



SALTER BROTHERS RESEARCH
REPORTING SEASON REVIEW



SEPTEMBER 2024

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SALTER BROTHERS RESEARCH

AGENDA



- Executive Summary.
- Overview of reporting season.
- Salter Brothers Investment Process.
- Salter Brother Reporting Season Process.
- Summary of key holdings results.
- Portfolio Metrics.



SALTER BROTHERS RESEARCH EXECUTIVE SUMMARY



- Salter Brothers is a global fund manager with over A\$3.5B of group assets under management.
- Salter Brothers Emerging Companies Limited (ASX-SB2) is a listed investment company (LIC) dedicated to investing in small cap Australian companies with a market capitalisation of under A\$500M. It offers a professionally managed and diversified exposure to the Australian small cap sector.
- SB2 is managed by a large and proven Investment Team. Gregg Taylor is the Lead Portfolio Manager with over 25 years small cap investing experience.
- SB2 has a strong three-year track record of outperforming the small cap market.
- As at 31 August 2024 the current share price of SB2 trades at a ~37% discount to the underlying post tax NTA value.*
- The relative valuation of Australian small cap equities versus Australian large cap equities is at 20-year lows, offering a unique time in the cycle to invest in the sector.

* See August 2024 SB2 Investment Report & NTA Update



FY2024 REPORTING SEASON SUMMARY

- › The market typically looks to the August reporting season for a bottom-up view on markets for the year ahead.
- › The recent reporting season was overshadowed by macroeconomic factors which diluted any major bottom-up themes surfacing. There was increased volatility especially in August though in the end, the month's market performance finished relatively flat.
- › The United States of America and Australian company results and outlook, as a whole, were broadly in line with expectations. While there was some obvious winners and losers at the individual company level, there was no clear shift in trend by sector, growth/value bias or market capitalization bucket.
- › An interesting data point to come out of the outlook for ASX 100 companies earnings growth was that the consensus view was for average growth of less than 4% over the next two years. This contrasts significantly with the higher growth outlook for Australian small caps despite the valuation differential between large and small caps we have spoken to in recent presentations.



- › For the Australian small cap market in which SB2 focuses, the reporting season spreads over the 3 months of July, August and September. It is important to look across this 3 month period for a view on the outcomes of the reporting season period.
- › In this presentation we will provide an overview of the SB2 Investment Team's process throughout the reporting season and provide an overview of the results for some key portfolio holdings.
- › SB2 has pleasingly performed well over this key 3 month period and the portfolio is well positioned for the year ahead.



SALTER BROTHERS RESEARCH PERFORMANCE

| Performance Summary [#] | SB2 | ASX Emerging Companies Index* | Difference |
|----------------------------------|--------|-------------------------------|------------|
| 1 Month | -0.47% | 1.85% | -2.32% |
| 3 Months | 8.47% | -1.80% | 10.27% |
| 12 Months | 16.59% | 5.91% | 10.68% |
| Inception p.a.* | 2.45% | 0.20% | 2.25% |
| Inception* | 8.20% | 0.66% | 7.54% |

Performance numbers calculated as at 31 August 2024

* Inception is 27 May 2021

- The **Salter Brothers Emerging Companies Portfolio** has demonstrated **consistent outperformance**, delivering a **12 month return of 16.59%** as at 31 August 2024, well above the **ASX Emerging Companies Index** return of **5.91%**.
- This **10.68% outperformance** reflects the Investment Team's **disciplined investment strategy** and rigorous research process, with a focus on identifying high-potential small-cap opportunities.
- Since inception, the portfolio has achieved **returns of 8.20%**, significantly outperforming its benchmark by **7.54%**, showcasing the team's ability to navigate volatility and generate long-term growth.
- **Led by Portfolio Manager Gregg Taylor**, the portfolio's outperformance stems from its ability to identify key market opportunities and respond proactively to market conditions.



