

# **SALTER BROTHERS** EMERGING COMPANIES LIMITED



JULY 2023

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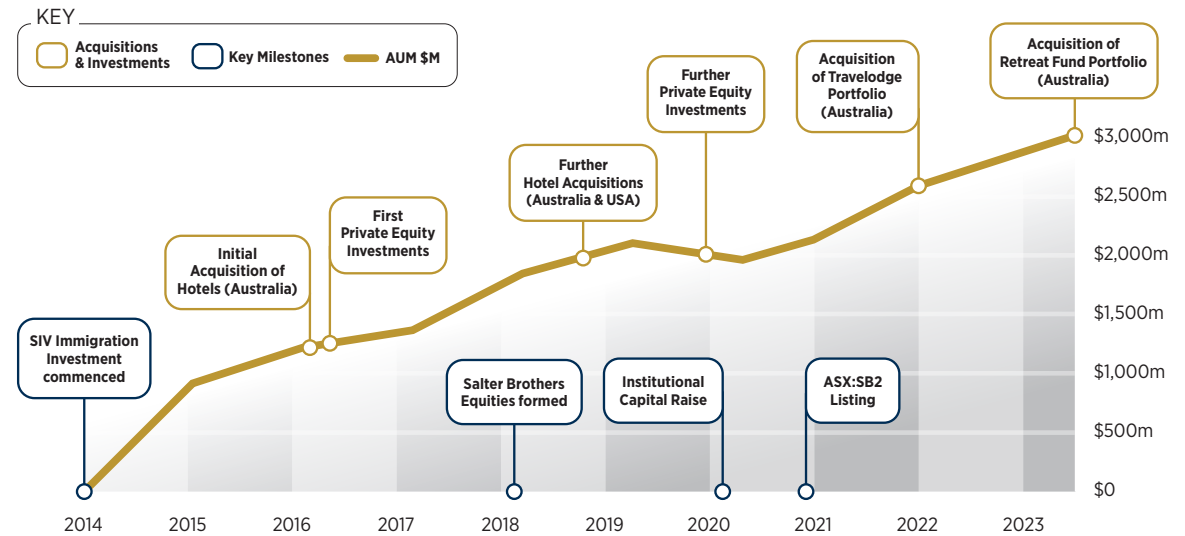


# ABOUT SALTER BROTHERS

➤ Salter Brothers is a **Global Fund Manager** with a focus on alternative investment offerings for high net worth and institutional investors across **Equities, Property, and Credit**

- With Group assets under management of **over A\$3 billion**, Salter Brothers has established a track record of acquiring and adding value to high quality specialist assets and investing in selected growth businesses
- **International footprint** across Asia-Pacific and North America through its range of Funds and Partnerships
- **A diverse, multi-disciplinary team** with extensive funds management, investments, property, capital markets, finance and commercial experience, which is **led by a focused leadership group** who are dedicated to delivering value to investors

## Salter Brothers' Milestones



# THE SALTER BROTHERS TEAM

## Board of Salter Brothers Asset Management



**John Humphreys**  
*Chairman*  
30+ years' industry experience  
Previous: KPMG, Bearing Point



**Robert Salter**  
*Executive Director & CEO*  
20+ years' industry experience  
Previous: Macquarie Bank,  
UBS, Merrill Lynch



**Paul Salter**  
*Managing Director*  
20+ years' industry experience  
Previous: MAP Capital,  
KPMG, EY



**George Boubouras**  
*Director & Investment Advisor*  
27+ years' industry experience  
Previous: Contango Asset  
Management, UBS,  
Macquarie, HSBC



**Chris Calvert**  
*Non-Executive Director*  
27+ years' industry experience  
Previous: Cambridge Industrial  
Trust, Macarthur Cook Ltd



