January 24th, 2022

Nitor Capital Historical Net-Returns[1]

2017: +10.31%
2018: (-14.02%)
2019: +30.23%
2020: +47.69%
2021: +32.50%

Annualized 5-year Return: ***+19.73%***
Annualized Since Inception (2009): ***+14.82%***

1. *Returns are reflective of the performance of 'The Nitor Capital Fund.' Individual managed account performance may vary.*

When thinking about what to discuss in this year's annual letter I concluded that in addition to our usual commentary on our underlying investments I felt compelled to share some thoughts on our overall view of the current investment environment. As an avid reader and follower of all things written by Warren Buffett, I concluded that his words below almost perfectly capture our feelings toward financial markets as we enter 2022.

> *"I have always cautioned partners that I considered three years a minimum in determining whether we were "performing". Naturally, as the investment public has taken the bit in its teeth, the time span of expectations has been consistently reduced to the point where investment performance by large aggregates of money is being measured yearly, quarterly, monthly, and perhaps sometimes even more frequently (leading to what is known as "instant research"). The payoff for superior short-term performance has become enormous, not only in compensation for results actually achieved, but in the attraction of new money for the next round. Thus, a self-generating type of activity has set in which leads to larger and larger amounts of money participating on a shorter and shorter time span.*
>
> *A disturbing corollary is that the vehicle for participation (the particular companies or stocks) becomes progressively less important - at times virtually incidental - as the activity accelerates. In my opinion what is resulting is speculation on an increasing scale. This is hardly a new phenomenon; however, a dimension has been added by the growing ranks of professional (in many cases formerly quite docile) investors who feel they must "get aboard". The game is dignified, of course, by appropriate ceremonies, personages and lexicon. To date it has been highly profitable. It may also be that this is going to be the standard nature of the market in the future. Nevertheless, it is an activity at which I am sure I would not do particularly well. As I said on page five of my last annual letter, "Furthermore, we will not follow the frequently prevalent approach of investing in securities where an attempt to anticipate market action overrides business valuations. Such so-called 'fashion' investing has frequently produced very substantial and quick profits in recent years (and currently as I write this in January).*

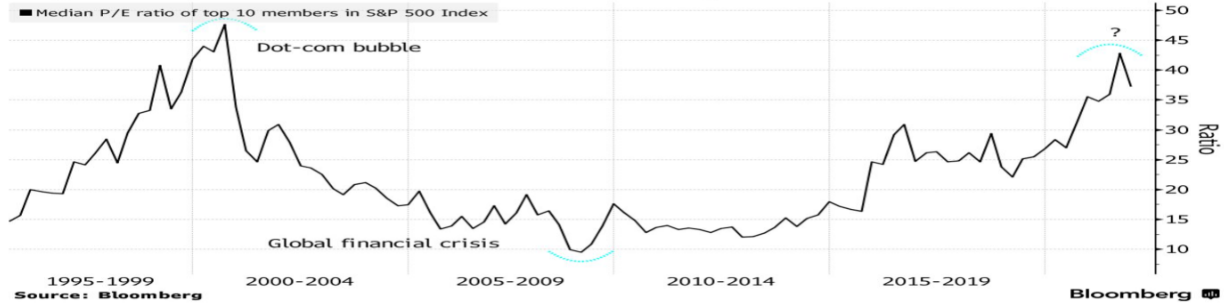
It represents an investment technique whose soundness I can neither affirm nor deny. It does not completely satisfy my intellect (or perhaps my prejudices), and most definitely does not fit my temperament. I will not invest my own money based upon such an approach – hence, I will most certainly not do so with your money." Any form of hyper-activity with large amounts of money in securities markets can create problems for all participants. I make no attempt to guess the action of the stock market and haven't the foggiest notion as to whether the Dow will be at 600, 900 or 1200 a year from now. Even if there are serious consequences resulting from present and future speculative activity, experience suggests estimates of timing are meaningless.

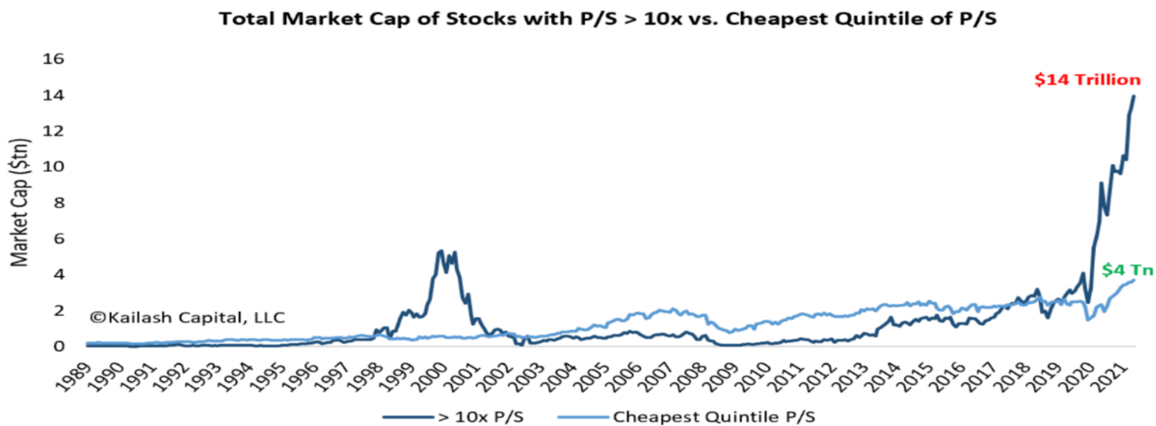
However, I do believe certain conditions that now exist are likely to make activity in markets more difficult for us for the intermediate future. The above may simply be "old-fogeyism" (after all, I am 37). When the game is no longer being played your way, it is only human to say the new approach is all wrong, bound to lead to trouble, etc. I have been scornful of such behavior by others in the past. I have also seen the penalties incurred by those who evaluate conditions as 112 they were - not as they are. Essentially, I am out of step with present conditions. On one point, however, I am clear. I will not abandon a previous approach whose logic I understand (although I find it difficult to apply) even though it may mean foregoing large and apparently easy, profits to embrace an approach which I don't fully understand, have not practiced successfully and which, possibly, could lead to substantial permanent loss of capital."

