

A low-angle, upward-looking perspective of several modern skyscrapers with glass facades, reaching towards a blue sky with scattered white clouds. The buildings are rendered in a monochromatic blue tone, creating a sense of height and architectural scale.

**HALF YEARLY UPDATE**

# **GLENNON SMALL COMPANIES LTD**

**May 2017**



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# TODAY'S AGENDA

## **Market Update**

What is happening in small caps?

What opportunities are we seeing?

## **Portfolio Insights**

Tourism

Retail

## **GC1**

Performance, dividends and  
communication

## **Case Studies**

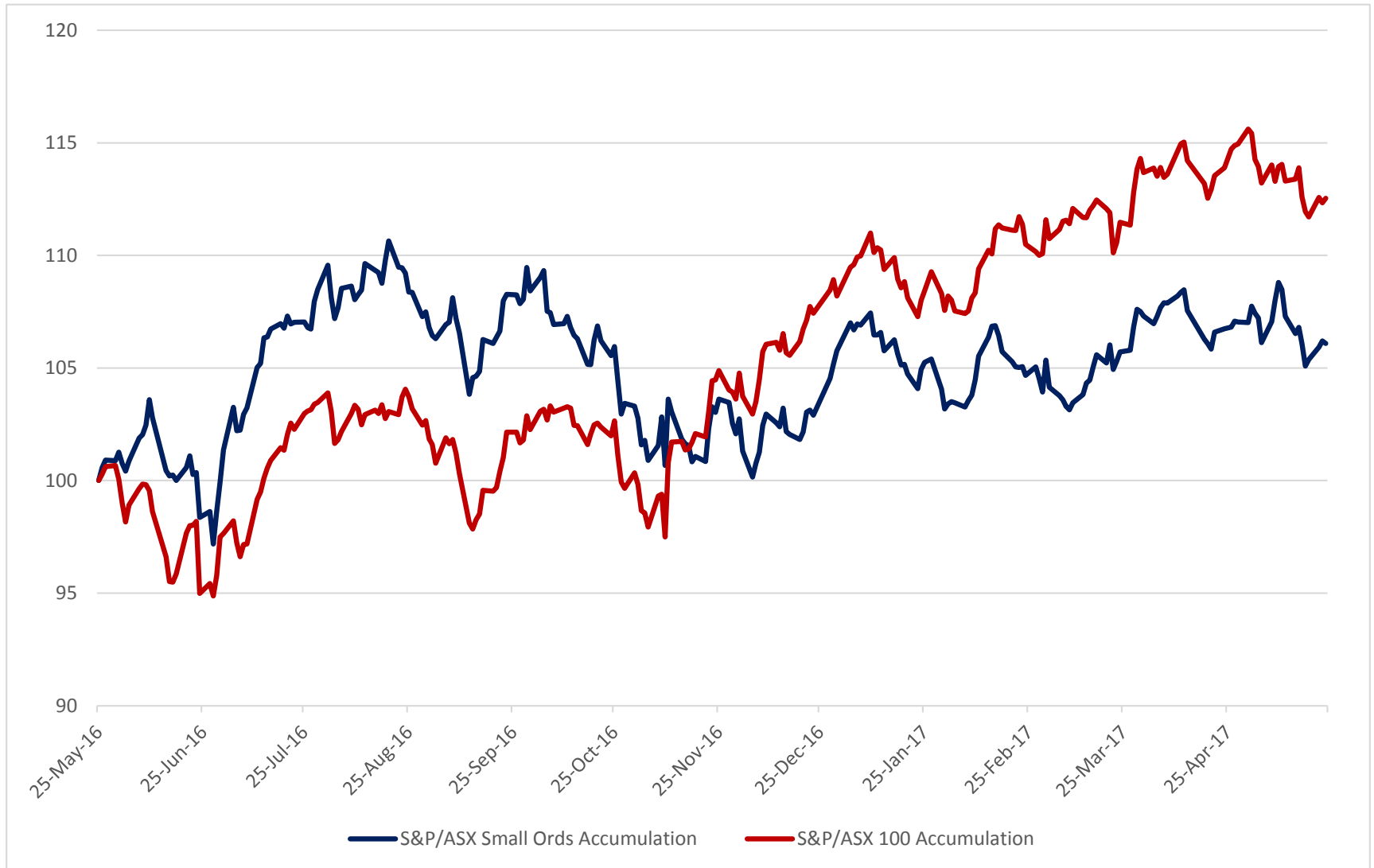


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# **MARKET UPDATE**

## WHAT IS HAPPENING IN SMALL CAPS?

# SMALL CAPS VS LARGE CAPS



# REPORTING SEASON CARNAGE

- Large cap funds have been selling. These are not traditional owners of small cap stocks
- Quality small caps were overvalued and valuations broadly were stretched
- Good businesses have suffered extreme volatility as valuations were pushed to their upper limits
- Companies with good results that may have been marginally below what the market expected were punished

