. On the other hand, companies that make autonomous robots are promoting UV-C validation to show how effective their robots really are.

High-risk industries have stricter regulations and are less responsive to change. Approvals to make and sell these products take at least 6-12 months. This adds a time advantage for Intellego after their patents expire.

Regulated industries also tend to get more regulated over time. We're seeing this right now. Global regulators are putting proposals to regulate the use of UV-C Sterilisation equipment. And regulators have more reason to push dosimeters since their use leaves less room for error.

Lastly, risk and reward for changing standard testing procedures that are working well, will be skewed against switching. It is a low cost relative to total hospital expenses, with a large risk of damaging the hospital's reputation if the switch does not work out as expected. If Intellego's products work well, churn is likely to be very low.

Bonus note

Branding is a deliberate pairing of things through an outcome. The goal of branding is to: Change customer behaviour -> In your favour -> When they see your product/service.

For healthcare facilities, it's hard to think of factors that can change customer behaviour more than trust in their safety. And what can be more indicative of safety than regular and accurate disinfection validation?

Validation will become an essential part of a healthcare facility's brand.

Intellego's shares are selling at around 5 times the estimated annual earnings based on the first quarter. The assumptions behind this valuation are:

1) Intellego's business will not grow, ever.
2) Intellego's business will vanish after 6 years.

If the future exceeds any of these assumptions, we'll make money from our investment in Intellego Technologies.

We already have some margin of safety from 2 of their long term contracts.

1. Partnership with a leading German company: $50M over 3 years.
2. Partnership with Zhongyou Medical (Likang) in China: $16M over 3 years

A total of 66M revenue, $50-60M yet to be earned. This will produce around $25-30M in cash flow over the next 3 years.

If we assume the cash flow won't be destroyed: at a $70M market cap, our risk of losing money depends on the probability of Intellego not producing another $30-40M of cash flow during the businesses' lifetime.
We think that probability is low.

For some context: Intellego's growth has been exceptional. Comparing Q1 2024 to Q1 2023, revenue grew by 85% and profits by 150%. More recently, from Q4 2023 to Q1 2024 (most recent quarter), revenue grew by 37% and profits by 65%.

Having said all this, we expect this thesis to lose relevance quickly. The company will look very different in a few years.

At this stage, our goal is focusing on understanding the available information and, with minimal assumptions, understanding the direction of the few variables that will most impact future outcomes.

Dream International Limited

Dream International makes toys. The company is listed in Hong Kong, but most of its factories are in Vietnam.

Manufacturers reduce costs by producing large quantities of the same item. But most toy makers have small customers that place small orders. This is why the industry is fragmented.

To make more money than their competitors, companies must receive larger orders for the same type of toy. But they can only get that from having larger customers.

What is a challenge for most companies is an advantage for Dream International. They have been working with Disney for over 20 years (and other large companies), allowing them to get recurring orders of large volumes. This explains why Dream has had very high and consistent margins, despite being in a cyclical industry.

The management team is great at running the business and making good decisions. Over the past 10 years, the company has tripled its sales and increased its profits nearly sevenfold.

At $385M, Dream International trades at just 3.5 times earnings, and gives a 12% dividend yield. The value of its cash and property is worth as much as the company's market cap.

Tianjin Development Holdings Limited

Tianjin Development Holdings Limited is a company that invests in other companies. Most importantly, it owns 16.5% of Otis China.

The elevator business is great. They make little money from selling the elevator but a lot of money from maintaining them.

A few big companies rule the elevator industry. That's because companies have to spend a lot of money to start; must follow strict safety rules; need a wide service network; and must buy in large quantities to save money.

As a result, Otis earns high returns on capital and earns predictable profits from recurring maintenance services. This is why Otis Worldwide is valued at 28 times earnings on the New York Stock Exchange.

In the USA, most Otis customers purchase long-term elevator maintenance, while in China, most don't. Otis is succeeding at changing this which is making their business more valuable.

Half of Tianjin Development's profits come from Otis China. Around $40M a year. This business is probably worth more than $500M.

Add to that $500M in net cash and $300M of shares in other companies. We're getting all this for $250M.

People don’t seem to trust the Chinese government. But when we look at the facts, we think this distrust is too high compared to the price we’re paying.

It’s currently selling for 3 times earnings, and at 1/6th of its tangible book value. If Tianjin’s discount to tangible book value narrows down to 60% (which is still cheap!), we double our money. While we wait, we’re earning a 7% yearly return from its dividends.

Closing Note

Opportunities are endless. There are over 70,000 stocks worldwide. But…There are only small openings where risk, skill, and opportunity align. That’s when we need to make fast, accurate judgements. It’s when we need to take immediate action.

Sometimes, we make decisions with 90% of the information we need. Other times, we make them with just 50%.

The more information we have, the more accurate our judgements can be. The less information we have, the more important our understanding of probabilities becomes.

In any case, we can make great decisions.

We don’t expect anyone to agree, for the big money is made in the place no one wants to enter. But most times, that place is full of traps.

Indeed, risk is often an inch wide and a mile deep.
But sometimes, it’s a mile wide and an inch deep.
And only the one who digs deep can figure that out.

And as always…

Yours sincerely,

Gabriel Sammut

Footnotes - Added on February 24, 2026

All returns are in USD. Gross returns exclude fees. Net returns deduct a 1% annual management fee and a 25% performance fee (charged only on gains above a 6% annual hurdle). The S&P 500 benchmark assumes reinvested dividends and no fees, sourced [here].

2022 performance is from inception (February 2) through December 31. All subsequent years are full calendar years.

Returns from 2022-2025 represent separately managed accounts, and have been independently verified by The Spaulding Group. The code used to calculate returns is open-source, and available [here].

Returns from 2026 onwards represent Bilbel Capital Fund LP and will be audited annually by Cherry Bekaert LLP.

All the information shared here is accurate to the best of our knowledge. If something turns out to be inaccurate or incorrect, we'll make corrections and leave a note about the update.

Disclaimer: Bilbel Capital LLC provides investment management services to Bilbel Capital Fund LP, a private investment fund. Bilbel Capital LLC relies on the "foreign private adviser" exemption under Section 202(a)(30) of the U.S. Investment Advisers Act.

This letter is for informational and educational purposes only and does not constitute investment advice. Any offering of interests in Bilbel Capital Fund LP will be made only through the Fund's confidential offering documents and only to eligible investors. You should consult your own financial, legal, and tax advisors before making any investment decision. Past performance does not guarantee future results. Investing involves risk, including the possible loss of principal.

If you have any questions, feel free to reach out to info@bilbelcapital.com

---