Warren Buffett- 1967 partnership letter

Had Buffett not revealed his age one would have likely thought the above was penned within the past year. While the current speculative and short-term focused investment environment rings eerily similar to the one described by Mr. Buffett over 55 years ago, like Mr. Buffett, I have no idea or interest in opining as to where the current stock market will be in one, five, or even ten years from now. What I believe is clear is that investment markets as a whole seem to be dominated by either steady cash flowing assets trading at historically rich valuations or highly speculative non-cash flowing assets (whether some of these are actually assets is a debate in itself) trading at valuations many would have thought would be entirely improbable only a few years ago. While the characteristics of these assets may differ, their ability to maintain their recent returns going forward is overly reliant on the very same factor; that the next buyer will continue to pay an even higher premium than the last. Essentially, the returns of these assets have been largely driven by multiple expansion (the price investors are willing to pay relative to the fundamentals, such as earnings, cash flow etc.) and valuations have now reached a point where attractive future returns are heavily dependent on the multiples continuing to expand. Just like Mr. Buffett, I will not invest my own money on such an approach and I will most certainly not do so with your money.

I thought the following charts provide a good illustration of the role multiple expansion has played over the past few years:





A prime example of the role multiple expansion has played in the recent performance of steady cash flowing assets would be the utility sector, specifically the XLU, which is the largest utility ETF. Over the last 10 years an investor in the XLU would have generated a total return of +183% or +11% CAGR. A substantial amount of the gains can be attributed to the performance of the funds single largest position Nextera Energy (NEE), which as a result of its outperformance presently makes up over 18% of XLU's assets. An investor that bought into

Nextera 10 years ago at $14 per share would have done quite well irrespective of any multiple expansion. Over this period of time, they would have collected $9.75 per share of dividends and had Nextera's cash flow multiple held constant the stock would currently be trading at $24 per share (+9.75% annual CAGR). Yet, as a result of multiple expansion Nextera's stock ended 2021 trading at $90 per share leading to a whopping total return of over 660%. As a result of multiple expansion, a +9% CAGR turned into a +22% CAGR.

Price to Cash flow Multiple 10-year chart:

Like many other investments right now the issue for the Nextera going forward is that at $90 per share the stock is trading at just a 4.5% cash flow yield and 1.7% dividend yield. Assuming the Company continues to grow cash flow and dividends as it has and no further multiple expansion occurs an investor will receive dividends totaling $23 per share and be left with $175 stock price 10 years from now. All in all, an investor will be in position to generate an over +8% CAGR over the next 10 years, which by all means represents a solid ROI.

Yet, what happens to that ROI if all of a sudden sentiment toward NextEra begins to sour over the next ten years and the multiple compresses? If the multiple compresses to 10x cash flow even with continued earnings growth and dividends an investor will generate less than a 1.5% annualized return on investment over the next decade. Now imagine the scenario, in which Nextera's growth starts to slow and its multiple compresses. Simply put, owning low growth securities at 22x cash flow is exactly how an investor might end up with a decade of low to zero returns.

It is worth mentioning that 15 years after Buffett's 1967 letter the Dow closed at 875 representing a 15-year period of no returns. Many of you reading this are old enough to remember this was a period of time where the US saw both inflation and the unemployment rate eclipse double digits. A phenomenon otherwise known as 'stagflation.' Considering, the US inflation rate just hit a level not seen in nearly 40 years it is understandable if the present-day

parallels to that period of time (speculation and multiple expansion heading into a period of inflation) might cause one to be a bit concerned that history is on the verge of repeating itself.

In this letter I hope to illustrate that unlike most of the areas of the market that have outperformed over the last 3 to 5 years the investments that make up our portfolio continue to trade at highly attractive valuations as their returns have not been driven by multiple expansion but rather by the continued growth and cash flow returns of their underlying businesses. Furthermore, although our overall portfolio has performed quite well over the last 3 to 5 years, we continue to hold several investments whose stock prices have underperformed (the businesses have not) over this period of time and as a result continue to sell at highly attractive valuations and are primed for future returns. As you may recall, last year's annual letter we highlighted our investment in Dream Unlimited. The Company's underlying business was firing on all cylinders, yet the stock was selling for less than it was when we made our initial investment five years earlier. At the end of 2021 Dream's stock price hit a five-year high after it increased by +87% during the year. Nevertheless, we have not sold a single share of Dream as the stock continues to sell at a material discount to Net Asset Value and the Company's asset management business continues to grow exponentially. Additionally, over the past few months we have also added a few new investments to our portfolio that are selling at both prices and valuations nearing 20 and 30-year lows.

In regards to overall inflation fears, I believe it would be hard to find an equity portfolio that is as well positioned to benefit from such an environment. Since inception, our investments have primarily been focused on inflationary beneficiaries such as real estate, land, energy and other commodities. We have always tried to restrict our investment in these areas to royalty type companies with structurally low fixed cost structures where any price inflation will lead directly to bottom line growth. While these investments have done well in the rather muted inflationary environment over the last 10 years, we believe they will certainly outperform if in fact we are on the verge of a long-term period of inflation.