**Robert Millar**  
*Company Secretary*  
20+ years' finance experience  
Previous: various  
accounting firms

## Board of Salter Brothers Emerging Companies Ltd.



**John Vatovec**  
*Chairman*  
26+ years' industry experience  
Previous: Macquarie Bank,  
Lowy Funds Management



**Marco Marcou**  
*Non-Executive Director*  
30+ years' industry experience  
Previous: Deloitte Consulting,  
MAP Capital, Kazakhstan  
Potash Corporation Limited



**Robert Salter**  
*Executive Director*  
20+ years' industry experience  
Previous: Macquarie Bank,  
UBS, Merrill Lynch



**Justin Mouchacca**  
*Company Secretary*  
15+ years' industry experience

## Equities Investment Team



**Gregg Taylor** | *Head of Equities*  
*Investment Director - Listed /*  
*Pre-IPO*  
25+ years' experience  
Previous: Bombora Investment  
Management



**Tineyi Matanda**  
*Investment Director*  
*- Private / Growth Equity*  
15+ years industry experience  
Previous: MAP Capital, PwC



**Advait Joshi**  
*Senior Investment Analyst -*  
*Listed / Pre-IPO*  
6+ years' experience  
Previous: Bombora Investment  
Management, UBS



**James Parsell**  
*Senior Investment Analyst*  
*- Private / Growth Equity*  
7+ years industry experience  
Previous: Deloitte



**Francis Crossle**  
*Analyst*  
1 year industry experience

## Senior Management



**Paul Joyce**  
*Chief Operating Officer*  
20+ years' experience  
Previous: JCP Investment  
Partners, MLC



**Peter Hamilton, CA**  
*Chief Financial Officer*  
20+ years' experience  
Previous: EY, McGrathNicol,  
Integral Diagnostics



**Karen Bomford**  
*GM - Operations*  
16+ years' industry experience  
Previous: Macquarie Bank,  
Commonwealth Private Bank

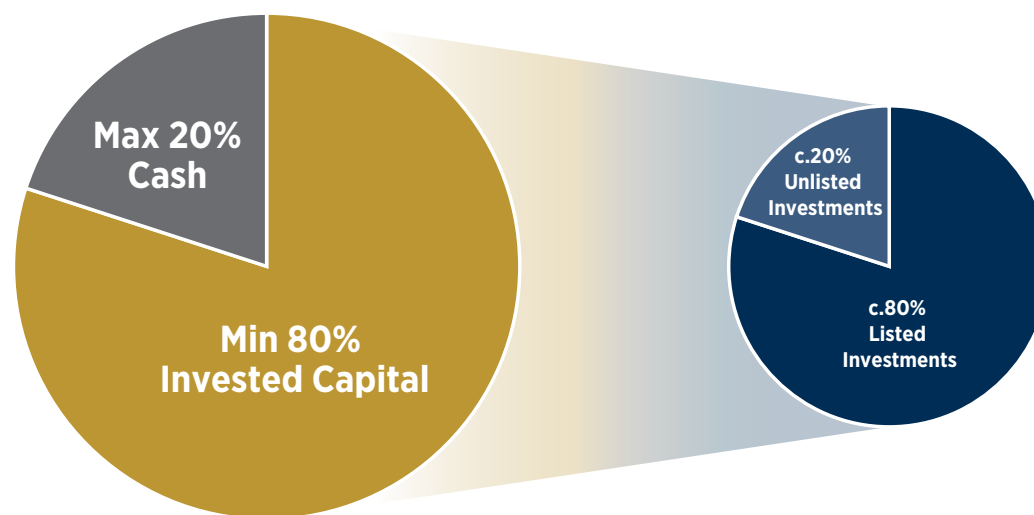


**Cindy Seetoh**  
*Manager - Compliance*  
12+ years' experience  
Previous: Lewis Land Group,  
CIT REIT, Newedge Group,  
Barclays, JPMorgan



