SEC Results FY23

FY23 Profit	Company Performance[1]	Dividends[2]	Yield	Yield (including franking)
$9.6m	+9.6%	9.3c	4.9%[3]	7.0%[4]

- **FY23 net profit after tax of $9.6m**
- **Company Performance of +9.6%, +1.2% compared to benchmark[5] of +8.4% (+2.6% p.a. to benchmark since inception)**
- **Total quarterly dividends declared for the year of 9.3 cents per share (fully franked)[2]**
- **Includes increased quarterly dividend target of 1.25% of post-tax NTA for the June 2023 quarter, equivalent to 2.8 cents per share (fully franked)**
- **Trailing dividend yield equal to 4.9%[3] (7.0%[4] including franking)**
- **On-market share buy-back commenced in June 2023**
- **Shareholder webinar on results and portfolio**

Performance

We are pleased to announce that Spheria Emerging Companies Limited (ASX:SEC) (**Company**) recorded a profit of $9.6m for the year ended 30 June 2023 (**FY23**). Although conditions continue to be volatile under the backdrop of high inflation and increased interest rates, asset values commenced to recover after the losses experienced in the 2nd half of the 2022 financial year (**2HFY22**) and this along with steady dividend revenue from portfolio investments contributed to the profit for the year.

During the year Company Performance, which comprises investment portfolio performance after deducting investment management fees and Company administration expenses (excluding taxes), was +9.6%. This compared to benchmark performance of +8.4% for the year.

Pleasingly, the Company also continues to exceed its benchmark since inception, with Company performance of +6.0% p.a. compared to benchmark performance of +3.4% p.a. The performance since inception is especially pleasing as the Company marked its 5th anniversary since listing on the ASX during the year in December.

Quarterly dividends

The Company continued to declare quarterly dividends during FY23, initially at a rate of 1.0% of the Company's post-tax NTA at the end of each calendar quarter until March 2023, and then at its increased targeted rate of 1.25% of post-tax NTA for the June 2023 quarter.

The total of 9.3 cents per share in fully franked dividends for FY23[2] represents a trailing dividend yield of 4.9%[3] based on the 30 June 2023 share price of $1.90, and a gross yield (including franking credits) of 7.0%[4].