Vistra Energy Corp. (VST)- *('The Nextera Contra')*

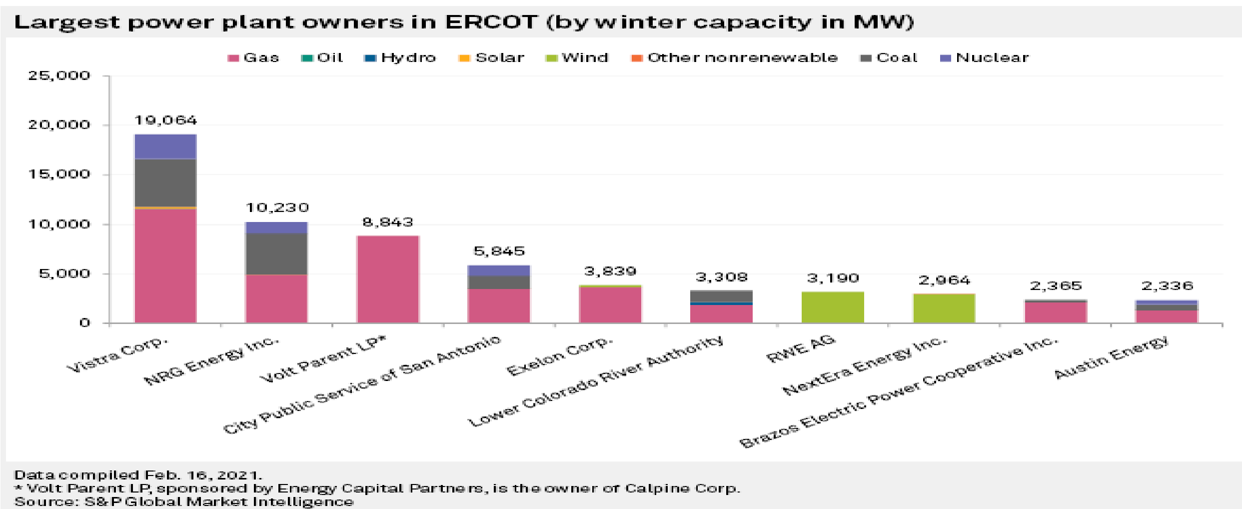
We have now held an investment in Vistra Energy Corp. for over three years and further increased our position during 2021. We believe Vistra offers an incredibly attractive risk/reward profile. As of the end of 2021 Vistra was trading at under 3.5x this year's cash flow and more importantly 5.5x the midpoint of management's estimated free cash flow. This equates to a cash flow and free cash flow yield of 28% and 18% respectively. On an EV to EBITDA basis, which factors in the Company's net leverage Vistra is selling at under 7x EBITDA. As mentioned earlier, had an investor bought into Nextera Energy in 2012 at just 6x cash flow (9x EBITDA) or a 16% cash flow yield they would have generated nearly double-digit annualized returns over the next 10 years irrespective of future multiple expansion.

While Vistra's underlying business is by no means comparable to Nextera's, we still believe it is a unique and one-of-a-kind business selling at a nonsensical valuation. Unlike Nextera, Vistra does not own transmission assets and operates in unregulated power markets such as Texas. That being said, as our investors hopefully know by now, we do not invest in companies simply

because they are 'cheap.' Vistra owns irreplaceable assets and infrastructure and the Company produces and sells a product that its customers cannot live without. Lastly, management is clearly focused on unlocking and maximizing shareholder value as they have recently implemented a capital allocation plan designed to return $7.5b to shareholders over the next 5 years. This equates to 70% of the Company's current market cap.

We think of Vistra Energy as a Class A real estate property located in a non-desirable market. A Class-A rental property in a tier-1 market might typically sell for 3% to 4% cash flow yield. On the other hand, a Class-A property located in a less desirable market might sell for 5% to 6% yield. The spread between the two properties will never truly blow out because at the end of the day people still need places to live and the class-A property in either market will maintain an edge over lower quality alternatives. In comparison the current yield spread between a Nextera and a Vistra is rather head scratching.

Texas Power Producers:

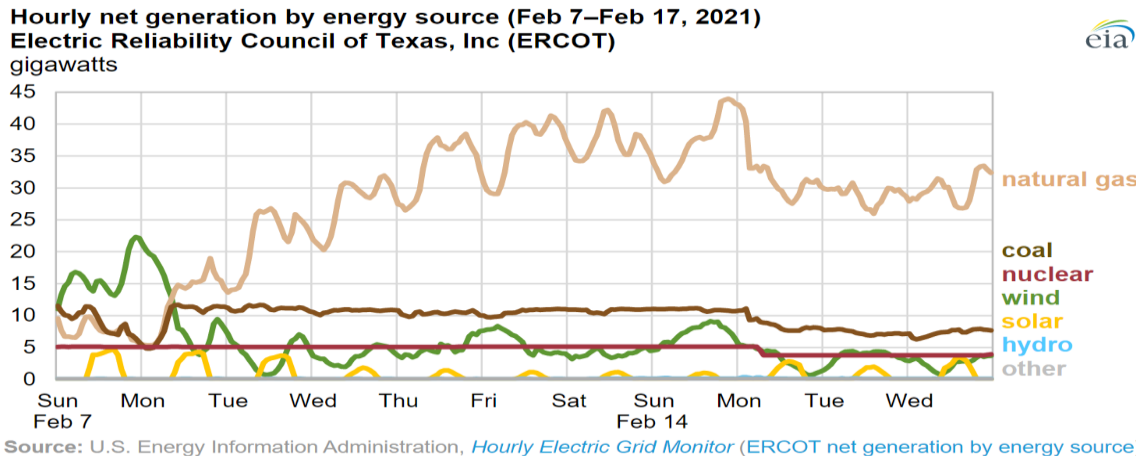


Our investment in Vistra is fairly straight forward and simple. People need electricity and Vistra is the dominant player in its market and boasts material competitive advantages over its peers. **The Company's competitive advantages are twofold:**

1. Ownership of low-cost natural gas power plants (provides cost advantage over its peers).
2. Integrated business model of wholesale power assets combined with retail business.
    a. Provides natural hedge against volatile unregulated power prices.
    b. Pure play energy retailers will suffer during prolonged periods of high-power prices.
    c. Pure-play power producers will suffer during prolonged periods of low power prices.
    d. Integrated power companies are able to generate sustainable cash flows in both environments.

2021 Texas Power Crises

At the start of 2021 it seemed like Vistra was finally about to shine but then came winter storm Uri. At first glance it appeared Uri would provide a major tailwind to the Vistra investment proposition. As shown below as Uri hit, wind and solar generation, which makes up 20% of Texas power production was essentially knocked off line and the need for natural gas-power production took off.



As shown in the earlier graph, one would have thought Uri would have been a homerun for the single largest owner of natural gas power assets. Yet, in addition to knocking off wind and solar the frigid temperatures also crippled Texas' natural gas distribution infrastructure. Although, Vistra's power assets were prepared to operate they were not able to source natural gas as a result of pipelines inability to deliver previously contracted natural gas. All in all, winter storm Uri resulted in hundreds of billions of losses across the Texas power industry. In regards to Vistra, Uri will end up consuming $2 billion of Vistra's free cash flow in 2021.