# REPORTING SEASON CARNAGE



# POST REPORTING SEASON

Date ▾	Compar ▾	Reason for Downgrade ▾
17-May-17	ORL	Poor mid season sale, competitive market conditions, low consumer confidence, GAP performance has deteriorated
17-May-17	VTG	Telstra renegotiates agreement with Vita reducing the revenue opportunity available for Vita
16-May-17	KSL	FX Income down due to inability to establish a USD foreign exchange counterparty
15-May-17	FFT	Delayed project starts in Americas and Europe, slower than expected increase in spending in the utilities sector
12-May-17	SWL	Extra costs associated with growing the business, further deterioration in a negative project already announced, weather delays
11-May-17	VTG	Further changes to Telstra agreement, suspends plans to expand store network
11-May-17	CLH	Writedown of capitalised computer software development expenditure
11-May-17	WLL	Weak retail market and reductions in advertising and marketing spend
10-May-17	SLM	Retail client base continues to face strong market pressures, catalogue and digital volumes and price have decreased
10-May-17	QIN	Key customer Galderma had terminated its agreement with QIN on 1 Jan 2017 but board only found out on 9 May 2017
04-May-17	MRG	Delayed harvest, delays in consolidating warehouse, delays in installing new equipment, lower yields on harvest vs forecast
03-May-17	ADA	Delays in orders and decisions on programs
02-May-17	VOC	EBITDA 16% below guidance with multiple issues, staff turnover, extreme weather, accounting systems
01-May-17	RCG	March and April trading short of expectations, challenging retail conditions, low consumer confidence
28-Apr-17	SHV	Crop downgrade on back of too many blank nuts
28-Apr-17	PTM	Responds to market pressure and lowers base fees impacting revenues by up to 9%
27-Apr-17	TEN	\$200m licence impairment, costs growing at 7% and revenue going backwards
27-Apr-17	RAN	Sales of existing pallets below expectations
26-Apr-17	4WD	Prospectus downgrade with June half EBIT of \$800k vs \$3m, customers delaying orders, increased competition and pricing pressure
25-Apr-17	SRX	SARAH trial doesn't meet primary endpoint
24-Apr-17	VRL	Theme park downgrade based on further weak attendances, cyclones, poor membership renewals, Wet n Wild Sydney now struggling
21-Apr-17	CCL	1H17 NPAT to be down, blames Australian beverage division with volume/price pressure from competition and category issues
19-Apr-17	YOW	Lowers sales guidance in US and now a staged rollout in Canada
10-Apr-17	MHJ	Challenging retail conditions in Australia and New Zealand
07-Apr-17	TRS	Challenging retail conditions, particularly WA, ACT, execution issues with merchandising strategy, too many variety products
21-Mar-17	TGA	Extra \$4m provision to compensate customers who didn't meet the minimum income threshold for their contracts
20-Mar-17	FBU	2x fixed price problem projects with complexity of design and subcontractor management blamed
06-Mar-17	NVT	Loses several large government contracts in Adult Migrant English Programs
03-Mar-17	JHX	Disappointing margins in North American Fibre Cement
01-Mar-17	CVT	Misses out on key UK government contract and also a prior announced relationship unlikely to proceed

- Downgrades have continued after reporting season
- Many companies are downgrading multiple times as they struggle to gauge the risks to earnings



# WHAT DOES THAT MEAN?

- This is the time to be looking at investing
- Small caps have been revalued downwards
- Small caps were getting expensive last year
- There is more value in the market now

Buy when there's blood in the streets, even if the blood is your own.