# ABOUT THE MANAGER: SALTER BROTHERS FUNDS MANAGEMENT

- Salter Brothers Funds Management is an experienced Public/Private, Small/Emerging Companies Equity Manager with a proven track record of being a lead active investor in quality growth companies with global opportunity sets, deep intellectual property and strong management
- Salter Brothers Emerging Companies Limited (SB2), a Listed Investment Company (LIC) which has ~\$100M funds under management, is focused on investment in public and private small cap Australian companies (sub \$500M market capitalisation)
- SB2 was established to provide investors with exposure to unlisted and listed growth equities, a sector that historically may have been more difficult for investors to access
- Key financial profiles of our portfolio companies include:
  - Earnings growth
  - Sustainable business models
  - Strong balance sheets
- SB2 typically holds c.5-10% Cash (with a max of 20%) and c.90-95% invested capital (with a max of 20% unlisted investments)





# THE INVESTMENT TEAM



**Gregg Taylor**  
**Investment Director  
& Head of Equities**

Years within:  
• Salter Brothers: 1  
• Industry: 25

- › Previously Chief Investment Officer and Portfolio Manager at Bombora Investment Management
- › Prior to that: Executive at Blue Ocean Equities; Investment Manager at Schrodgers covering ASX-listed companies
- › Current Directorships: Bikeexchange (ASX:BEX); Marketplacer; IP Solutions International (IPSI); True Woo
- › Previous Directorships: Acrow Formwork (ASX:ACF); Vortiv (ASX:VOR); Cronulla Sharks Football Club
- › Bachelor of Commerce (University of Wollongong), Chartered Financial Analyst (CFA)



**Advait Joshi**  
**Senior Investment Analyst**

Years within:  
• Salter Brothers: 1  
• Industry: 6

- › Previously worked with Gregg as an Investment Analyst at Bombora Investment Management covering Listed and Pre-IPO equities (including providing structuring, financial modelling and other assistance on a number of corporate transactions - ASX-listings, private raises, M&A etc for Bombora's portfolio companies)
- › While at Bombora also undertook a corporate development secondment at Edtech business Pathify Incorporated
- › Prior to that: Equity Research at UBS Investment Bank (Emerging Companies coverage)
- › Bachelor of Commerce (UNSW)



**Francis Crossle**  
**Analyst**

Years within:  
• Salter Brothers: 1  
• Industry: 1

- › Francis assists the Investment Team with financial modelling and research for the Listed coverage universe
- › Recently completed a Bachelor of Business (UTS)



# THE MANAGER'S INVESTMENT PROCESS

**A robust investment process designed to enable Salter Brothers Funds Management to stay on top of performance**

1	<b>Opportunity Sourcing</b>	The Manager <b>utilises its network</b> of financial advisors and brokers, industry experts and operational partners to identify a large number of investment opportunities
2	<b>Investment Universe Screening</b>	A <b>quantitative screen</b> is then applied to the Investment Universe. A <b>qualitative review</b> of the investment screen is then conducted by the Manager. We look for <b>IP-driven, sustainable businesses</b> with <b>earnings growth</b> and <b>strong balance sheets</b> at <b>reasonable valuations</b>
3	<b>Phase 1 Due Diligence</b>	Phase 1 due diligence includes a <b>review of company financials</b> and <b>building an initial model</b> on the business, detailed valuation analysis based on both a 2-year forward valuation multiple based on trading metrics of comparable companies as well as a DCF valuation, and an initial meeting with management
4	<b>Phase 2 Due Diligence</b>	Phase 2 Diligence includes <b>finalising the financial model</b> including all forecast assumptions, site visits and follow-up <b>meetings with management</b> if required and insights from Salter Brothers network of industry experts, advisors and the target company's customers and competitors
5	<b>Investment Approval</b>	A detailed discussion will take place to review outputs of the due diligence process. Opportunities may be rejected, may require further due diligence or may be accepted for investment
6	<b>Ongoing Reporting &amp; Monitoring</b>	The Investment team will often work with and assist the management and Board of portfolio companies, acting as an investment partner to unlock the growth potential of the company

