

Investment Report & NTA Update

12 JANUARY 2024

Net Tangible Asset Value per share as at 31 December 2023

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings
\$0.875	\$0.907	\$0.934	\$0.53	27

Investment Portfolio Performance[†]

	1 Month	3 Months	1 Year	2 Years p.a.	3 Years p.a.	Inception p.a. [^]	Inception (Total Return) [^]
SB2[#]	10.61%	5.29%	-13.63%	-11.43%	-	-2.24%	-5.71%

[#] Salter Brothers Emerging Companies Limited (ASX:SB2)

[†] Investment portfolio performance is calculated net of Management fees but before taxes, other fees, and expenses. Performance has not been grossed up for franking credits received by shareholders.

[^] Inception date is 27 May 2021.

Key Contributors & Detractors

Key Contributors for December 2023			
#	Company Name	Price Chg. (%) (Absolute)	Weighted Avg. Price Chg (%)
1	Felix Group Holdings Ltd (FLX)	+68.4%	+2.1%
2	Top Shelf International Holdings Ltd (TSI)	+22.2%	+1.9%
3	Ai-Media Technologies Ltd (AIM)	+25.5%	+1.8%

Key Detractors for December 2023			
#	Company Name	Price Chg. (%) (Absolute)	Weighted Avg. Price Chg (%)
1	Pureprofile Ltd (PPL)	-10.3%	-0.3%
2	Nuheara Ltd (NUH)	-8.0%	-0.3%
3	MedAdvisor Ltd (MDR)	-2.3%	-0.1%

Key Features of the SB2 Portfolio

- Taking a two year view, the weighted average valuation upside of the listed holdings in the portfolio based on SB2 forecasts is greater than 90%.
- 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 31/12/2023) features:
 - Weighted average FY24-25F Revenue growth of +18%
 - Weighted average FY24-25F EBITDA margin of c.19%
 - Weighted average FY24-25F NPAT margin of c.8%
 - Weighted average FY24-25F P/E multiple of 9.5x

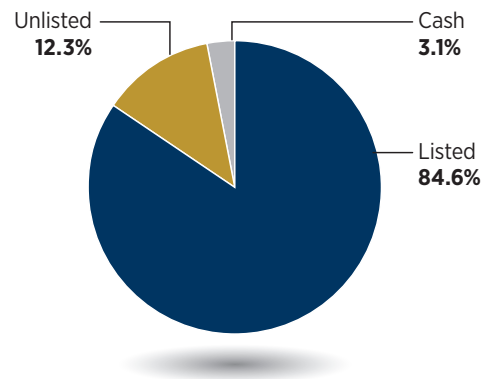
Metrics of the Portfolio*

	FY23A	FY24F	FY25F
Key Ratios			
EV / Revenue (x)	2.1x	1.8x	1.4x
EV / EBITDA (x)	8.1x	7.2x	5.4x
EV / EBIT (x)	8.1x	8.8x	9.6x
P / E (x)	9.8x	9.9x	9.0x
Portfolio Financials			
Revenue Growth (%)	27%	19%	17%
EBITDA Margin (%)	12%	17%	20%
EBIT Margin (%)	4%	10%	13%
NPAT Margin (%)	-1%	6%	9%

* All metrics reflect weighted averages of the combined portfolio based on SB2 forecasts, as at 31/12/2023, adjusted for abnormalities.

Portfolio Composition

- The SB2 Portfolio has 22 Listed holdings (84.6% of the total value), five Unlisted holdings (12.3% of the total value) and 3.1% Cash.
- The weighted average market capitalisation of the stocks in the listed portfolio is ~\$154m.
- The investment strategy was compliant with the emerging companies' investment requirements of the Australian Significant Investor Visa regime for the period ending 31 December 2023.
- A key requirement of the Australian Significant Investor Visa regime is that the Fund invests in companies with a market capitalisation of less than \$500m. As such the Fund has a microcap bias and the Fund performance is driven by the performance of this sector of the market.



December 2023 Monthly Update

The Fund performed very strongly during the month of December 2023 with a return of +10.61% for the month. The positive portfolio performance was broad based, which was directionally consistent with the market though meaningfully outperformed all relevant benchmarks.

2023 has been a story of two halves, with investor sentiment towards ASX small caps at historic lows during the first half of the year, with improving and accelerating positive sentiment towards the back half and notably the final quarter of calendar year 2023. Despite the improved performance of the small cap market in late 2023, the relative underperformance of the microcap sector is still at 20 year lows. The view of the Manager, continues to be this valuation differential is not matched by fundamentals of the broader economy nor the underlying companies. Relative valuations and potential upside of the microcap sector are still as attractive as they have been for a long time, and it is expected that patient medium term investors will be rewarded accordingly in 2024 and beyond.