*Baron Rothschild*

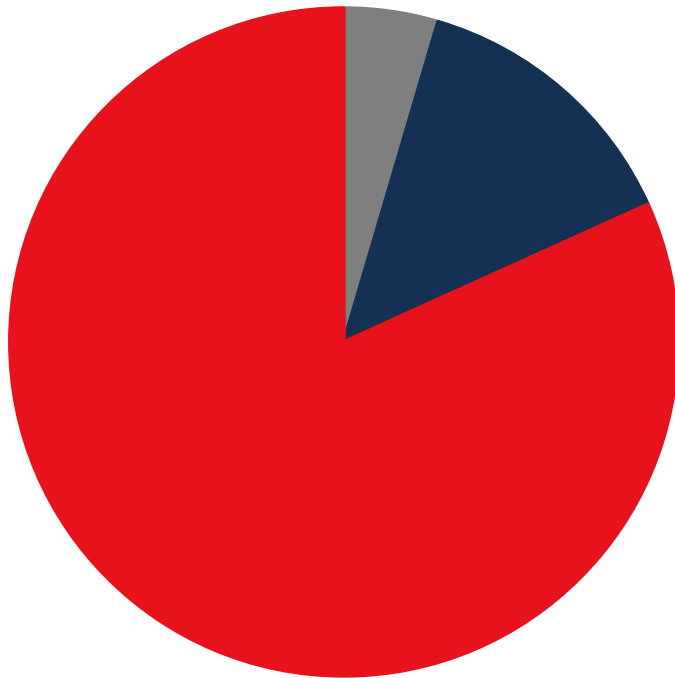
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# **MARKET UPDATE**

WHAT OPPORTUNITIES ARE  
WE SEEING?