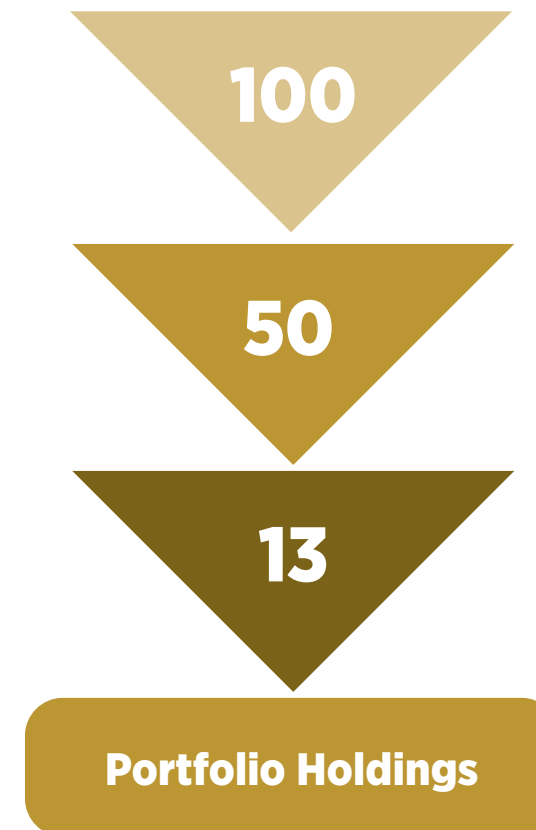
OVERVIEW OF RESEARCH PROCESS

Investment sourcing

- › The manager **leverages a large network of financial advisors, brokers, industry experts** and **operational partners** to source new opportunities. Further, comprehensive quantitative screens are consistently conducted to sweep the market for **high-growth companies at reasonable valuations**. This proactive approach unearths new opportunities every week.

Due Diligence Process

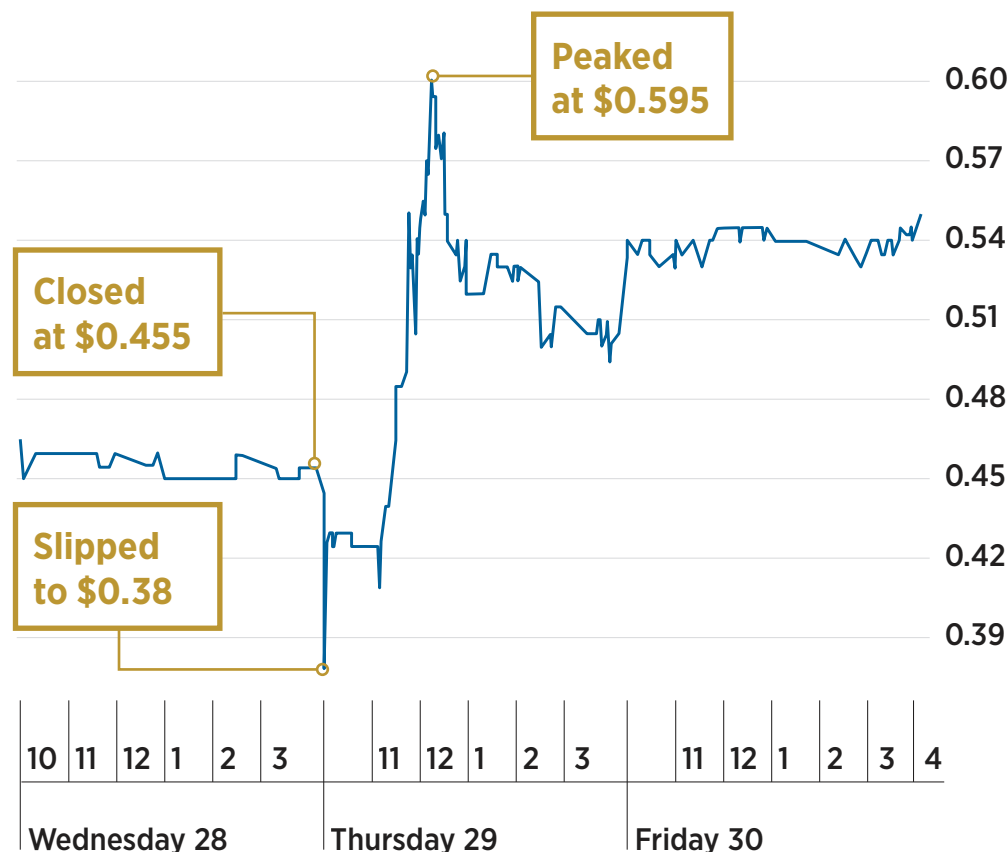
- › The Investment Team maintains **detailed research on ~100 small cap companies** in their watchlist. For each company, a **comprehensive 3-way financial model** is constructed with a detailed breakdown of their PL, BS and CF drivers. This approach allows more accurate 5-year forecasts, a deeper understanding of the business operations and quality of earnings. Additionally, these models incorporate detailed valuation work including **discounted cash flow** and earnings multiple analysis with a comprehensive comparison to **peers trading multiples**.
- › Over the past **3 months**, the Investment Team has met with **greater than 50** of the companies on the watchlist with their models updated, 13 of these have been upgraded to the immediate watchlist, receiving the **same level of ongoing analysis as our portfolio holdings**.