We began adding to the Vistra investment in the middle of 2021 when we realized that at the end of the day Uri has actually confirmed the long-term resiliency of Vistra's business model and overall investment proposition. Despite a historical crisis that decimated the entire Texas power industry, Vistra will still generate positive EBITDA, cash flow and a few hundred million of free cash flow in 2021. Additionally, Winter Storm Uri proved to be a Texas gas distribution/ infrastructure issue not a Vistra issue. Had natural gas distribution not gone offline URI would have proven to be a major windfall for Vistra. Following Uri, Texas has passed legislation focused on hardening and winterizing the state's infrastructure. As mentioned, it is our long-term view that the people of Texas ultimately need energy and Vistra owns the assets best capable of providing this product in any environment. Unlike, natural gas power plants, solar and wind will never be able to prevent the next Texas winter power crunch. If there is no sun and no wind there is no power. However, all Vistra needs is reliable natural gas distribution. There is nothing the State of Texas can do about the sun and wind but they can ensure the reliability of their infrastructure.

Third pillar is key to future returns

Our Three Pillar Investment Process:

1. Focus on great businesses or assets.
2. Data must clearly indicate Company is selling at an attractive value/discount.
3. Management is focused and incentivized to unlock shareholder value.

This past October Vistra's management unveiled a capital allocation plan that we believe will result in meaningful long-term value creation. More importantly, the plan will help ensure that investors will generate substantial future returns irrespective of growth or multiple expansion:

LONG-TERM CAPITAL ALLOCATION PLAN

Vistra's long-term capital allocation plan reflects a return of capital of at least \$7.5 billion to its common stockholders through YE 2026, an average annual ~15% cash yield on its current stock price; this plan will continue as long as the company believes its stock is undervalued

	Through YE 2022	2023-2026
Share Repurchases	\$2 billion (>60% current market cap)	at least \$1 billion per year, totaling **\$4 billion[1]**
Common Dividend[2]	\$300 million per year, totaling **\$1.5 billion** Annualized dividend per share growth of ~175% by YE 2026 assuming \$6 billion of share repurchases[3]	
Debt Repayment[4]	~\$1.5 billion	Maintaining a Strong Balance Sheet Expect to reduce corporate-level debt while adding cost-effective project financing
Transformation Growth	Expect to develop an additional nearly 5 GW renewable and battery pipeline using ~\$500 million of Vistra capital over the 5-year period; Vistra Zero offers a platform for growth	

The best way to sum up the impacts of the above is the following. At the current share price an investor is buying Vistra at just under an \$11 billion valuation. Management believes that Vistra's underlying business and assets are capable of generating \$2b of annual free cash flow going forward (cash flow after investing in capex to maintain its assets). As mentioned earlier that would equate to an 18% yield at the current stock price. Management is essentially showing investors the money. Holding Vistra's market cap constant at the current \$11 billion valuation over this 5-year capital allocation plan will result in the following per share outcomes:

2026 Outcome at \$11B terminal Valuation:

- 2026 Vistra Stock Price: \$40.46 per share
- Total dividends paid: \$5.46 per share
- Total 5-year shareholder return on current stock price: +104%

5-year CAGR assuming no growth and no multiple expansion: +15.34%

1. Now imagine what happens to our return if we do get growth and/or multiple expansion?

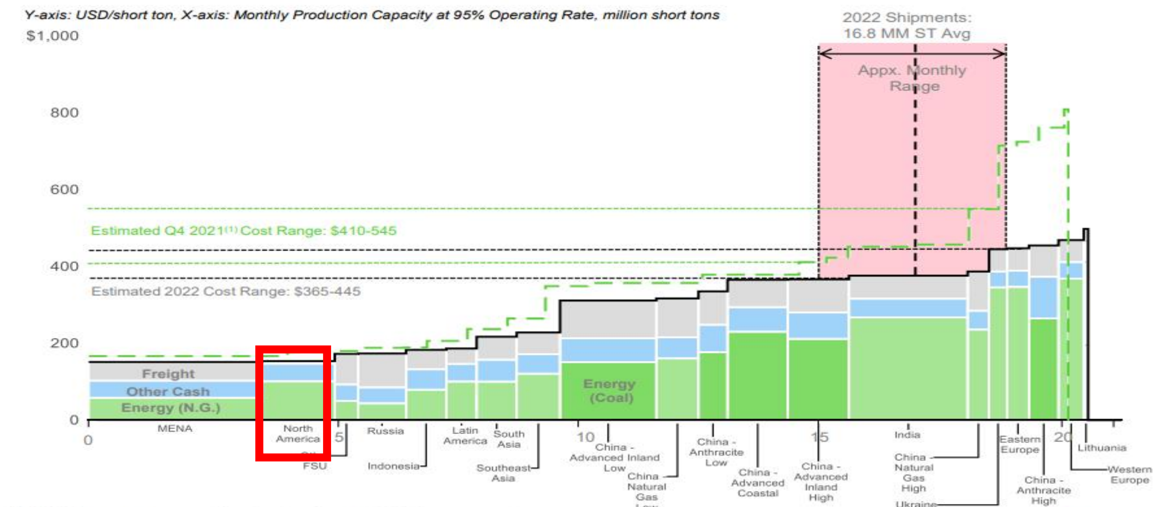
2. Even in scenario where cash flow decelerates and the multiple contracts we are likely to generate an attractive ROI.

We believe this is the perfect illustration of how we go about generating above average long-term returns through minimal risk and speculation. Vistra's cash flow, valuation and capital allocation plan position us to generate above average return's irrespective of growth or multiple expansion.

CF Industries (CF)

Since we initiated an investment in CF Industries in early 2020 the stock price has increased by roughly 2.5x. Yet, as of the end of 2021, CF was still selling at under 9x trailing cash flow and an 8% trailing free cash flow yield. CF is one of the worlds largest manufacturers of Nitrogen Fertilizer. The Company controls a 40% market share of US fertilizer production and owns the world's largest and lowest cost fertilizer manufacturing facility in the world located in Southeast Louisiana. The Company continues to be valued as a highly cyclical, low margin, commodity manufacturer. Yet, this could not be further from the truth. CF's location and low-cost production advantage provides the Company with a one-of-a-kind global competitive manufacturing advantage of a product the world cannot live without (world needs food, to have food you must plant and in order to plant one must apply Nitrogen fertilizer every year).

The single largest cost of Nitrogen Fertilizer is energy and the secondary cost is transportation. CF manufactures fertilizer using low-cost US natural gas. In China, fertilizer is manufactured using coal and in Europe higher cost Natural gas (TTF) is used. On a given year in the US between 30% to 50% of nitrogen demand must be met via imports. The two charts below clearly illustrate CF's cost advantage relative to global imports. As shown below, as of Q3, CF's production costs were under $200 per ton while majority of global manufacturing capacity ranged at costs between $365 to $445 per ton.