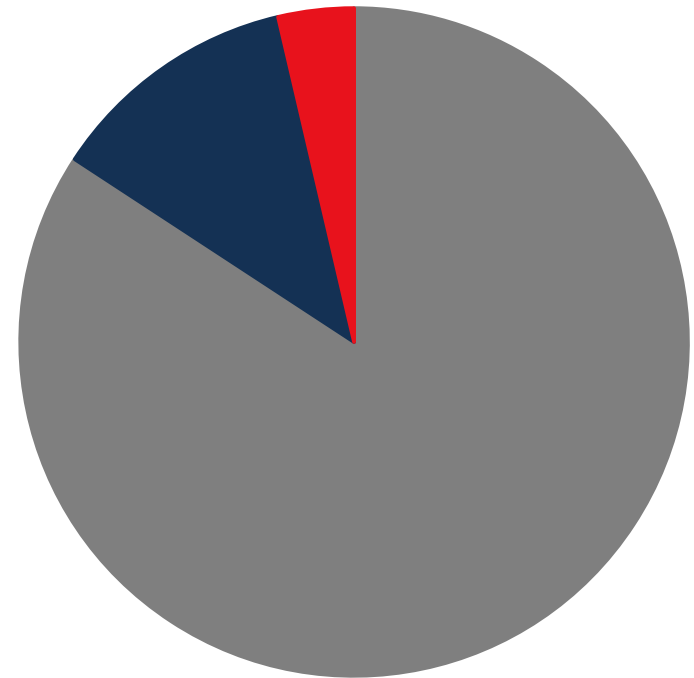
# SMALL CAPS VS LARGE CAPS

Number of  
Stocks



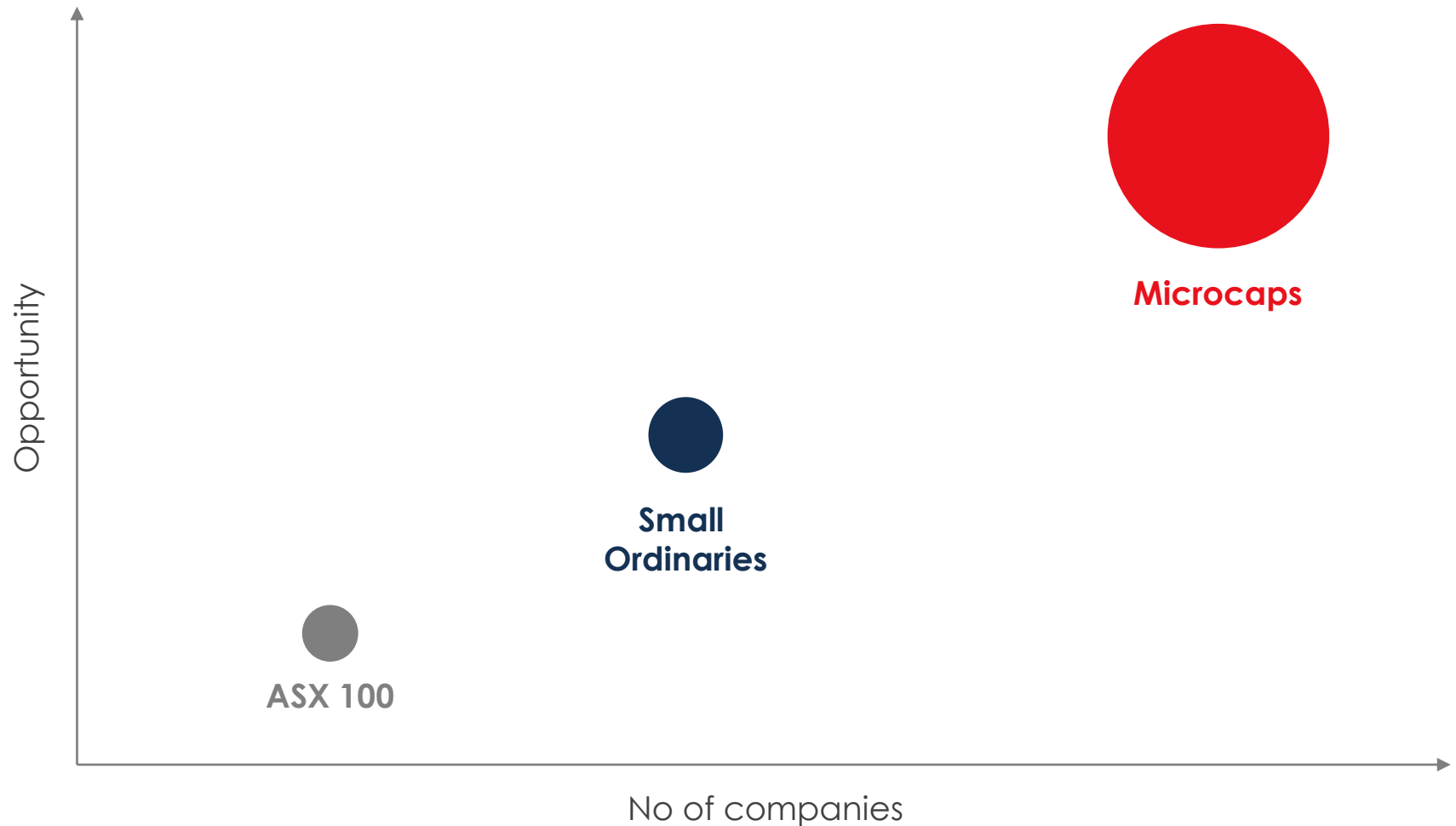
■ Top 100 ■ Small Ords ■ Microcaps

Market  
Capitalisation



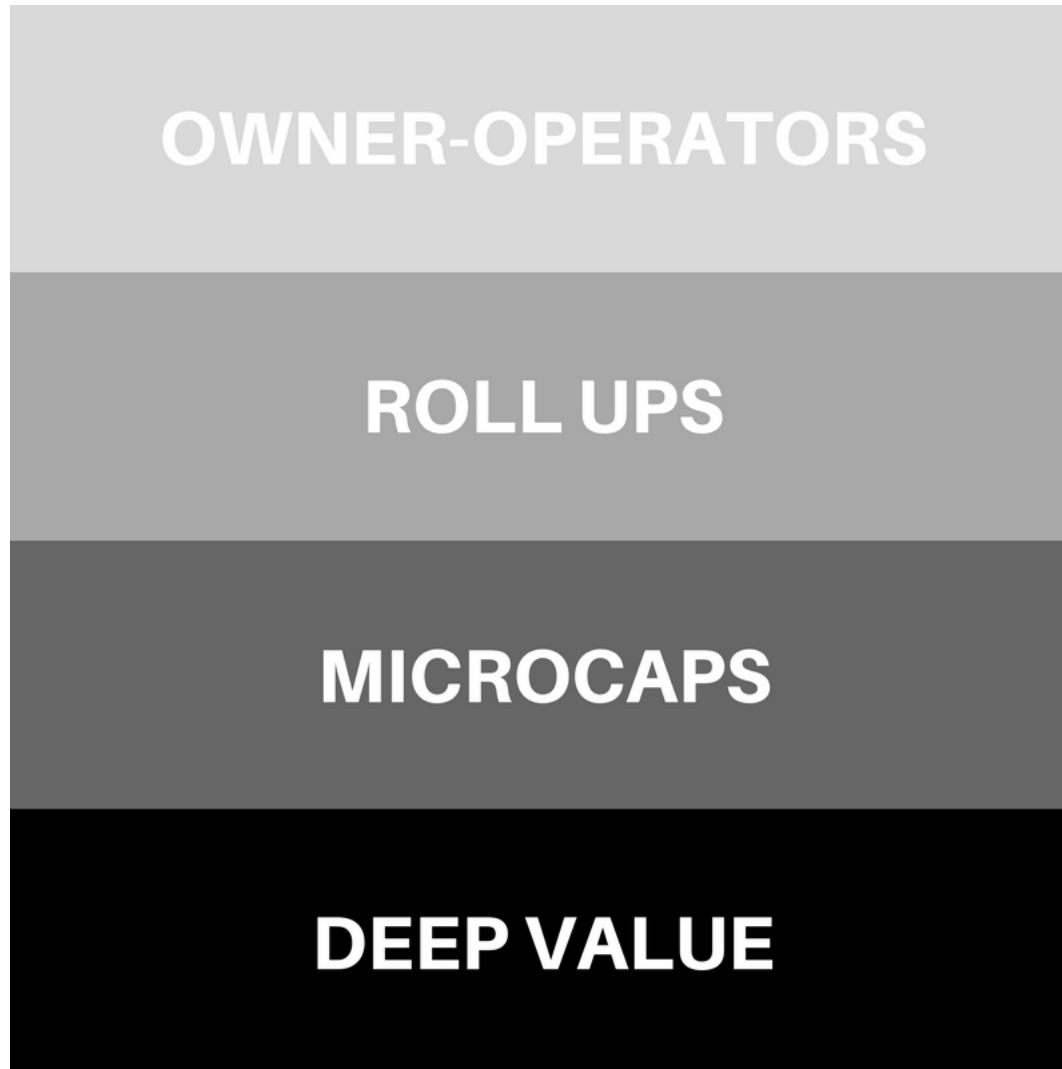
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# SMALL CAPS VS LARGE CAPS