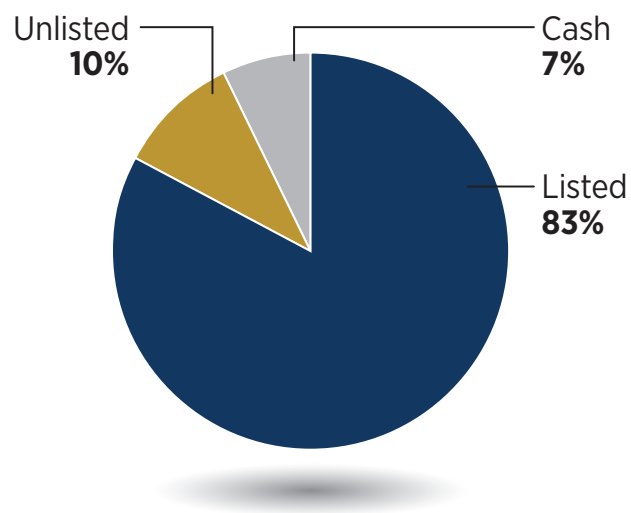




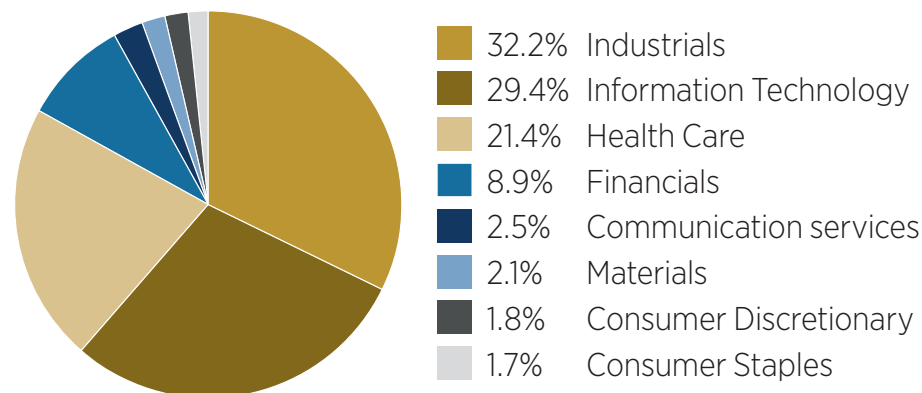
# THE SB2 PORTFOLIO

## Portfolio Composition (as at 30/06/2023)

- › The SB2 Portfolio has 23 Listed holdings (83% of the total value), 5 Unlisted holdings (10% of the total value) and 7% cash.
- › The weighted average market capitalisation of the stocks in the listed portfolio is ~\$140m.
- › The investment strategy was compliant with the emerging companies' investment requirements of the Australian Significant Investor Visa regime for the period ending 30 June 2023.



## Portfolio Sector Weights



## Top 5 Holdings

	Market Cap	Sector
1. Acrow Formwork And Construction Ltd (ASX: <b>ACF</b> )	\$208m	Construction & Engineering
2. RPMGlobal Holdings Ltd (ASX: <b>RUL</b> )	\$336m	Automation/ Workflow Software
3. OFX Group Ltd (ASX: <b>OFX</b> )	\$492m	Other Financial Services
4. Probiotec Ltd (ASX: <b>PBP</b> )	\$228m	BPO/Outsource Services
5. Close The Loop Ltd (ASX: <b>CLG</b> )	\$253m	Environmental Services (B2B)



# KEY FEATURES OF THE PORTFOLIO

**Over the last 12 months, our investment process has led to the creation of a profitable portfolio with strong revenue growth with undemanding trading multiples**