CF's financials relative to fertilizer prices provide further validation that CF is not a low margin cyclical commodity manufacturer:

In Millions	2017	2018	2019	2020	TTM
Revenue	$ 4,130.0	$ 4,429.0	$ 4,590.0	$ 4,124.0	$ 5,100.0
EBITDA	$ 1,117.0	$ 1,610.0	$ 1,809.0	$ 1,516.0	$ 2,067.0
Margin %	27%	36%	39%	37%	40%
Cash From Operations	$ 1,631.0	$ 1,497.0	$ 1,505.0	$ 1,231.0	$ 1,683.0
Capital Expenditure	$ 473.0	$ 422.0	$ 404.0	$ 309.0	$ 485.0
Free Cash Flow	$ 1,158.0	$ 1,075.0	$ 1,101.0	$ 922.0	$ 1,198.0

As shown above, as fertilizer prices reached 10-year lows between 2016 and 2020, CF generated significant EBITDA, cash flows and free cash flows and did so at wide margins. A highly cyclical low margin manufacturer is not capable of such performance in a down market. Additionally, a further takeaway from the above is that at trough urea prices CF is still a $1 billion free cash flow company. Thus, at CF's 2021-year end stock price of $70 per share the Company is still selling at an over 6.5% free cash flow yield relative to trough fertilizer prices.

CF is incredibly cheap relative to cash flow generation at current and normalized fertilizer prices.

As seen in the prior chart, rising global energy costs have pushed up the global cost curve and has sent US fertilizer prices significantly higher. Natural gas prices in Europe and coal prices in China have reached record price levels. Yet, US natural gas prices have remained relatively stable. As of the present date, spot fertilizer prices have been trading around $640 per ton while US natural gas is just over $4.0. As shown below at $4 natural gas and $500 per ton fertilizer, CF is capable of generating $4.5 billion of annual EBITDA, which would equate to an over 2x increase over the trailing twelve months. Even at $400 fertilizer prices, which would be below the global cost curve CF would generate over $3 billion of annual EBITDA.

EBITDA Sensitivity to Natural Gas and Urea Prices[1]

$ billions

CF Realized Urea Price ($/ton)[2]	CF Realized Natural Gas Cost ($/MMBtu)					
	3.75	4.00	4.25	4.50	4.75	5.00
$300	$1.6	$1.5	$1.4	$1.4	$1.3	$1.2
$325	$2.0	$1.9	$1.8	$1.8	$1.7	$1.6
$350	$2.3	$2.3	$2.2	$2.1	$2.1	$2.0
$375	$2.7	$2.7	$2.6	$2.5	$2.4	$2.4
$400	$3.1	$3.0	$3.0	$2.9	$2.8	$2.8
$425	$3.5	$3.4	$3.3	$3.3	$3.2	$3.1
$450	$3.9	$3.8	$3.7	$3.6	$3.6	$3.5
$475	$4.2	$4.2	$4.1	$4.0	$4.0	$3.9
$500	$4.6	$4.5	$4.5	$4.4	$4.3	$4.3

At $3 billion of EBITDA we believe CF is capable of generating nearly $2 billion of annual free cash flow. At $4.5 billion of EBITDA, CF's free cash flow would likely eclipse $3 billion. Therefore, at the global cost curve the Company is currently selling at a 13% free cash flow yield and at current fertilizer prices CF is selling at an over 20% free cash flow yield.

So far, we have established that CF has a one-of-a-kind competitive advantage and is clearly undervalued relative to cash flow generation. What seals the deal is the company's track record of prudent capital allocation especially when it comes to excess free cash flow. CF has historically returned capital to shareholders by paying out a consistent dividend and ramping up share repurchases during times of excess cash flow generation. For example, when fertilizer prices were at trough levels between 2017 and 2020 CF bought back $900 million of stock and paid out $1 billion worth of dividends. Yet, when prices were strong between 2011 and 2014 CF paid out $554m of dividends and bought back $4.8 billion of stock.

In summary CF continues to boast a one-of-a-kind competitive advantage, sells a product the world cannot live without and is led by management with a proven track record of shareholder value creation. Using trough fertilizer prices CF is selling at a 6.5% free cash flow yield. Using prices at the global cost curve the Company is selling at a 13% free cash flow yield and at current fertilizer prices CF selling at a 20% free cash flow yield. Unlike many areas of the

market, CF continues to be undervalued, continues to offer a substantial margin of safety and continues to offer significant room for future gains.

St. Joe Update

While Vistra Energy has barely contributed to our portfolio's overall returns over the last few years the same cannot be said for The St. Joe Company. Since the start of 2019 when we featured St. Joe in our annual letter the stock has returned over 300%. Yet, despite increasing by 4x in price the stock continues to sell at a significant discount to net asset value and offers material long-term upside as the underlying value of the Company has grown well beyond our original expectations.

What we wrote in our 2019 letter regarding future expectations for St. Joe:

- *We own the St. Joe Company because over the next 5 to 7 years we believe the shares will be worth anywhere from 2x to potentially 4x the current value and therefore a 25% increase or decrease in stock price in a given year is rather immaterial.*
- *The Company's current commercial development pipeline should enable the Company to reach $25 million of recurring real estate and hospitality income by the end of 2020, versus $15 million in 2018.*
- *By 2020 all indications point to the Company being in position to generate over $50m of income from community development, commercial leasing and hospitality versus $20m in 2018.*
- *Based on expected population growth and the total amount of new homes that sell annually in both Bay and Walton County, we believe it is highly probable that within the next five years St. Joe will reach the point where it is able to sell over 1,000 new lots annually.*

What has transpired since:

- As of the end of 2021 St. Joe shares were 4x higher.
- When we published the letter, a global pandemic was certainly not on our radar. St. Joe's hospitality and commercial properties were offline or at half capacity for nearly half of 2020 but the Company still managed to generate $24.5m of recurring commercial and hospitality income in 2020. Full year 2021 numbers have not yet been released but this figure is likely on pace to hit $34 million in 2021. Based on projects coming online this year it looks like Joe will generate $50m of commercial and hospitality income in 2022.
- In 2020 Joe generated $64 million of income from community development, commercial leasing and hospitality in 2020. In 2021 this number is on pace to exceed $100m.
- The Company has already announced that it sold 851 lots in 2021, an over 3x increase vs. three years ago. Additionally, the company currently has over 2,000 lots under contract. Our prior 'highly probable' scenario has now turned into a near certainty as JOE appears on the verge of selling well over 1,000 lots in 2022.