SB2 REPORTING SEASON PROCESS

- › Small cap reporting season begins in July for many small-caps as they release their fourth-quarter cashflows and unaudited trading results for the full financial year. This is followed by the release of the audited full year results released in the month of August and then typically followed by an investor roadshow during the month of September.
- › The SB2 Investment Team follows a disciplined process during the release of these key data points:
 - Within 15 minutes of every result being released to the ASX, a quick snapshot of key earning metrics, compared to both our expectations and consensus expectation are circulated amongst the SB2 team.
 - On the day of results release, the Investment Team schedules a -15 minute one-on-one call with management of all portfolio holdings. A member of the SB2 team will also listen to any public investor presentation forums.
 - Following results day, the team meets again with management and many of their peers during their roadshows for a more in-depth discussion on recent results and importantly their outlook.
 - The detailed financial models, investment thesis and key drivers are updated though this process and contrasted with consensus views.

AiMedia Share Price (28/8 – 30/8)



Source: Iress



THREE KEY PORTFOLIO HOLDINGS RESULTS



AAL – Alfabs

- › Alfabs reported a strong FY24 result, with revenue of \$96.4m and EBITDA of \$19.8m, outperforming their prospectus numbers of \$94m and \$18m respectively, (prospectus released 29th May).
- › Alfabs also provided an operational update, highlighting increased demand and planned expansion for their Protective Coatings Business, strong pipeline for the engineering division for the civil infrastructure market, and the successful commencement of the Malabar mine hire contract.
- › This strong result and outlook went largely unnoticed by the market.



CLG – Close the Loop

- › CLG's met its FY24 guidance, delivering \$213m in revenue and \$44.9m in EBITDA, within the projected range of \$200m in revenue and EBITDA of \$44-\$46m. However, the share price declined due to lower-than-expected cash conversion and the resulting higher-than anticipated net debt.
- › The cash conversion shortfall was partially driven by increased working capital investment, though the SB2 Investment Team undertook detailed analysis of this negative surprise and held multiple meetings with Company Management. We have identified and discussed the key catalysts for the Company.
- › Our investment thesis remains intact though will be monitored closely.



AIM – AiMedia

- › AIM's headline revenue increased 7.1% in FY24, underlying this figure AIM's technology revenue grew an impressive 37.1%, now comprising 62% of total revenue. This shift and continued trend is significant as AIM receives a gross margin of 85% on technology revenue, well above the current group margin of 64.2%.
- › Management has set clear goals of reaching \$150 million in revenue (a 127% increase) and \$60 million in EBITDA (a 1,363% increase) by FY29. Growth will come from geographic, sectoral, and product expansion, including transitioning customers from legacy human-driven services to AI-powered solutions.
- › Initially the share price fell on the morning of the result, though rose sharply later in the day and following weeks once the market understood the result.