The ASX Emerging Companies Accumulation Index continued its rebound after a tough first three quarters of the year, increasing +6.40% over December. With the final quarter suggesting investor confidence is gradually returning to small cap stocks. The portfolio's +10.61% rise outperformed the ASX Emerging Companies Accumulation Index by +4.21%. Our internal simulation of the ASX Small Ords Index revealed that only companies exceeding \$1 billion in market cap made positive contributions over the past year, while sub-\$500 million companies saw a decline of over 50%.

During the month, the top three positive contributors to the portfolio were Felix Group Holdings Ltd (**FLX**), Top Shelf International Holdings Ltd (**TSI**) and Ai-Media Technologies Ltd (**AIM**). The top three key detractors were Pureprofile Ltd (**PPL**), Nuheara Ltd (**NUH**) and MedAdvisor Ltd (**MDR**).

Felix Group Holdings Ltd (**FLX**) finished off 2023 strongly, with their AGM held in late November. The AGM highlighted the priorities set out for FY24 being to accelerate tier 1 contractor growth, unlock expansion revenue, apply a disciplined FY24 budget to control costs and to continue to make progress towards positive operating financial performance. FLX has also achieved strong sales momentum in 1Q24 with contractor ARR and group ARR growing +69% and +47% vs pcp respectively.

Top Shelf International Holdings Ltd (**TSI**) also built momentum into the end of the year. As mentioned in last month's report the recent AGM confirmed its latest quarterly improvements vs the pcp. Branded pro forma revenue was up +34% with a +9% growth on group gross margin next of excise, translating to a +44% improvement on EBITDA vs pcp. The quarter was in line with the forecasts made by the company on its pathway to profitability.

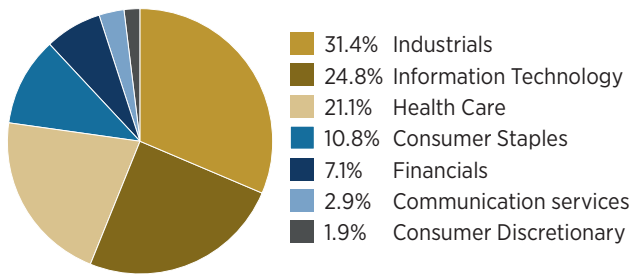
Ai-Media Technologies Ltd (**AIM**) did not release any material market information over the month of December. The share price accretion can be linked to improving sentiment for profitable global tech microcaps. The Manager is looking forward to the release of the December half trading results. Since 2021 AIM has been able to grow EBITDA 200% from -\$9.3m to +\$3.3m through higher margin technology revenue and strategic opex investment which the business is committed to continue.

The key detractor for the month was Pureprofile Ltd (**PPL**), who's negative share price reaction can likely be linked to the sale of shares by the CEO and CFO. These sales were both made to fund personal tax liabilities resulting from share based remuneration payments relating to the incentive programs over the last 3 years. The Manager has spoken with management directly over the sales and believes the explanation was genuine. The company performance and outlook remains positive.

Nuheara Ltd (**NUH**) continues to increase scale and momentum in the US market, with their hearing devices being sold throughout major retail chains. NUH received a \$1.4m R&D tax cash rebate and held their AGM in the latter part of November. The AGM highlighted it has moved to 5,000 points of sale, as well as the planned launch for their next generation product which utilises a single-chip hearing aid for January. NUH will continue to explore original equipment manufacturer opportunities, with the single chip device the catalyst for these conversations. Investors await further sales data and funding solutions for the business.

MedAdvisor Ltd (**MDR**) during December did not release any material market information. Last month's report previously outlined the latest quarter completed by MDR which was in line with the Managers expectations. MDR also strategically evolved its presence in the UK pharmacy market through an investment and license agreement with Charac Limited, UK. MDR will discontinue its current operations in the UK, transferring its pharmacy relationships to the Charac business. This strategic move will unlock future cost-saving benefits for MDR. It is worth noting in early January 2024, the MDR share price increased significantly clawing back all December losses.

Listed Portfolio Sector Weights



Top 5 Holdings

1. Top Shelf International Holdings Ltd (ASX:**TSI**)
2. Acrow Formwork and Construction Srvc Ltd (ASX:**ACF**)
3. Ai-Media Technologies Ltd (ASX:**AIM**)
4. Probiotec Ltd (ASX:**PBP**)
5. Ansarada Group Ltd (ASX:**AND**)

Investment Team



Gregg Taylor

Investment Director
25+ years' experience
Previous:
Bombora Investment Management,
Blue Ocean Equities



Advait Joshi

Senior Analyst
6+ years' experience
Previous:
Bombora Investment Management,
UBS Investment Bank



Francis Crossle

Analyst
1+ years' experience

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Authorised for release by the Board of SB2.

Important information

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