- Taking a two year view, the **weighted average valuation upside** of the listed holdings in the portfolio based on SB2 forecasts is **82.7%**.
- The SB2 equity portfolio quantitatively reflects the investment philosophy of the Investment Team – that is focused on capital preservation, long-term capital growth and income from its investments and generating attractive risk adjusted returns over the long term.
- As such, the weighted average investment profile of our portfolio (as at 30/06/2023) features:
  - Weighted average FY23-24F **revenue growth of +25%**
  - Weighted average FY23-24F **EBITDA margin of c.18%**
  - Weighted average FY23-24F **NPAT margin of c.8%**
  - Weighted average FY23-24F **P/E multiple of 8.3x**

## Metrics of the Portfolio\*

	FY22A	FY23A	FY24F
<b>Key Ratios</b>			
EV / Revenue (x)	2.4x	1.7x	1.3x
EV / EBITDA (x)	11.8x	9.5x	8.3x
EV / EBIT (x)	8.2x	8.6x	6.7x
P / E (x)	9.0x	9.2x	7.3x
<b>Portfolio Financials</b>			
Revenue Growth (%)	+40%	+33%	+16%
EBITDA Margin (%)	12%	16%	19%
EBIT Margin (%)	5%	9%	13%
NPAT Margin (%)	2%	6%	9%

\* All metrics reflect weighted averages of the combined portfolio based on SB2 forecasts, as at 30/06/2023, adjusted for abnormalities

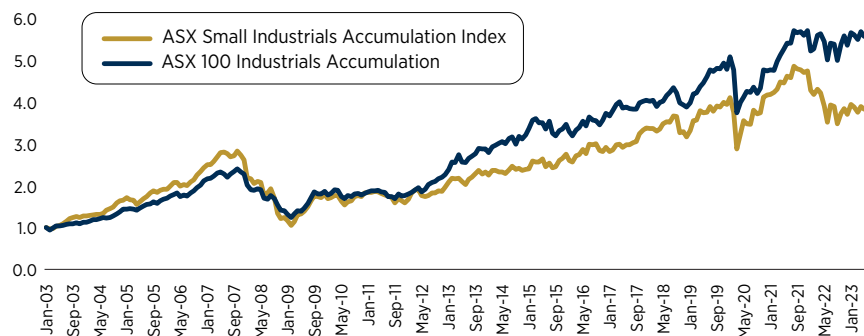


# WHY INVEST IN SMALL CAPS?

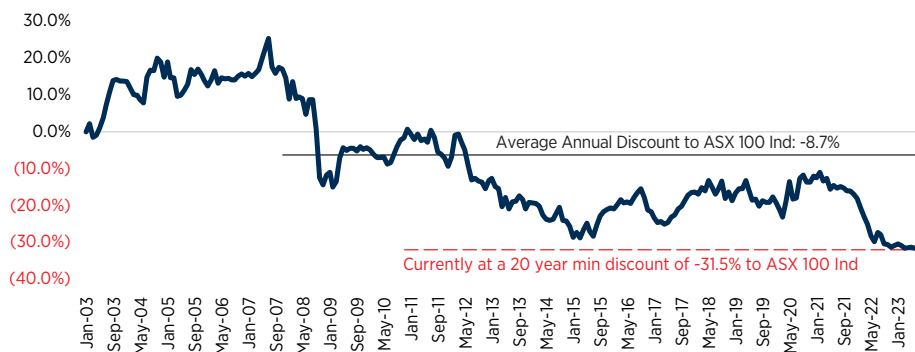
**With interest rates nearing the peak in the cycle and improving fundamentals, we expect investor sentiment regarding Small Caps to turn around in FY24**

- The performance differential between ASX-listed Small and Large Industrials is trading at the bottom of a 20 year range