TOP 5 HOLDINGS AND PORTFOLIO METRICS

Top 5 Holdings

| | Market Cap | Sector | Company Description |
|--|------------|----------------------------|--|
| 1. Ai-Media Technologies Ltd (ASX:AIM) | \$115m | Business Software | Provider of live and recorded captioning, transcription, subtitles, translation, and speech analytics using a proprietary, cloud-based technology platform. |
| 2. Alfabs Australia Ltd (ASX:AAL) | \$72m | Construction & Engineering | Provides a design-to-delivery solution for its clients across heavy steel fabrication, construction and maintenance services, mining equipment, protective coatings, and transport. |
| 3. Alcidion Group Ltd (ASX: ALC) | \$97m | Healthcare | Provider of intelligent informatics software. The company builds, sells, delivers, runs, and supports solutions for healthcare provider organizations. |
| 4. OFX Group Ltd (ASX:OFX) | \$497m | Other Financial Services | A low-cost international multicurrency payments provider via its online platform and network of global bank accounts. The company's two products are international payment services and international payment solutions. |
| 5. Smart Parking Ltd (ASX:SPZ) | \$217m | Facility Services | Global platform provider who engages in the provision of design, development, and management of parking technology. |

Portfolio Metrics

- › Taking a two year view, the weighted average valuation upside of the listed holdings in the portfolio based on SB2 forecasts is greater than 80%.
- › The SB2 equity portfolio quantitatively reflects the investment philosophy of the Investment Team – that is focused on capital preservation and 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 31/08/2024) features:
 - › Weighted average FY25-26F Revenue growth of c.+21%;
 - › Weighted average FY25-26F EBITDA margin of c.16%;
 - › Weighted average FY25-26F NPAT margin of c.7%; and
 - › Weighted average FY25-26F P/E multiple of 8.5x.

Metrics of the Listed Portfolio**

| | FY24A | FY25F | FY26F |
|-----------------------------|-------|-------|-------|
| Key Ratios | | | |
| EV / Revenue (x) | 2.0x | 1.6x | 1.4x |
| EV / EBITDA (x) | 10.4x | 9.9x | 7.7x |
| EV / EBIT (x) | 14.0x | 11.0x | 7.3x |
| P / E (x) | 9.1x | 9.2x | 7.3x |
| Portfolio Financials | | | |
| Revenue Growth (%) | 14% | 21% | 22% |
| EBITDA Margin (%) | 9% | 12% | 19% |
| EBIT Margin (%) | 5% | 6% | 13% |
| NPAT Margin (%) | -2% | 3% | 8% |

**All metrics reflect weighted averages of the combined portfolio based on SB2 forecasts, as at 31/08/2024, adjusted for abnormalities.



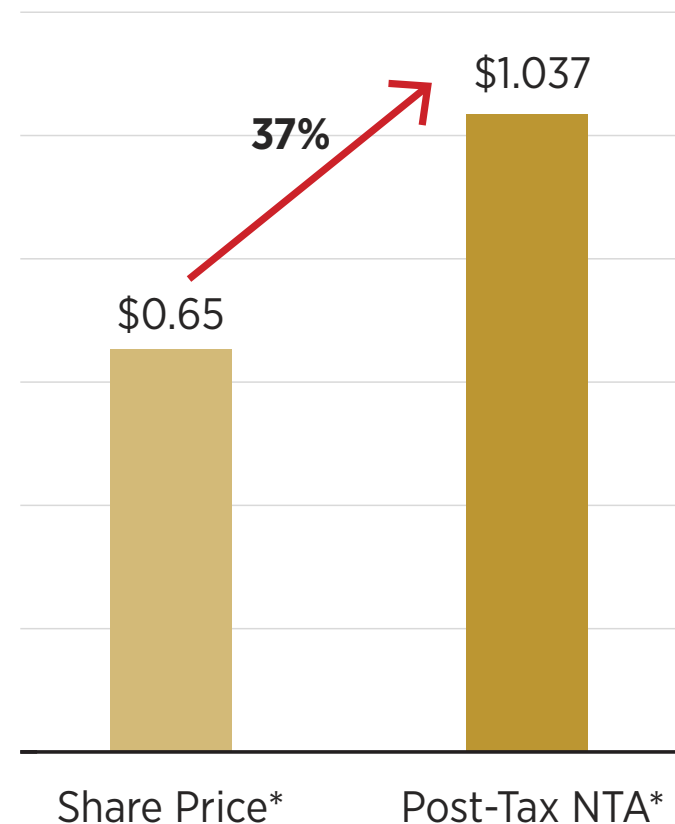
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DISCOUNT TO NTA

