



SALTER BROTHERS RESEARCH
AGM SEASON

OCTOBER 2024



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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 30 September 2024, SB2 has achieved 25% 12 months return.*
- The relative valuation of Australian small cap equities versus Australian large cap equities continues to be at historical lows.

* See September 2024 SB2 Investment Report & NTA Update



SALTER BROTHERS RESEARCH PERFORMANCE

Performance Summary [#]	SB2	ASX Emerging Companies Index*	Difference
1 Month	2.48%	6.60%	-4.12%
3 Months	10.08%	8.82%	1.26%
12 Months	25.10%	19.66%	5.44%
Inception p.a.*	3.15%	2.14%	1.01%
Inception*	10.62%	7.30%	3.32%

Performance numbers calculated as at 30 September 2024

* Inception is 27 May 2021

- The **Salter Brothers Emerging Companies Portfolio** continues to deliver strong performance, achieving a **12-month return of 25.10%** as of **30 September 2024**. This result significantly surpasses the **ASX Emerging Companies Index (XEC)**, which posted a return of **19.66%** over the same period.
- The **5.44% outperformance** underscores the **Investment Team's disciplined investment process** and comprehensive research, with a sharp focus on identifying high-potential small-cap opportunities that are often overlooked by the broader market.
- Sentiment in small caps has shifted positively, due to the **decrease in inflation** and the **prospect of interest rate cuts**. This improving macroeconomic environment has created a more favourable backdrop for small-cap investments.
- **Gregg Taylor and the SB2 team** have strategically positioned the portfolio to capitalise on this shift, resulting in a strong **25.10% return over the past 12 months**, significantly outperforming the market.



TOP 5 HOLDINGS AND PORTFOLIO METRICS

Top 5 Holdings

	Market Cap	Sector	Company Description
1. Ai-Media Technologies Ltd (ASX:AIM)	\$157m	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)	\$75m	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. OFX Group Ltd (ASX:OFX)	\$518m	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.
4. Alcidion Group Ltd (ASX: ALC)	\$83m	Healthcare	Provider of intelligent informatics software. The company builds, sells, delivers, runs, and supports solutions for healthcare provider organizations.
5. PYC Therapeutics Ltd (ASX:PYC)	\$793m	Biotechnology	Developer of RNA-based therapeutics leveraging a proprietary delivery platform to address the challenges of safe and effective intracellular drug delivery. The company is focused on advancing its drug pipeline through preclinical and clinical development.

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 30/09/2024) features:
 - › Weighted average FY25-26F Revenue growth of c.+18%
 - › Weighted average FY25-26F EBITDA margin of 18%
 - › Weighted average FY25-26F NPAT margin of 7%
 - › Weighted average FY25-26F P/E multiple of 6.2x

Metrics of the Listed Portfolio**

	FY24A	FY25F	FY26F
Key Ratios			
EV / Revenue (x)	1.7x	1.6x	1.4x
EV / EBITDA (x)	4.9x	8.8x	6.9x
EV / EBIT (x)	7.4x	10.4x	8.3x
P / E (x)	5.7x	4.9x	7.5x
Portfolio Financials			
Revenue Growth (%)	14%	17%	18%
EBITDA Margin (%)	12%	16%	20%
EBIT Margin (%)	2%	8%	13%
NPAT Margin (%)	-1%	5%	9%

**All metrics reflect weighted averages of the combined portfolio based on SB2 forecasts, as at 30/09/2024, adjusted for abnormalities.



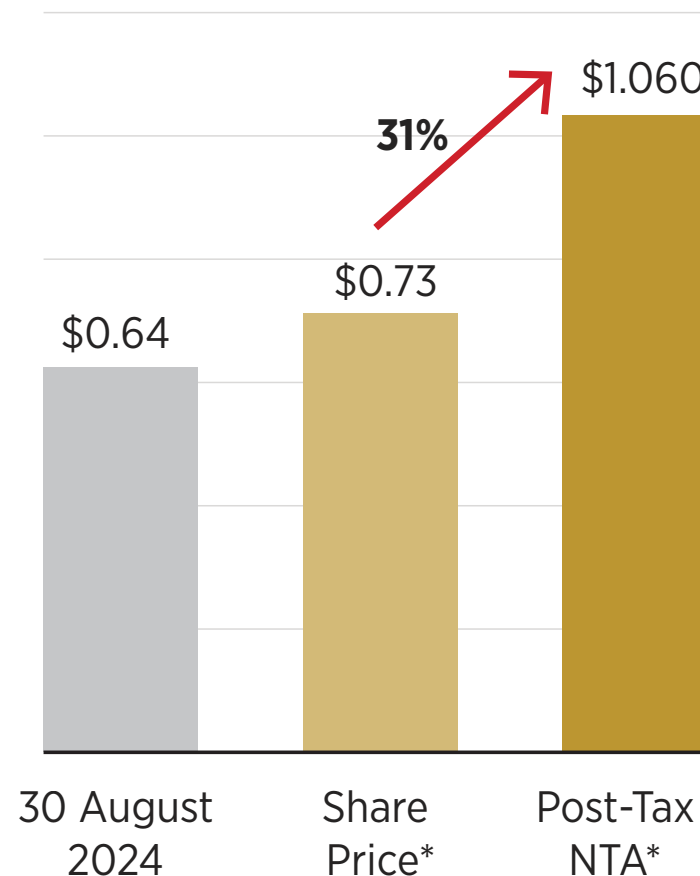
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DISCOUNT TO NTA

