

# WEBINAR

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**SALTER BROTHERS**  
EMERGING COMPANIES LIMITED  
(ASX CODE: SB2)



EMERGING COMPANIES LIMITED

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# 1. EXECUTIVE SUMMARY



- Salter Brothers is a global alternative investments manager with over A\$4B 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 has a strong three-year track record of outperforming the small cap market, with the fund achieving 18% gain for the 12 months to 31 March 2025 and outperforming the market by ~14% for that period.\*
- As at 31st March 2025, the current share price of SB2 trades at a ~32.44% discount to the underlying post tax NTA value.^

\* Performance numbers calculated as at 31 March 2025. 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.

^ SB2 discount to NTA calculated as at 31st March 2025. For more information, refer to the Investment Report and NTA Update dated 13 April 2025 as published on the SB2 website ([salterbrothers.com.au/funds-management/emerging-companies/asxannouncements](https://salterbrothers.com.au/funds-management/emerging-companies/asxannouncements)).

# 1. EXECUTIVE SUMMARY (CONT.)

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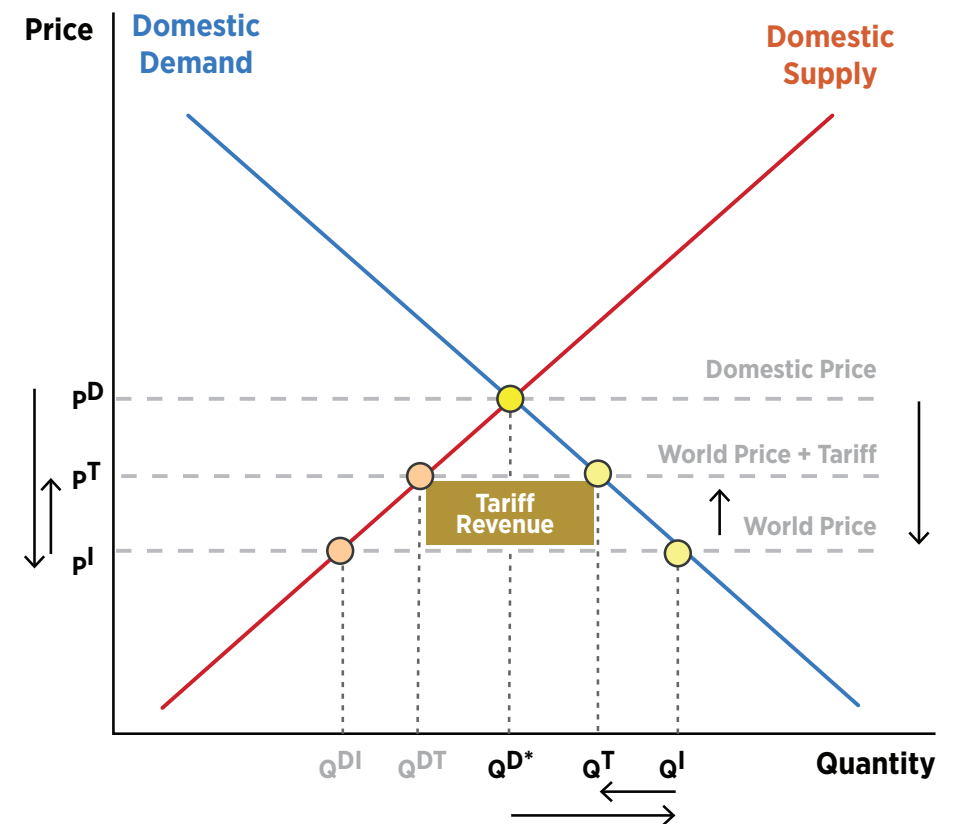
- In light of the recent extreme volatility and the broad-based sell-off in global equity markets, we undertake a review of fundamental economic principles, current tariff developments, and their potential ramifications for global economies and equity markets.
- The impact on Australia is expected to be relatively subdued with the key unknowns being the secondary impact of a material slowdown in China from the trade wars; and a general deterioration in consumer and business confidence.
- We review the recent market volatility relative to history and assess the potential implications for the SB2 portfolio. In conclusion, we anticipate continued short-term volatility though the investment case for an exposure to small cap Australian equities to remain intact.