# INVESTMENT CATEGORIES



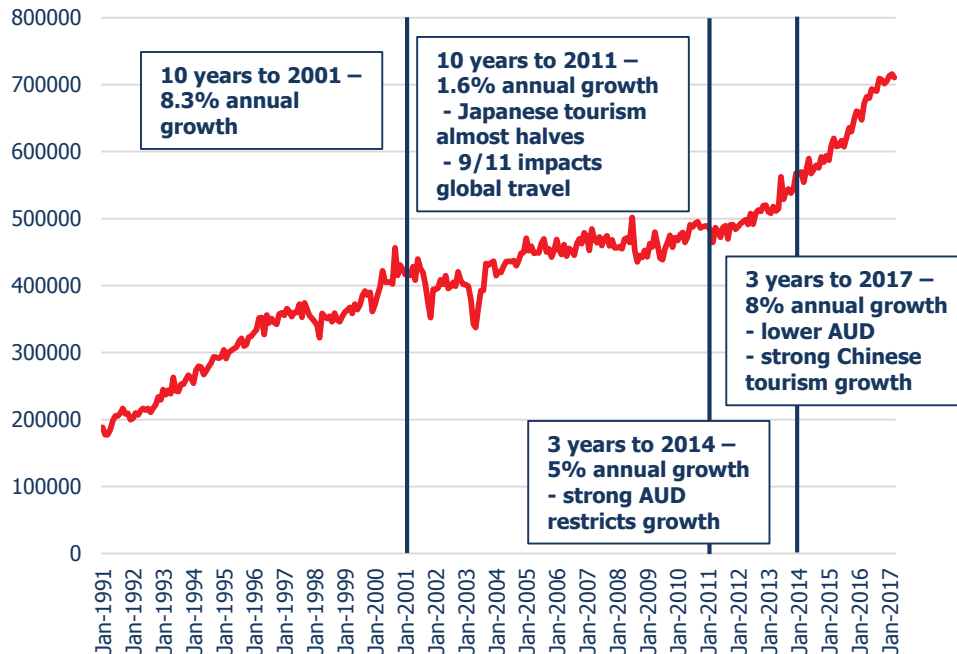
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# **PORTFOLIO INSIGHTS**