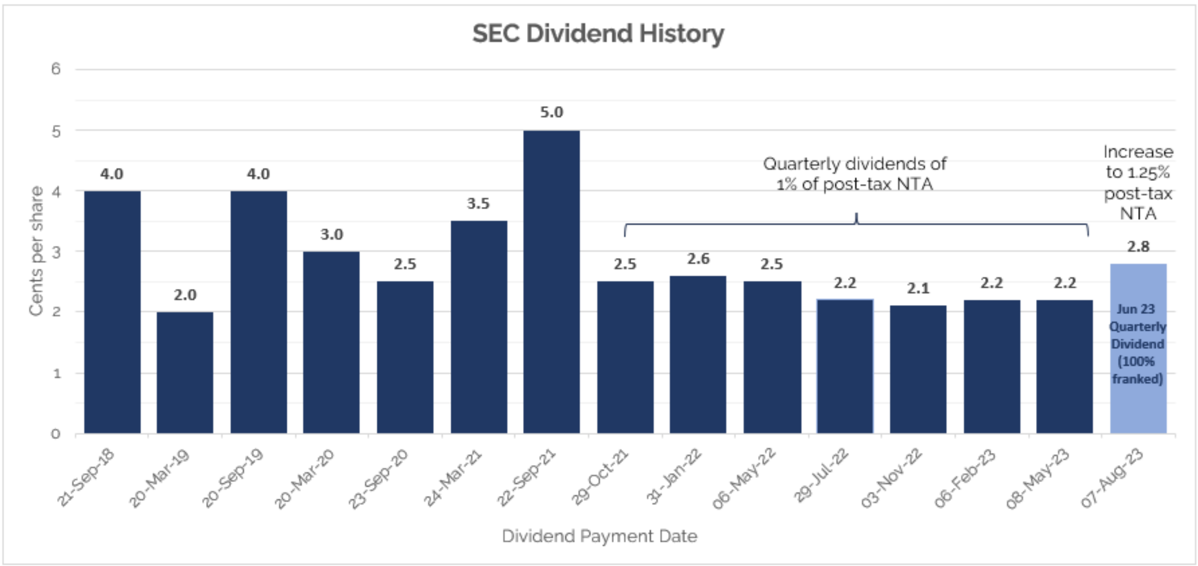
---

[1] Calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, after Company expenses.
[2] Comprising September 22 quarter dividend of 2.1 cents (paid 3 November 2022), December 22 quarter dividend of 2.2 cents (paid 6 February 2023), March 23 quarter dividend of 2.2 cents (paid 8 May 2023), and June 23 quarter dividend of 2.8 cents (paid 7 August 2023).
[3] Trailing dividend yield based on total quarterly dividends of 9.3 cents, calculated on share price as at 30 June 2023 of $1.90.
[4] Trailing dividend yield including franking credits based on total quarterly dividends of 9.3 cents, calculated on share price as at 30 June 2023 of $1.90, using 30% tax rate.
[5] S&P/ASX Small Ordinaries Accumulation Index.

The quarterly dividends declared for FY23, fully franked at a 30% tax rate, were as follows:

Quarter ended	Value per share	Date paid
30 September 2022	2.1 cents	3 November 2022
31 December 2022	2.2 cents	6 February 2023
31 March 2023	2.2 cents	8 May 2023
30 June 2023	2.8 cents	7 August 2023

Including these quarterly dividends, the Company has now declared 43.1 cents per share total dividends since its ASX listing in Dec 2017, equivalent to 21.5% of the IPO price of $2.00.



The Company intends to continue the payment of quarterly dividends at a level equivalent to 1.25% of the post-tax NTA of the Company, subject to available profits, cash flow and franking credits.

At 30 June 2023, the value of the Company's franking account was $6.4m[6] ($0.106 per share). This is equivalent to $0.247 per share in fully-franked dividends at the Company tax rate of 30% and the Company presently maintains sufficient profit reserves for this value of dividends.

Discount to NTA

The discount between the Company's pre-tax NTA per share and its share price stood at 13.6% on 30 June 2023[7].

The Board remains committed to addressing the discount, and during May 2023 announced two capital management initiatives aimed to assist in its reduction, being the 25% increase in dividend target to 1.25% of post-tax NTA per quarter and the reintroduction of the on-market share buy-back.

While the initiatives have only been in place for a short time, early indications have been positive with the discount having reduced to 10.7% as at 22 August 2023[8], compared to 18% during May 2023 when the initiatives were announced.

[6] After adjusting for franking debits that will arise from the refund of current tax assets.
[7] Calculated on 30 June 2023 pre-tax NTA per share of $2.198 and share price of $1.90.
[8] Calculated on 22 August 2023 daily estimated pre-tax NTA per share of $2.183 and share price of $1.95.