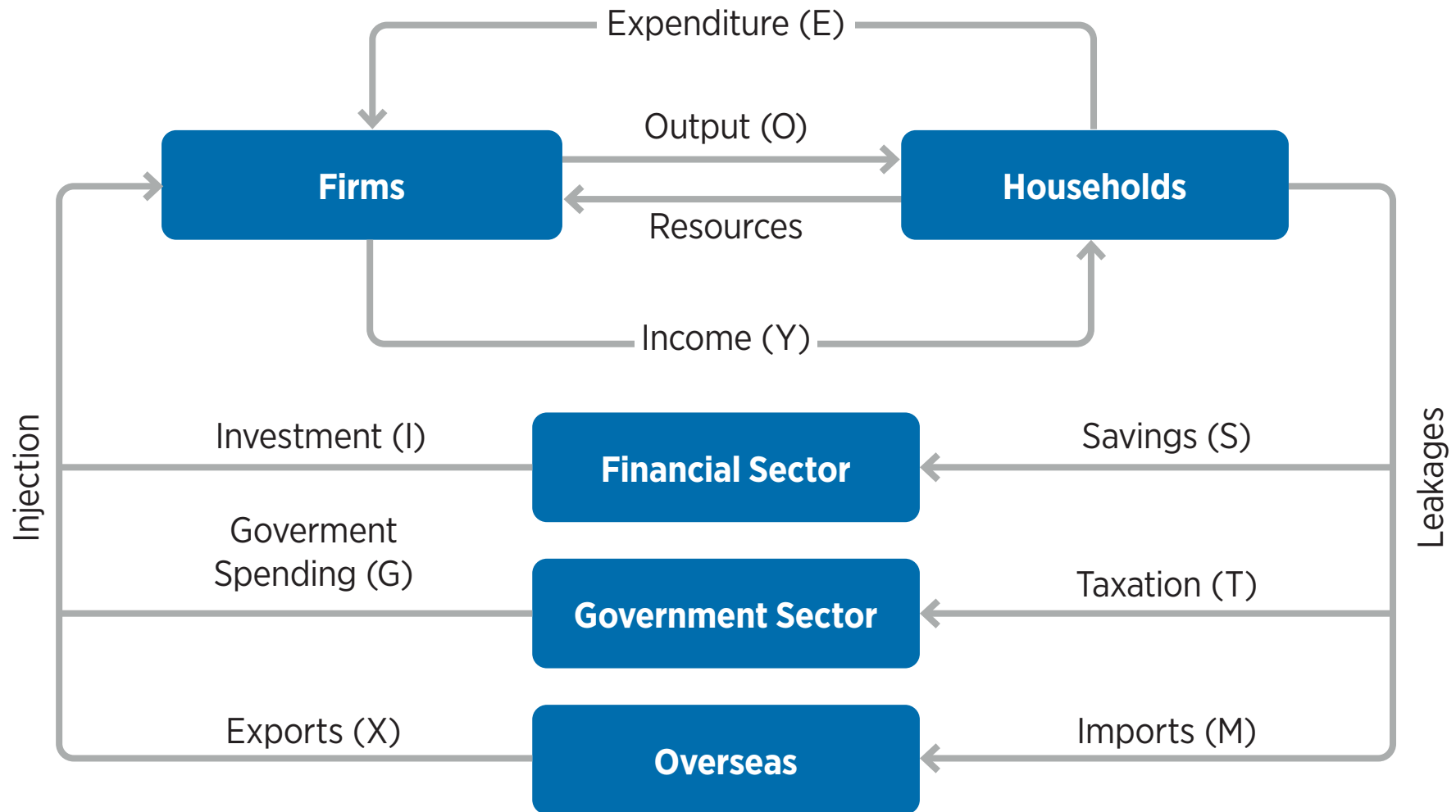
## 2. ECONOMIC FUNDAMENTALS - TARIFFS

- **Definition** - A tariff is a tax or duty imposed on imported goods.
- **Consumers will import goods when the world price for a good + tariff is below the domestic price (Goods made cheaper internationally).**
- **When a tariff is introduced, this essentially increases the world price and as such equilibrium price.**
- **Benefits assuming all remains constant:**
  - Increased production by domestic producers, protection of domestic industries, increased domestic employment, increased government revenue (not accounting for potential fall in other tax streams) and reduction in imports to help balance trade.
- **Negative impacts assuming all remains constant:**
  - Tariff cost is passed through to consumers, inflationary pressure, reduced consumer choice by limiting foreign products, disruption to supply chains, retaliation with reciprocal Tariffs.