Steps to Narrow the NTA and Share Price Gap

- › SB2 is currently trading at a ~37% discount to its Post-Tax NTA as at 31 August 2024.
- › SB2 has been very active throughout September with its share buyback program, demonstrating our ongoing commitment to returning value to shareholders.
- › Gregg Taylor, presenting today, is embarking on a national roadshow to further strengthen the investor registry.
- › We've seen strong interest from high-net-worth individuals, family offices, and institutions, highlighting the compelling opportunity at the current 37% discount to Post-Tax NTA.

Discount Comparison

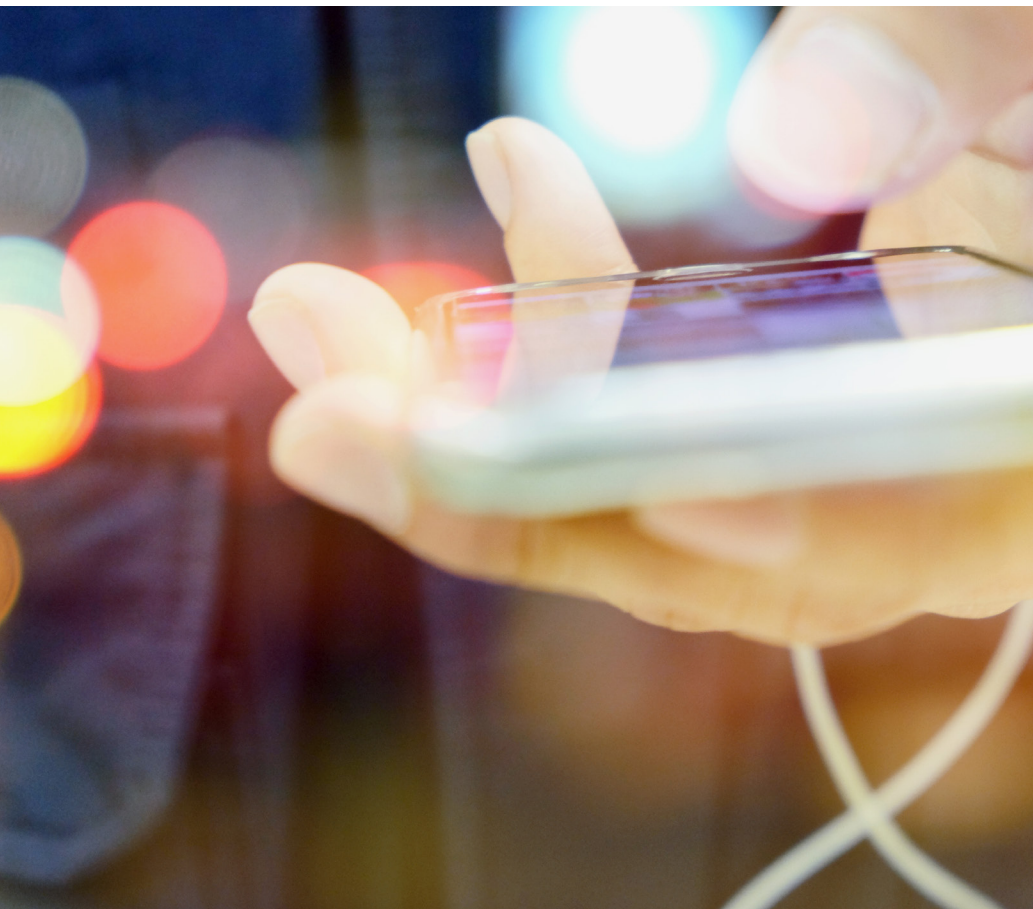


* Numbers as at 31 August 2024 NTA Report



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