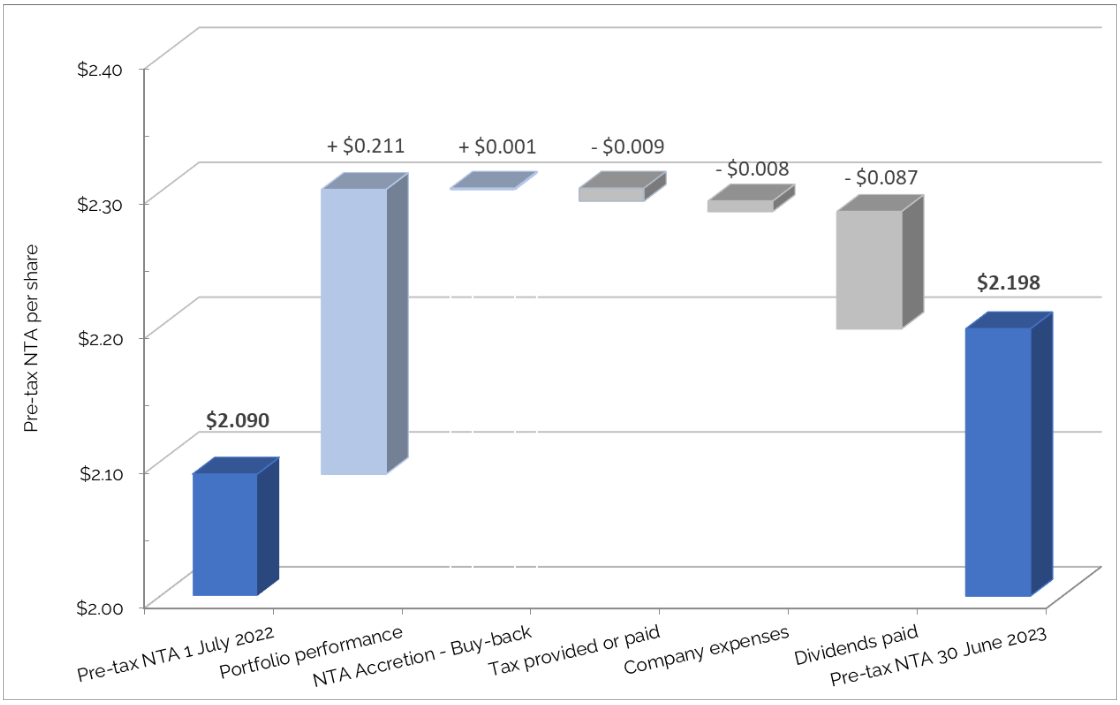
On-Market Share Buy-back

On 14 June 2023 the Company commenced an on-market share buy-back for the purchase of up to 5,413,557 shares through to 13 June 2024. From commencement until 30 June 2023, the Company purchased 192,345 shares under the buy-back for a total consideration of $355,000.

Since 30 June 2023 a further 70,727 shares have been purchased for consideration of $133,000, so that there are currently 5,150,485 shares able to be bought back under the existing limit.

NTA performance breakdown for FY23

During FY23 the pre-tax NTA increased by $0.108, from $2.090 at 30 June 2022 to $2.198 at 30 June 2023. The increase in NTA is after the payment of taxes, company expenses and dividends during the half-year, which totalled $0.104.



The post-tax NTA of the Company as at 30 June was $2.225 per share, which was $0.027 higher than pre-tax NTA, representing the value of tax on unrealised investment portfolio losses at year end, at the Company's tax rate of 30%. This difference between pre-tax and post-tax NTA fluctuates as unrealised gains and losses are made on SEC's investments.