Economic Effects of Tariffs



# 3. ECONOMIC FUNDAMENTALS - CIRCULAR FLOW OF INCOME



# 4. US TARIFFS OUTLOOK

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## US tariffs announced

- › The US government imposed a 10% tariff on all countries which took effect on 5 April 2025.
- › The US has since imposed individualised reciprocal higher tariffs to 60 countries in which the US have their highest trade deficits. As at writing these have been paused for 90 days to allow for negotiation.
- › Inclusive of this is China with a 120% reciprocal tariff.
- › On the 9th of April all announced tariffs excluding China's were placed on pause for 90 days.
- › The US tariff on China however increased to 125%.

## Likely ambitions

- › Largely China focused.
- › Reducing the US current account trade deficit.
- › Focus on US government debt.
- › Protecting US manufacturing.

## Where will it all land?

- › Changing daily and likely to continue to shift significantly.





# 5. THE GLOBAL RESPONSE

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- As the world adjusts to the uncertainty caused by Trump's daily tariff announcements other policy instruments will need to be called upon including:
  - Monetary policy likely to be the next instrument to respond to the tariffs after trade policy, with interest rate cuts expected.
  - Fiscal policy where the focus is more likely to be placed on designing targeted changes to discretionary fiscal policy (government spending). It is less likely that we will see substantial changes to non-discretionary fiscal policy (taxes and welfare), unless these changes were already planned in which case they may now be accelerated (which is the case in USA and Australia).
- Our view is that the global economies will adjust and while we acknowledge the short-term disruption, we do not believe this will have a long-lasting impact. Fundamentals of valuation and financial markets will normalise .



## 6. THE IMPACT ON AUSTRALIA



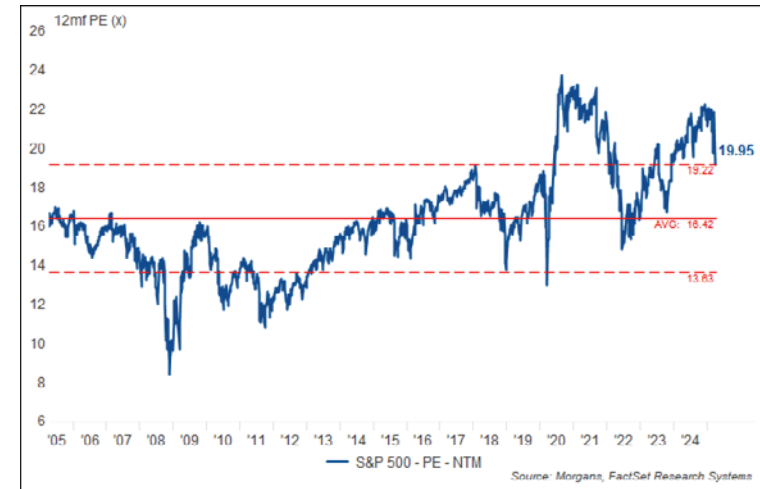
- The US tariff regime should have little material effect on the Australian economy. Australia's export exposure to America is limited, with it making up only a 4.6% export share in 2024.
- The bigger risk to Australia is the ripples, both global and domestic, from the tariffs. For an export-oriented economy such as Australia, where exports account for over a quarter of GDP, any tariff-induced slowdown in activity from these partner nations could have notable flowthrough to Australia. Domestically, the major concern would be confidence, with global uncertainty a risk to weigh on business and consumer confidence.
- In terms of measurable impact on the Australian economy, the Treasury provided some modelling and commentary on 7 April 2025. According to their models, the tariffs could cause a 0.1% fall in GDP in 2025 and a 0.2% fall in 2026, relative to a non-tariff scenario. The forecast impact on inflation was more transient, rising 0.2% in 2025 relative to a non-tariff scenario and then ceasing to have any impact into 2026. Overall, commentary from the treasury was positive, electing to maintain their budgetary forecasts of key economic variables – prepared in March prior to the tariff announcement – while noting that tariff uncertainty did present a material downside risk. (Source: Secretary to the Treasury and Secretary of the Department of Finance, *Pre-election Economic and Fiscal Outlook 2025* (The Commonwealth of Australia, April 2025)).