	2019	2020	2021 TTM	2022 est.	Growth
Total Revenues	$127m	$160m	$231m	$332m	+161.0%
OpEx. & Corp. Expenses	$21.4m	$22.9m	$22.3m	$22.5m	+5.0%
Lots sold	379	509	851	1,200	+216.0%
ASP Per Lot	$87,000	$124,000	$145,000	$150,000	+72.0%
Annual Cash Flow	$30m	$37m	$80m	$150m	+400.0%
Cash Flow Margin	23.5%	23.1%	34.5%	45.1%	+95.5%

Between 2018 and 2019 as the stock continued to decline, we would repeatedly tell investors that our conviction in St. Joe had not wavered. JOE was a one-of-a-kind company/asset and we believed the financials would eventually reflect such. We are not aware of too many companies (or any) that have the ability to grow revenues by over $200m while holding corporate operating expenses nearly flat. Furthermore, how many companies are capable of growing sales volumes by over 3x while simultaneously increasing prices?

Is the stock still undervalued after increasing by 3x?

St. Joe ended 2021 at a $3 billion market cap. At the current valuation, JOE is selling at a 5% forward cash flow yield. Considering the Company's growth, and clear monopoly on one of the fastest growing areas of the Country we believe JOE remains drastically undervalued. In fact, on fundamental cash flow valuation the stock is cheaper now than it was at the end 2019 when trading at $19 per share.

	Market Cap	Trailing Cash Flow yield	Fwd Cash Flow Yield
12/31/2019	$1.2 billion	2.5%	3.1%
12/31/2020	$2.5 billion	1.5%	3.2%
12/31/2021	$3.0 billion	2.6%	5.0%

Per acre valuation

While JOE remains just as cheap if not cheaper on a cash flow basis the same cannot be said when it comes to the implied value per acre at the current market cap relative to 2019.

	Implied value per acre
2019	$10,709
2020	$22,727
2021	$27,200

On a per acre basis, it appears one is paying significant premium relative to 2019. Yet, paying a premium to what investors thought St. Joe's land was worth in 2019 is almost entirely irrelevant. What matters going forward is the current implied value of St. Joe's land relative to what the land is actually worth. The fact of the matter is one should have never been able to invest in St.

Joe at a value of just $10k per developable acre and the current $27k per developable acre still makes no sense relative to the following:

- The current market value of the land based on transactions that have occurred over the last 12 to 24 months.
- The market value of the land based on transactions that occurred 5 to 10 years ago.
- The value JOE is able to generate per acre as land is developed.

Only a few years ago it was still the consensus among those that knew of St. Joe (but never actually visited or researched the area) that the Company's 110,000 acres of developable land was predominantly timberland or swamp land. However, over the last 24 months investors have started to come to the realization that the majority of JOE's remaining land happens to be located in one of the most beautiful areas of the country and is prime for present and future development. Nevertheless, there remains a total lack of awareness in regards to just how valuable this land actually is and the monopoly like control it provides.

As discussed in prior letters we have visited St. Joe on multiple occasions and have gone through every parcel of land the Company owns via on site visits and tracking the value through transactions posted on county's assessor website. JOE continues to own roughly 25,000 developable acres that are either immediately adjacent to major roadways or fronting water. Land that fronts main roadways is highly valuable for commercial development and waterfront land is highly valuable when it comes to residential development. In these areas land has been selling from anywhere between $250,000 per acre to over $1m per acre. St. Joe has another 50,000 acres immediately adjacent or surrounding existing development and density that sits within 5 to 6 miles of the coastline. Land located in these areas has been selling from anywhere between $50,000 per acre to $250,000 per acre. There is almost no plausible scenario in which JOE's current implied per acre value can be justified.

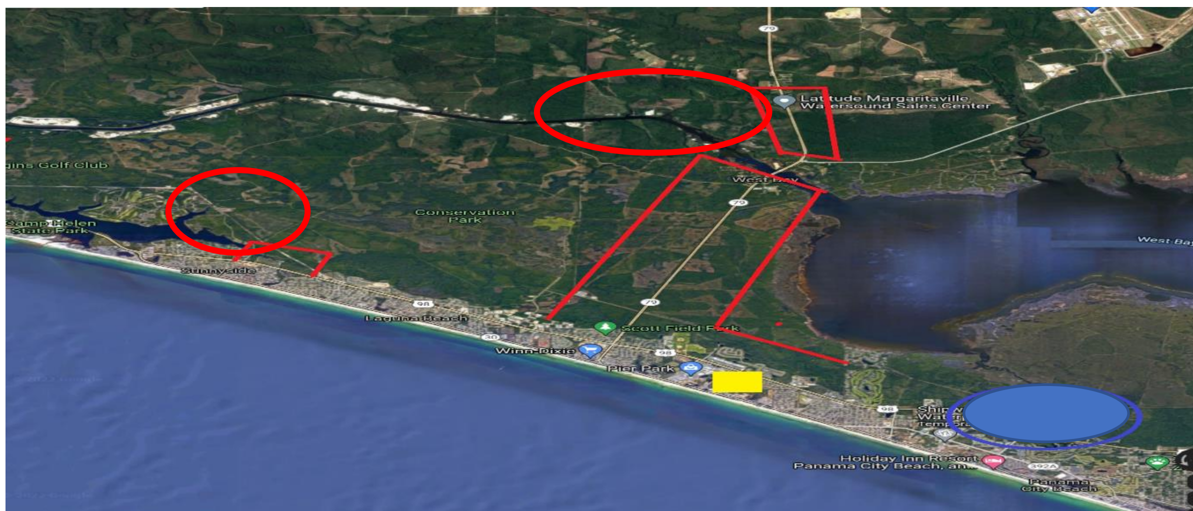
St. Joe's valuation continues to be penalized for owning to much land

As mentioned in earlier writeup's we believe the irrational implied per acre value is the result of investors penalizing JOE for owning to much land. Unless you have visited the area or heavily researched the local real estate market it is impossible comprehend that JOE or any Company could own over a hundred thousand acres of land with an economic present value that exceeds $5B. The less land a Company has the easier it is for investors to analyze. As noted in the past, when valuing the Howard Hughes Corp. (HHC) analysts and investors have been valuing the Company's remaining undeveloped 10k acres at present values between $200k and $300k per acre. In fact, HHC has publicly stated they believe their remaining 10,150 acres have a market value of $4.2 billion or over $400k per acre. We believe in terms of price and location to existing high value development St. Joe's prime acres are easily comparable to HHC's remaining land. Valuing these 25,000 acres alone at $150k per acre equates to $63.50 per share or $3.75b of value. Again, this land has been selling for well over $250k per acre.