**Relative Performance of Small & ASX 100 Industrials since Jan '03**



**Discount - Small Industrials to ASX 100 Industrials - Indexed to Jan '03**

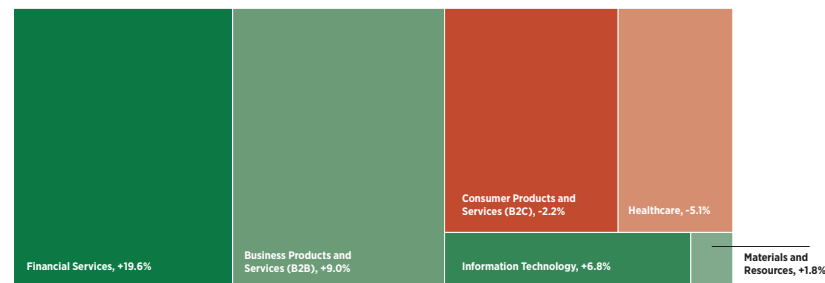


- This performance difference is even more apparent when comparing the relative performance of ASX-listed Small and Large Industrials since the start of 2022, with Small Industrials down -18% since January vs a -2% fall in the ASX 100 Industrials
- This is despite stronger fundamentals of companies constituting the index in the first 6 months of CY2023 including:
  - 1 Year Forward (aka. FY23) EPS of the ASX Small Industrials Index has been revised up +c.8% (vs ASX 100 +c.0.4% in the same period);
  - c.53% of the ASX Small Industrials constituent companies seeing their consensus FY23 EPS numbers upgraded; &
  - ASX Small Industrials 2-year forward (aka. FY24) consensus forecasts sees c.44% of the index expected to deliver >10% earnings growth
  - Gearing levels, ROE and other key measures of profitability have improved towards their long run averages

**Discount - Small Industrials to ASX Industrials - Indexed to Jan '22**



**ASX Small Industrials Index EPS Revisions in 1H CY23 - Sector Contribution**



Source: SB2, Pitchbook Consensus Forecasts



# SECTOR PREFERENCES

## SB2 takes advantage of its broad mandate to seek outperformance through the cycle

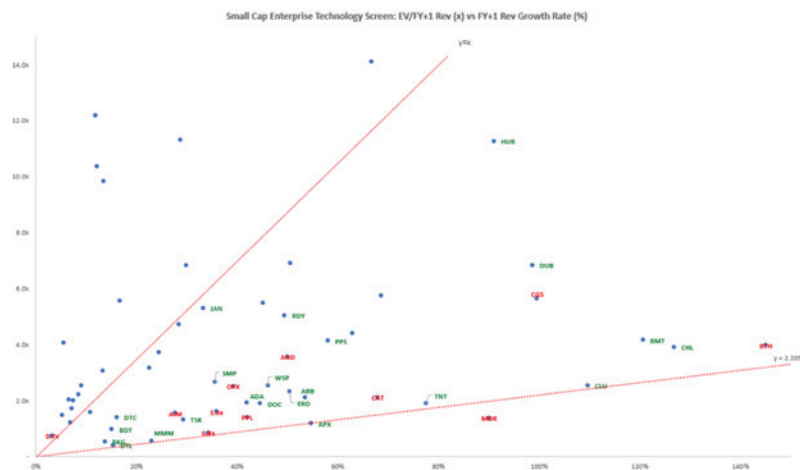
### Target Industry Sectors:

- › Focus on both software technology companies as well as on industrial companies (though with no exposure to resources or biotech)
- › Looking for Defensive growth underpinned by strong intellectual property, management and balance sheet. Ideally companies with pricing power to navigate inflationary pressures
- › Avoiding sectors reliant on the consumer or strong economic growth such as retail
- › Also spending time reviewing unlisted opportunities which are presenting compelling risk v reward scenarios