# 7. MARKET VALUATIONS

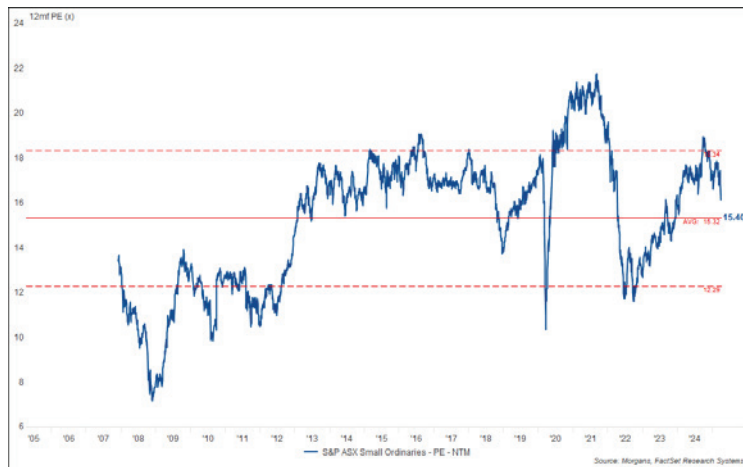
## 12-month Forward PE – ASX 200



## 12-month Forward PE – S&P 500



## 12-month Forward PE – ASX Small Ordinaries



## 8. HISTORICAL MARKET DECLINES & RECOVERY

- Recent market volatility has highlighted a notable divergence in small-cap equities on the US market, which initially rallied amid earlier policy shifts favouring domestic growth but have since faced significant pressure. Following heightened trade-related uncertainties and broader economic concerns, these companies have now crossed into bear-market territory, reflecting a broader market recalibration.
- Historical patterns suggest such pullbacks often precede periods of recovery, with median returns historically trending upward in subsequent quarters, highlighting potential opportunities for patient investors.
- This shift emphasises the importance of balancing near-term risks with longer-term fundamentals, particularly as private equity dry powder remains near record levels, potentially offering stabilisation.

Russell 2000 Performance Following Bear Market Entry					
Enters Bear Market	One Week	One Month	Three Months	Six Months	One Year
10/19/1987	-17.4%	-13.8%	-6.9%	6.7%	11.2%
8/20/1990	-3.8%	-6.6%	-13.9%	7.8%	18.4%
8/25/1998	-10.7%	-5.3%	2.5%	0.8%	12.3%
4/14/2000	6.2%	8.2%	19.6%	5.9%	0.3%
3/21/2001	1.5%	7.1%	14.2%	-13.0%	16.0%
9/18/2001	-3.8%	2.3%	17.9%	22.1%	-8.5%
7/11/2002	-4.8%	-6.8%	-17.2%	-4.9%	13.7%
1/17/2008	1.8%	3.1%	4.0%	2.4%	-31.5%
11/19/2008	13.7%	17.9%	1.1%	19.6%	42.0%
2/20/2009	-5.3%	-2.6%	19.1%	38.4%	53.7%
7/6/2010	8.9%	10.3%	16.2%	34.1%	43.3%
8/8/2011	10.4%	6.8%	16.0%	27.3%	22.9%
1/13/2016	-1.1%	-3.8%	11.9%	18.9%	35.8%
12/17/2018	-8.1%	6.5%	12.7%	11.2%	20.3%
3/9/2020	-21.0%	-5.1%	14.7%	16.2%	70.9%
1/27/2022	3.1%	5.7%	-2.4%	-4.3%	-1.0%
<b>Average</b>	<b>-1.9%</b>	<b>1.5%</b>	<b>6.8%</b>	<b>11.8%</b>	<b>20.0%</b>
<b>Median</b>	<b>-2.4%</b>	<b>2.7%</b>	<b>12.3%</b>	<b>9.5%</b>	<b>17.2%</b>
<b>% Positive</b>	<b>43.8%</b>	<b>56.3%</b>	<b>75.0%</b>	<b>81.3%</b>	<b>81.3%</b>

Source: Dow Jones Market Data, Henslow 5/4/25

# 9. WHAT DOES THIS MEAN FOR AUSTRALIAN SMALL CAPS



- The economic outlook remains balanced and recent share price sell off has balanced the risk versus reward equation:
  - impact to domestic GDP growth and inflation is modest;
  - we are likely to see accelerated and meaningful cuts in interest rates; and
  - the result of a benign Australian Federal election will be known and global markets will adjust and economic and market fundamentals will still hold.
- Small cap valuations continue to be attractive relative to large caps valuations.
- The recent fall in valuations is justified by the short-term uncertainty but potentially presents a medium-term buying opportunity. At the very least now is not the time to be exiting small caps.