Shareholder webinar on results and portfolio

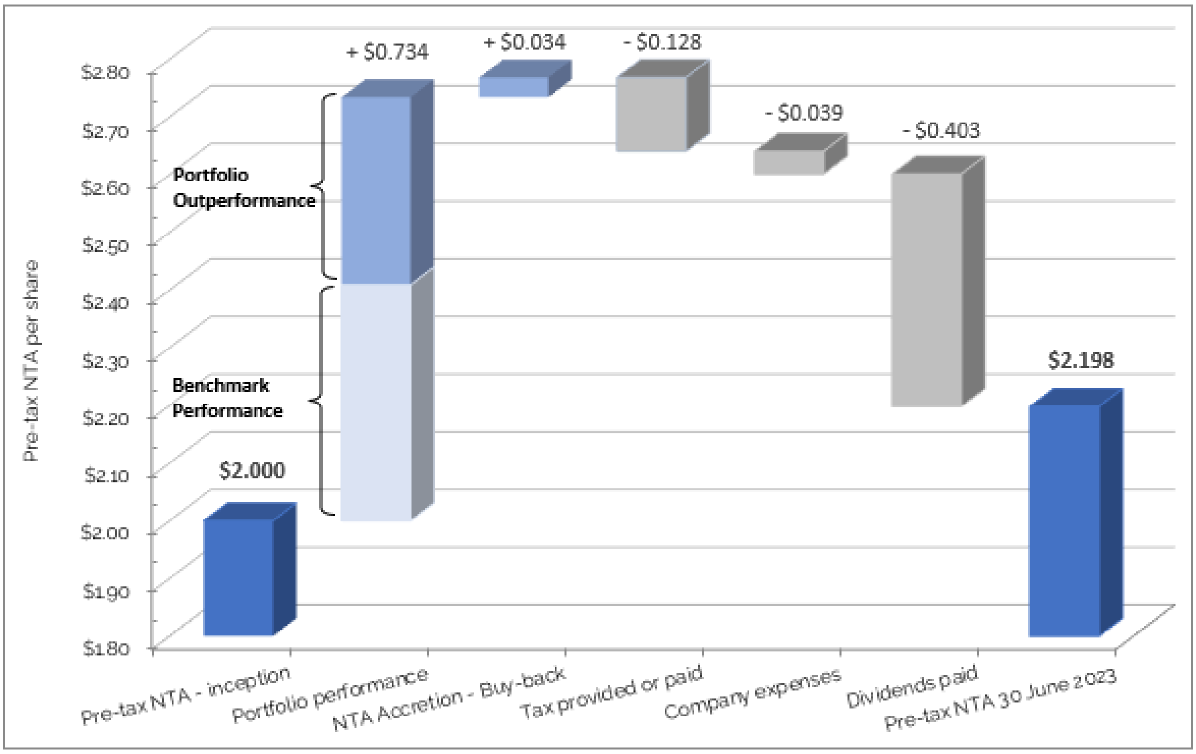
The Board invites you to the upcoming shareholder webinar on 31 August 2023 at 11.00am (Sydney time AEDT). The webinar will provide an update on the Company's financials and investments from the Company's director and Spheria Asset Management's Portfolio Manager, Matthew Booker.

Shareholders are invited to register at the following link:
SEC FY2023 Results Presentation

The Board of Spheria Emerging Companies Limited has authorised this announcement to be released to the ASX.

Additional shareholder information

NTA Performance since inception



Manager's commentary

Portfolio performance

The investment portfolio increased 10.0%[9] for the twelve-month period ending 30 June 2023, outperforming the Benchmark by 1.6%.

Ironically, the best performer in the investment portfolio over the financial year was Nitro Software (NTO) which gained over 60% after two private equity backed firms launched competing takeover bids for the company - ironic because in the previous financial year it was the worst performer in the investment portfolio down by nearly 60%. Competition for NTO saw the takeover price escalate from an initial level of $1.58 to what looked a final price of $2.15, however, we were able to enable a counterproposal at $2.20 from the ultimate acquirer (Potentia) after we voted down Alludo's (backed by KKR) scheme of arrangement, and Alludo strategically mis-stepped by calling its $2.15 offer final.

Notwithstanding NTO, the 2022 calendar year was a relatively quiet period in terms of takeover activity. However, this dynamic changed in the new calendar year with a flurry of takeovers despite higher interest rates and tighter credits markets. Logically, smaller companies are more frequently acquired by larger companies including foreign or private equity types and as such this can be a solid source of incremental return. As we have often stated, we believe our philosophy of investing in high free cash flow businesses with strong market positions and with a valuation overlay means we disproportionately benefit from this phenomenon.

To this end, one of the other main contributors to performance over the financial year was the takeover of Blackmores (BKL) by Japanese beverage company, Kirin, announced in April 2023. The takeover saw the BKL share price gain 36% over the financial year. Whilst we made a tidy profit on our BKL shareholding, we believe if the company were managed better with a

9 After investment management fees. After deducting Company administration expenses (excluding taxes), Company performance was 9.6%.

greater focus on costs it could have been worth much more than the $95 offer from Kirin. To be frank (perhaps delusionally), we were a little surprised there was no other strategic interest given the strong market positions BKL had built in key fast growing Southeast Asian countries.