### Target Sector Examples:

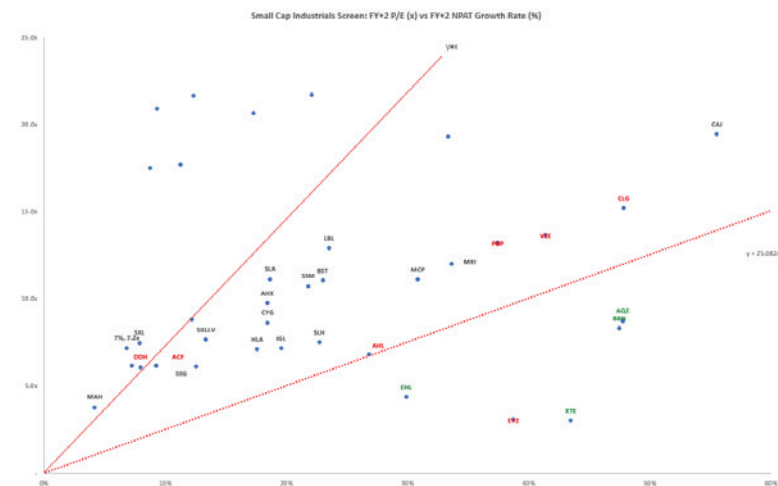
- › Technology
- › Telecommunications
- › Media
- › Healthcare (ex. Biotech)
- › Financial Services
- › Infrastructure and related services
- › General Industrial
- › Energy – including Renewables

## The Manager's Software Technology Screen



Source: CapitalIQ, SB2

## The Manager's Industrials Screen

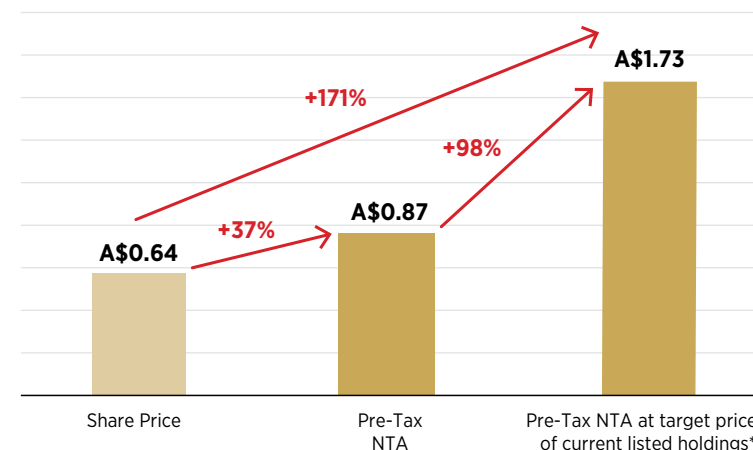




# POTENTIAL OUTLOOK FOR ASX:SB2

## SB2 is currently trading at a 27% discount to Pre-Tax NTA

- Taking a 2 year view, the potential weighted average valuation upside of the listed holdings in the portfolio based on SB2 forecasts is 171%
- SB2 is currently trading at a 27% discount to its pre-tax NTA
- An acquisition of SB2 stock today provides a potential:
  - +37% upside as a result of the current discount to the NAV (if SB2 trades to pre-tax NTA)
  - +98% further upside to the current NAV at target prices of current listed holdings (considering weighted average target prices of each holding and listed portion as % of total portfolio)\*
  - +171% cumulative upside as shown in the diagram on right
- We have given below the varying outcomes of the SB2 share price according to different discount ranges to the Pre Tax NTA