# 10. SB2 EXPOSURE TO TARIFFS

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**Majority of the Portfolio largely unaffected.**

**ACF - Potential benefits from Australian fiscal response and decline in interest rates.**

**CLG - Increase in market price for restored goods, limited tariff impact as good qualify for USMCA.**

**BOT - Minimal impact, falls under USMCA compliant product.  
If this was to change the tariff would only be applied to the COGS.**

**EML - Potentially faster reduction of interest rates in Europe, UK and Australia.**

**ERD - Pressure on US logistics companies, Tariff on very small hardware revenue.**

**OFX - Revenue is dependant on global trade volumes.**

# 11. SB2 PERFORMANCE

Performance Summary <sup>#</sup>	SB2	ASX Emerging Companies Index*	Difference
1 Month	-3.00%	-1.98%	-1.02%
3 Months	-2.05%	-3.56%	1.51%
12 Months	17.98%	4.10%	13.88%
Inception p.a.*	4.03%	1.37%	2.66%
Inception*	16.02%	3.36%	12.66%

# Performance numbers calculated as at 31 March 2025. 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 is 27 May 2021.

- The **Salter Brothers Emerging Companies Portfolio** continues to deliver strong performance, achieving a **12-month return of 17.98%** as of **31 March**. This result outperforms the **ASX Emerging Companies Index (ASX:XEC)** by 13.88%, which posted a return of **4.10%** over the same period.
- The March quarter experienced significant volatility for the small cap market and included the key half yearly reporting season. The Portfolio also outperformed the market by 1.51% during this period.

# 12. SB2 PORTFOLIO POSITIONING

## Key Holdings

	Market Cap	Sector	Company Description
1. Alfabs Australia Ltd (ASX: <b>AAL</b> )	\$100m	Construction & Engineering	Provides a design-to-delivery solution for its clients across heavy steel fabrication, construction and maintenance services, mining equipment, protective coatings, transport and clinics.
2. Aim-Meridia Technologies LTD (ASX: <b>AIM</b> )	\$150m	Business Software	Provider of live and recorded captioning, transcription, subtitles, translation, and speech analytics using a proprietary, cloud-based technology platform.
3. Bluebet Holdings Ltd (ASX: <b>BBT</b> )	\$220m	Casinos & Gaming	Bluebet under new Chairman Matt Tripp plan to aggressively pursue inorganic growth by leveraging their integration technology and consolidating the sub-scale wagering platforms.
4. Acrow Formworks LTD (ASX: <b>ACF</b> )	\$350m	Construction & Engineering	Acrow is well positioned to outperform, support by their current modest valuation and favourable Industry tailwinds as it's largest market prepares for the 2030 Olympics.
5. Alcidion Group Ltd (ASX: <b>ALC</b> )	\$100m	Health Care Technology	Alcidion is imminently due to provide an update on their North Cumbria EPR, particularly disclosing what the contract terms are. The company remains on the verge of breakeven and is actively pursuing further sales.

## 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 70%.
- › 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 return over the long term.
- › As such, the weighted average investment profile of our portfolio (as at 31/03/2025) features:
  - › Weighted average FY25-26F Revenue growth of c.+20%
  - › Weighted average FY25-26F EBITDA margin of c.10%
  - › Weighted average FY25-26F NPAT margin of c.3%
  - › Weighted average FY25-26F P/E multiple of c.8.1x

## Metrics of the Listed Portfolio\*\*

	FY24A	FY25F	FY26F
<b>Key Ratios</b>			
EV / EBITDA (x)	8.7x	8.2x	9x
EV / EBIT (x)	13.2x	8.3x	9.6x
P / E (x)	6.7x	9.7x	7.3x
<b>Portfolio Financials</b>			
Revenue Growth (%)	15%	17%	18%
EBITDA Margin (%)	11%	14%	18%
EBIT Margin (%)	-2%	5%	11%
NPAT Margin (%)	-6%	0%	6%

\*\*All metrics reflect weighted averages of the combined portfolio based on SB2 forecasts, as at 31/03/2025, adjusted for abnormalities and key ratios earnings metrics exclude loss making entities.



# Q&A



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