Panama City Beach Land

To confirm we are not making up numbers. The above image shows one of the many areas in Panama City beach where JOE owns land and real estate along main throughways. The Company happens to own almost all of the remaining undeveloped land alongside and north of the main roadway in the above image. The residential community platted north of the main roadway is a community St. Joe is developing. The two yellow dots represent undeveloped 1-acre parcels sold in 2021 that were not owned by JOE. They each sold for over $800k. The blue rectangle on the left represents a 300-unit multifamily project that was just built on 20 acres of land and sold this past December for $93.5 million. Marked in red is undeveloped land St. Joe owns fronting the main roadways and right behind is a 300-unit multifamily complex The Company developed in 2021 on 20 acres of land at a cost of $50m. Using the recent comp, JOE created $43 million of value as a result of development. On a per acre basis that equates to a value creation of over $2 million per acre as a result of development. Also worth noting, that a few miles West of this area a healthcare entity purchased a 23-acre vacant parcel for $23 million or $1 million per acre.

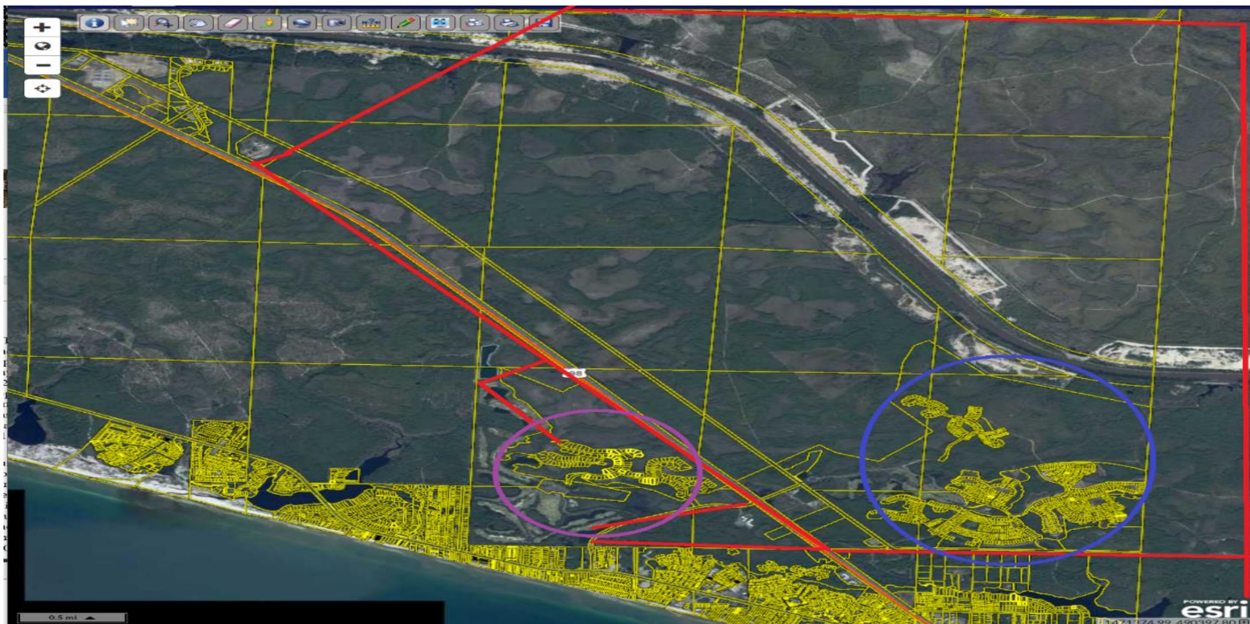
Panama City Beach Aerial:



To provide some larger context. The area shown in the first satellite image is circled above in blue. This image happens to be from 2019 and therefore does not capture a lot of the development that has occurred since. As of the present date there are developments being completed in all the areas marked in red, which happen to border main roadways or waterways. As usual, all of the land shown in the below image is either owned by St. Joe or owned by the government for conservation. The yellow rectangle represents an 80-acre contiguous parcel owned by JOE right across the street from the beach and directly adjacent to the most popular shopping and entertainment district in all of Panama City Beach. Given its size and prime location, that parcel alone undeveloped could arguably be worth over $100 million.

Walton County Prime Land

JOE's most valuable land is located in Walton County, Florida which is just West of Panama City beach. The Company owns over 10k acres in this area that are fully entitled for the development of 24,000 homes/apartments and 500k sq ft of commercial property. Circled in blue is Watersound Origins, the community JOE has been building out on the north side of the area's main throughway. Outlined in red is eventually where Origins will expand to and where the remaining 24,000 homes will be built. When we first discovered St. Joe in 2017 the initial 360 homes in this community were selling for $450k to $650k. The community now has over 1,200 homes and those original 360 homes are currently selling for over $1 million. Homes in the new phases of community have been selling for upwards of $2m. These homes are built on lots that are under ¼ acre in size. It costs St. Joe approx. $60k per lot to develop these lots. St. Joe is presently selling lots in new phases of this community for close to $200k. The company is now on pace to sell over 300 new lots in this community alone on an annual basis. Worth noting that in the area circled in purple, St. Joe is currently selling lots for over $700k per lot.