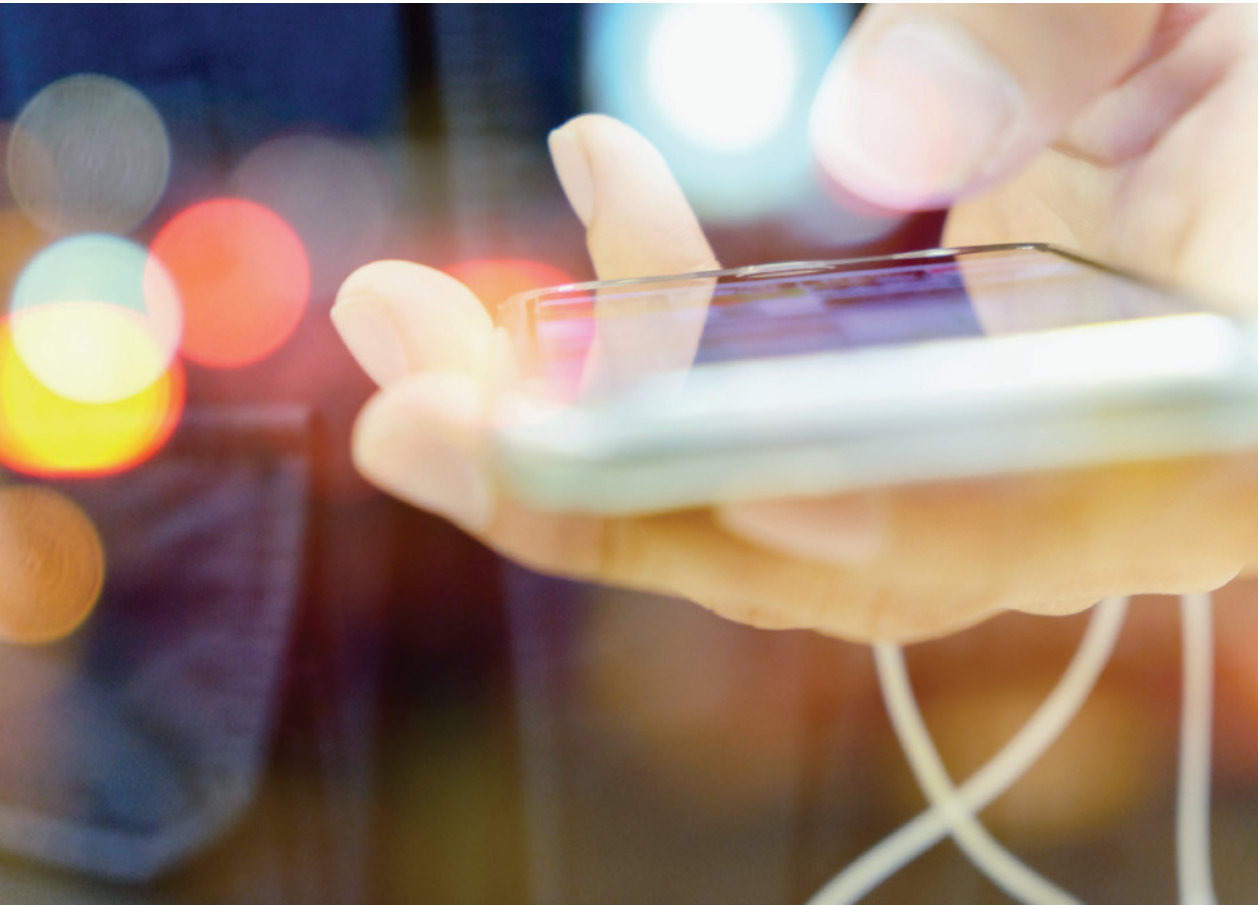


\* The NAV at target prices of current holdings has been calculated by considering the weighted upsides of each listed holding taking a 2-year view on valuation and then accounting for listed portion accounting for 83% of the portfolio as at 30/06/2023

Share Prices as varying % discounts to Current Pre-Tax NTA	
<b>Current Pre-Tax NTA (30/06/2023)</b>	<b>\$0.87</b>
5% Discount	\$0.83
10% Discount	\$0.79
15% Discount	\$0.74
20% Discount	\$0.70
25% Discount	\$0.66
30% Discount	\$0.61
40% Discount	\$0.52
50% Discount	\$0.44



# CONTACT US



**Advait Joshi**

Senior Investment Analyst

E | [advait.joshi@salterbrothers.com.au](mailto:advait.joshi@salterbrothers.com.au)

[www.salterbrothers.com.au](http://www.salterbrothers.com.au)