## TOURISM SECTOR

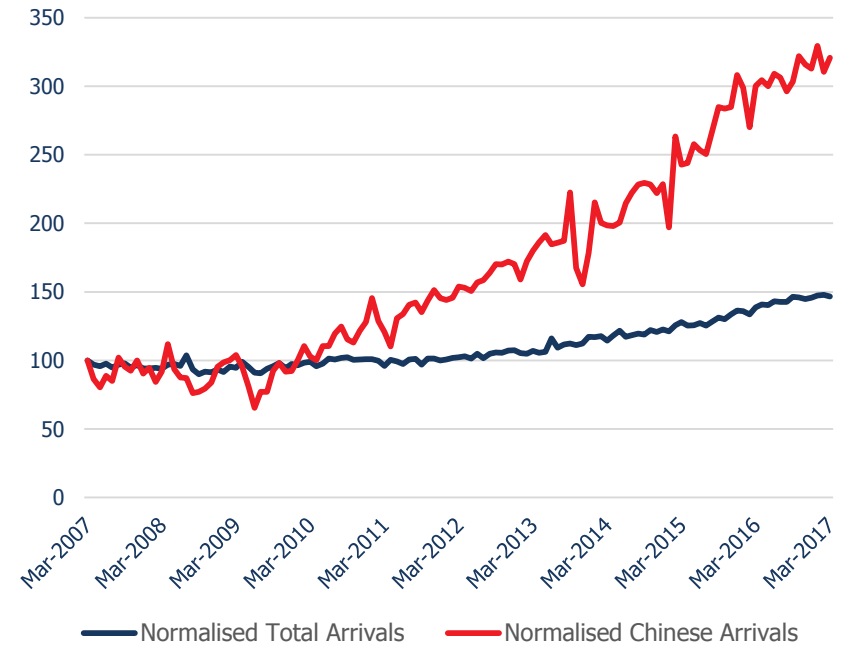
# TOURISM

Short Term Arrivals



Source: Australian Bureau of Statistics

Chinese Short Term Arrivals vs Total Arrivals

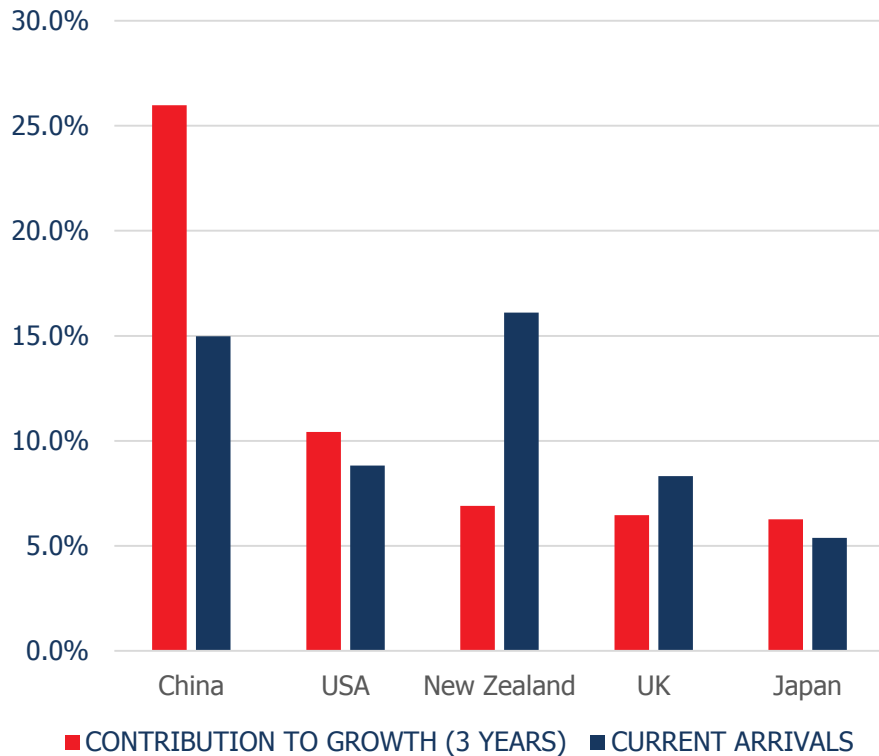


Source: Australian Bureau of Statistics

Tourism growth has been strong – up 11% in 2016...  
while Chinese short term arrivals have outpaced total arrivals