Steps to Narrow the NTA and Share Price Gap

- SB2 is currently trading at a ~31% discount to its Post-Tax NTA as at 30 September 2024.
- SB2 has been very active throughout September with its share buyback program, demonstrating our ongoing commitment to returning value to shareholders.
- We've seen strong interest from high-net-worth individuals, family offices, and institutions, highlighting the compelling opportunity at the current 31% discount to Post-Tax NTA.

Discount Comparison



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WHAT IS AN AGM?

- The Annual General Meeting (AGM) is a formal, legally mandated meeting for publicly listed companies. It provides shareholders with a platform to engage directly with the board and senior management to discuss the company's **performance, governance, and future plans**.
- At the AGM, the company presents its **previous year's financial results**, outlining earnings, profits, and other key financial metrics. This allows management to explain **performance drivers, challenges faced, and successes achieved** over the financial year.
- Given that around **three months** have passed since the financial year-end, AGMs also offer a chance for companies to provide a **trading update** on their current operations, sharing insights on year-to-date performance and updating the outlook.
- AGMs offer a **direct channel** for shareholders to engage with management, ask questions, and seek clarity on operational decisions, creating an open forum for **dialogue** and **trust-building** between investors and the company.
- One of the key purposes of an AGM is to allow shareholders to vote on **critical resolutions**, including the **re-election of directors, remuneration packages**, and other significant matters. Shareholder voting plays a crucial role in shaping the company's **governance and strategic direction**.



DIFFERENCES BETWEEN SMALL AND LARGE CAP AGMS



- › Small caps focus on appointing **directors**, approving **remuneration**, and implementing **equity incentive plans** to attract and retain talent. Directors often complement management by plugging **operational or strategic gaps** through **industry expertise** and relationships.
- › In large caps, the emphasis is on **compliance and governance**. Shareholders vote on issues such as **executive remuneration**, **audit processes**, and compliance with **corporate governance standards**.
- › Small cap AGMs typically involve more **operational and strategic** discussions, while large cap AGMs lean towards **governance** and **compliance** matters, with a focus on **board oversight**.
- › **Proxy advisory firms**, such as ISS and Glass Lewis, play a significant role in large cap AGMs by providing voting recommendations to institutional investors, adding an extra layer of governance and oversight.
- › For small and micro-cap companies, AGMs are crucial as **shareholder voting** can lead to major shifts in **strategic direction**, especially when a company faces growth challenges.



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SB2'S AGM PROCESS

- › SB2 has extensive **board experience** across both **public and private companies**, giving us an in-depth understanding of the **different perspectives** of boards and management teams.
- › As an active small-cap investor, SB2's **votes carry weight**, especially when we hold **significant stakes** (over 5%) in micro and small-cap companies. This gives us the potential to **influence governance, strategy, and leadership decisions** more effectively.
- › SB2's voting decisions are based on a **deep understanding** of the company's operational and financial health, and our long-term view of the business. We engage with management prior to AGMs to express our stance on **key issues**, ensuring our interests—and those of our investors—are aligned.



CASE STUDY (ANONYMOUS COMPANY*)



- › A recent small cap example highlights the importance of good governance. In this case, **Company X missed guidance** for the financial year due to poor alignment of **management incentives** with shareholder interests.
- › The company's management incentives were tied to annual recurring revenue (ARR) targets, which led to the company falling short of the markets earnings expectations. Despite the performance shortfall, directors and management were awarded short-term incentives (STI) in cash rather than stock. We believe this misrepresented the company's true financial health, especially considering the earnings downgrade in the previous financial year.
- › Following the missed guidance, the company's share price fell approximately **25%**, yet executives received substantial cash bonuses. This raised concerns over **governance** and **alignment** with shareholder interests.
- › As a result of these governance failures, **many investors voted against** of the **remuneration and incentive plans** at the AGM, sending a strong message regarding the need for **accountability** and **proper incentive alignment**.

* Due to the confidential nature of this example, we are withholding specific details of the holding.



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