Other key performers over the course of financial year were Smartgroup (SIQ), a salary packaging administrator that is highly cash generative with a strong market position that rebounded strongly from our entry price earlier in the year, and Supply Networks (SNL) which is the largest supplier of aftermarket parts for trucks and buses in Australia and New Zealand. We have owned SNL for a long time, in the last two years earnings have more than doubled whilst revenue has grown organically by nearly 50%. In our view, the company is a "true" growth stock and yet is still not widely known. The SNL share price rallied over 60% over the financial year but remains relatively inexpensive given its incredible growth profile, large addressable/fragmented market and scalable position.

It is never smooth sailing in the small-cap market. Over the year we had several companies perform poorly with City Chic (CCX) – a plus size female fashion retailer that had made us significant money in the past - unfortunately falling by nearly 80% after we bought back in during the year. This was disappointing but to some degree a fair reflection of the issues at CCX whose customer base has been severely impacted by economic conditions and the company itself acquiring too much inventory due to an expectation of ongoing supply chain issues post COVID which never eventuated and the ensuing slow-down in sales.

Positions in Bega Cheese (BGA) and Universal Store (UNI) which both declined 23% over the year also detracted from performance, however, the largest aggregate detractors from relative performance were not owning Liontown Resources (LTR, a lithium miner) that was subject to takeover interest from Albemarle (a large global lithium producer) and Telix Pharmaceuticals (TLX) which is a biotech developing therapies for cancer sufferers. Neither LTR nor TLX generate positive cash flow, that is not to say they won't in the future but clearly, they do not currently fit philosophically with how we invest. Further, they have market capitalisations of greater than $6bn and $3bn respectively which means (potentially) a lot of success is already factored into their market valuations. From a risk-reward perspective this a very difficult equation for us to find comfort.

Despite a significant fall in lithium prices over the year (>50% peak to trough) many of the listed miners with exposure held up relatively well with the markets fervour for any renewable thematic overcoming any common sense. In that respect, most key commodity prices fell substantially over the financial year with an outlier being gold which gained 6%. The most relevant move being the decline in thermal coal prices by around 50%. Remarkably, prices peaked in September 2022 at US$423 per tonne versus the current price of US$133. Despite the sharp retracement in thermal coal prices and government intervention in NSW (i.e., coal reservation scheme), electricity prices continue to rise with June quarter 2023 up nearly 11%. This was the largest quarterly increase in NSW power prices since the Australian Energy Regulator (AER) began collecting data in 2008. Clearly, the Ukraine war and thermal coal prices are not to blame for the current predicament and unfortunately, the AER is expecting power prices will continue to rise which will continue to place a significant burden on households and businesses, and hence the economy. We dare say that a major factor driving inflation is direct function of energy policy that whilst noble in its intention has little regard for basic economics. Turning off cheap and reliable electricity generation for less reliable and difficult to scale renewables (whilst putting aside the enormous cost of building transmission infrastructure) is fraught with danger and the economy likely will pay the price, potentially for many decades.

Market Outlook

Again, large-cap indices around the world have performed much better than their small-cap brethren with rising interest rates prompting a flight of capital to larger companies regardless of valuation. As a result, the valuation gap between large and small companies is once more at extreme levels. Historically, these junctures have been a great time to generate significant multi-year returns from investing down the market cap spectrum. Three years ago, we faced a similar scenario and the returns since then speak for themselves.

We thank our shareholders for their interest in and support of the Company and would welcome your questions and participation in our results and conference calls.

About Spheria Asset Management Pty Limited (Manager)

Spheria Asset Management Pty Ltd is a fundamental-based investment management firm with a bottom-up focus, specialising in small- and micro-cap companies, which can provide higher returns in the long term than their larger peers.

The Manager is majority owned by its team, which has nearly 100 years of combined investment experience. The Manager's performance culture is underpinned by sensible incentives, a focused offering and the outsourcing of non-investment functions to minority partner Pinnacle Investment Management Limited.

Find out More about the Company and Manager

To find out more information about the Company, please visit the SEC Website
To find out more information about the Manager, please visit the Spheria website

Contact Us

If you have any questions for the Company, please reach us on 1300 010 311
If you have any questions regarding your shareholding, please call Automic, the Company's share registry on 1300 902 587