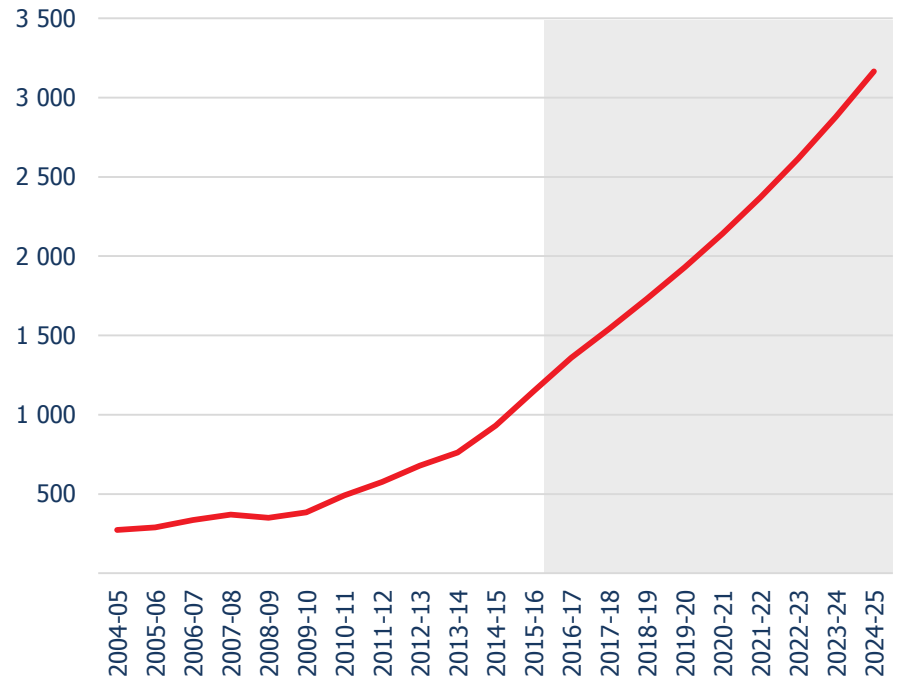
# TOURISM

Short Term Arrivals By Country



Source: Australian Bureau of Statistics

Chinese International Visitor Arrivals



Source: Tourism Research Australia

With China driving growth over the past decade...  
and likely to drive growth over the next decade



# TOURISM

## CURRENT EXPOSURE



### **Skydive the Beach (ASX:SKB)**

- Largest tandem skydiving provider in Australia and New Zealand with recent expansion into adventure tourism and leisure
- Attractive industry positioning and exposure to inbound tourism and consumer spending on experiences
- Core market growth in high single digits with acquisitions, especially in adventure tourism, driving further growth



### **Apollo Tourism & Leisure (ASX:ATL)**

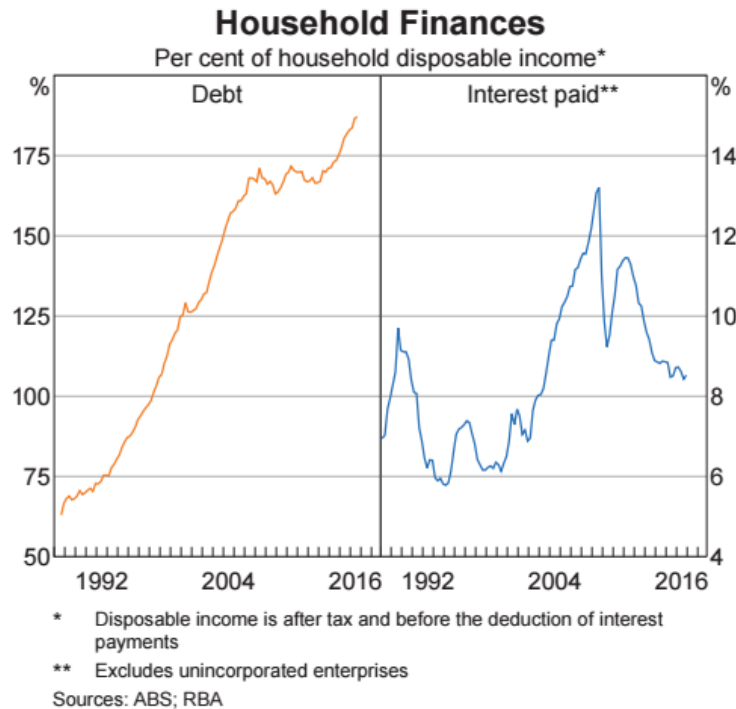
- Recreational vehicle rental fleet operator and retailer in Australia, NZ, the USA, and Canada
- Large market share in renting of RVs in Australia and New Zealand and exposure to inbound tourism
- Continuing to grow RV rental in the USA and retail domestically while being exposed to inbound tourism growth in the core rental business