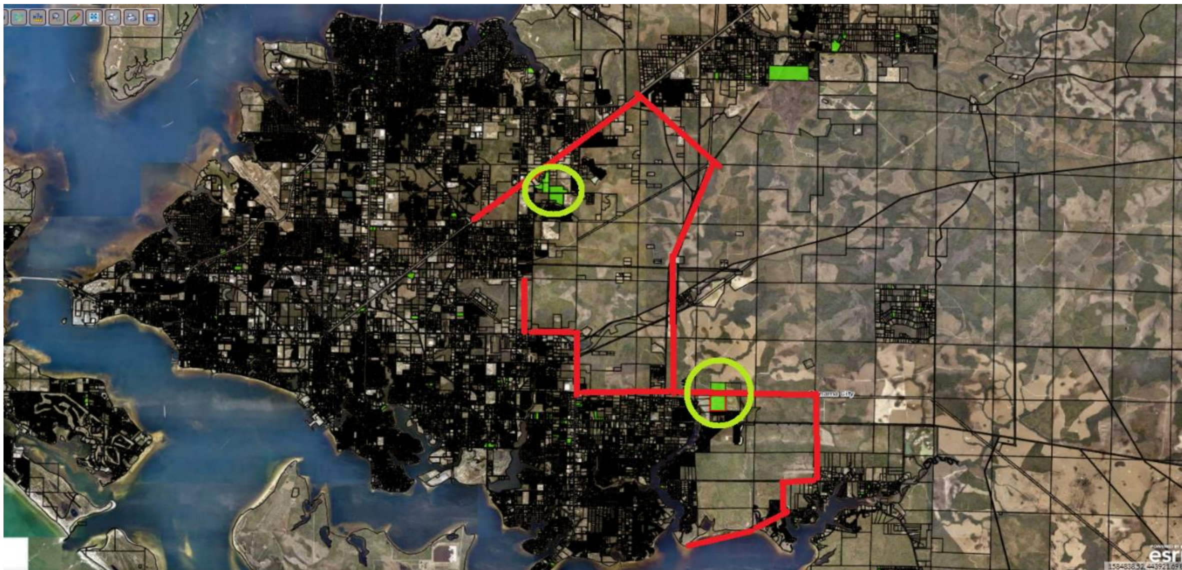


Using The Company's current profit per lot, the 10,000 remaining acres in Walton County alone represent $2.5B of future cash flow. St. Joe's profit per lot in Watersound Origins has increased with each new phase of development that has occurred over the last 10 years. More importantly, St. Joe will continue to make huge profits developing lots in this area even if home prices were to contract by 50%. The only thing that matters long-term for St. Joe is volume growth and this is what makes the investment so unique and where the Company's national competitive advantage comes into play. St. Joe might be one of the only residential real estate developers/investments in the country that is essentially 'price agnostic.' If continued home price appreciation starts to hurt affordability and hit demand (as it might appear to be the case right now) St. Joe has the unique ability to take market share not only locally but also around the country by offering far more attractive price points than competing markets. As mentioned, the Company can do this while still generating huge profits. We believe St. Joe has reached the point where they are fully in control of their own destiny.

St. Joe's worst developable land is selling for more than the implied per acre value.

The least valuable of St. Joe's 110k acres of land is likely located in East Panama City and Port St. Joe, Florida. In both areas, land immediately adjacent to JOE's has been selling for $40k to $100k per acre. Furthermore, in East Panama City, the Company has been selling lots for between $50k to $60k per lot. These are smaller non-amenity lots that St. Joe develops at a cost of $25k to $30k per lot. The Company has been developing 3-lots per acre. This implies a profit of $60k to $75k per acre for St. Joe's worst land. St. Joe owns all the undeveloped land outlined below in red. Circled in yellow are two large parcels of undeveloped land, which sold in 2021 for roughly $43k per acre.

St. Joe East Panama City Land:



Conservative Estimate Value of St. Joe's remaining Land:

- 25,000 prime acres= $3.75b at $150k per
- 50,000 acres within 5 miles of coastline= $1.25b at $25k per acre
- 35,000 other acres within 10 miles of coastline= $350m at $10k per acre

Total Value of 110k developable acres= $5.35B or $48k per acre
Not included:

- 60k acres of land held for preservation/timberland
- Value of St. Joe's recurring income assets.

St. Joe's discount to NAV continues to provide investors with a margin of safety but it is not what is going to drive the stock higher going forward. At the end of the day cash flow and earnings growth is what will continue to drive our outsized returns on St. Joe. As we did in 2019, we will end this update with our expectations for St. Joe going forward.

1. Within the next 5 years St. Joe will hit a run rate of 2,000 to 2,500 homesites/lots sold annually.
    a. As mentioned in our 2019 letter we believe one of the best benchmarks for St. Joe's potential annual lot run rate is 'The Villages' in Central Florida. The Villages is 25% of the size of St. Joe's land position in Bay/Walton and is 45 min further from both the airport and nearest beach. In 2021, The Villages sold over 4,000 new homes and has consistently sold over 2,500 new homes annually over the last 20 years.
    b. At 2,500 lots per year St. Joe will generate over $200m of annual free cash flow from lot sales and will be able to do so for another 100 years before the Company runs out of land.
2. Within the next 5 years we expect JOE to generate over $100m of annual recurring income from commercial/hospitality assets and ancillary services/ventures such as property management, property & title insurance etc.
3. Come 2027 St. Joe will be a Company generating over $300m of annual free cash flow that still owns 100,000 acres of land. This land will be worth far more than it is now.
4. Investor awareness regarding St. Joe will only continue to grow:
    a. Investors will gradually come to the realization that St. Joe represents the last remaining undeveloped area within 10 miles of the coastline not only in Florida but across the entire US that is fully entitled for major development to occur in excess of 200,000+ homes and 20 million sq ft. of commercial property.
    b. 5,000 to 7,000 people are already moving to Bay & Walton County Florida annually. As the population continues to grow even holding the annual growth rate constant there will soon be 10,000+ people moving to this area each year. The future development needed to absorb this growth is almost entirely controlled and owned by the St. Joe Company. This major shift in development is now clearly underway and the future runway could span over a century.

Over the next 10 years we are highly confident the Bay/Walton population and economy will begin to resemble something in between Collier County and Lee County Florida. These counties generate $18B and $30B of annual GDP respectively. The mid-point equates to roughly $12B of additional annual GDP vs. Bay & Walton counties current combined GDP. What is the present value of an almost perpetual royalty on this future growth? We believe the present value of this royalty has undoubtedly multiplied over the last three years and continues to be worth multiples of St. Joe's current valuation.

As always,

David J. Spier

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