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# **PORTFOLIO INSIGHTS**

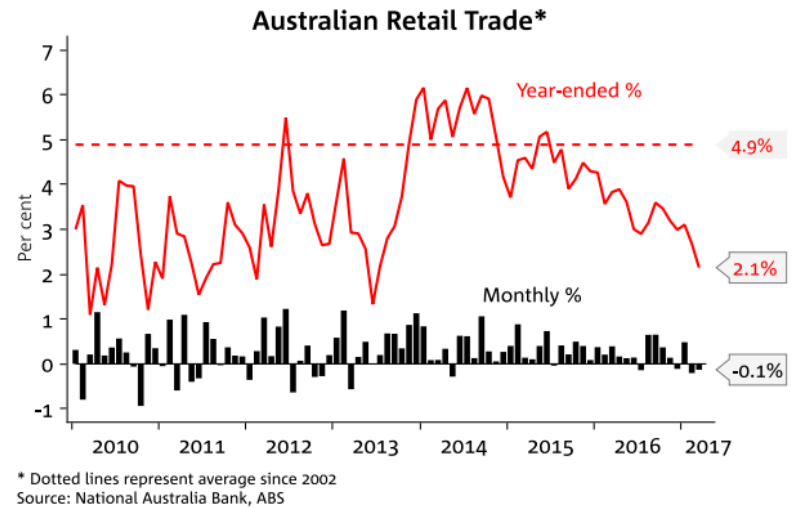
## RETAIL SECTOR

# WAGE GROWTH CONSTRAINED



Indebted households are becoming more sensitive to subdued income growth...

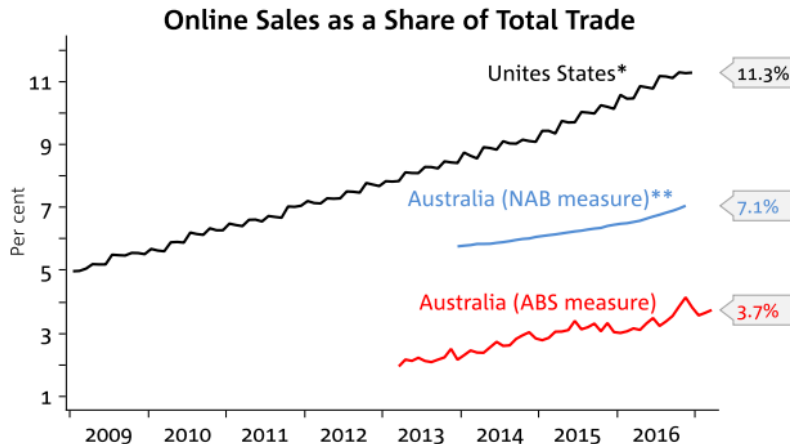
# RETAIL SALES FALLING



...and are more likely to pay down debt, resulting in lower retail sales



# ONLINE RETAIL IS GROWING

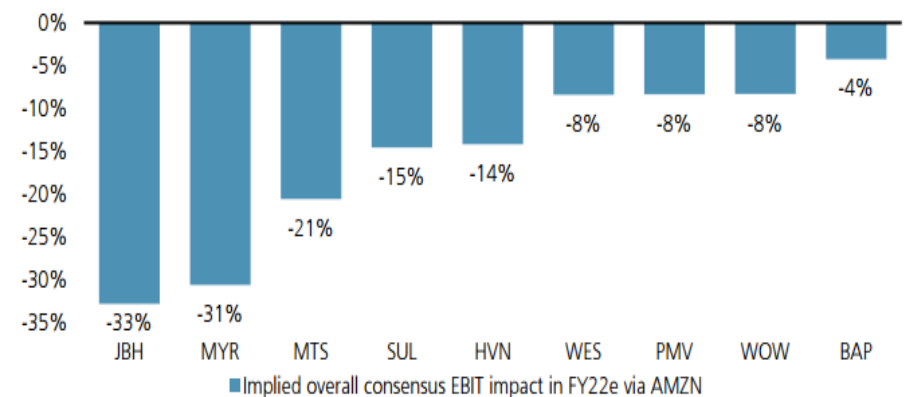


\* Excludes Auto Dealers, Building Materials & Gasoline Stations  
 \*\* NAB's estimate includes sales from international online retailers to Australians  
 Source: National Australia Bank, ABS

Meanwhile online retailing is growing...

...and Amazon is clearly a threat

Figure 1: Consensus<sup>^</sup> estimated medium term (FY22) EBIT impact from Amazon



Source: UBSe, UBS AMZN Consensus Survey

<sup>^</sup>Consensus = Based on cumulative 43 responses

# RETAIL EXPOSURE

- No current exposure to brick and mortar retail
- Profit pool for local retailers is shrinking
- Highly leveraged retail business models are now under pressure from both poor retail sales and online competition
  - Many retail businesses falling into administration already
- Where to from here?
  - Some may survive the onslaught but sentiment to remain poor until Amazon's full launch clears uncertainty
  - Offshore Amazon has claimed up to 30% of online spending and already has \$700m+ of sales from Australia

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**GC1**

# PERFORMANCE, DIVIDENDS AND COMMUNICATION

# ABOUT GC1

## Fund Overview

Glennon Small Companies Ltd is an ASX listed investment company. The Company invests in a concentrated portfolio of high quality small cap and microcap companies outside the S&P/ASX 100.

## Portfolio Characteristics

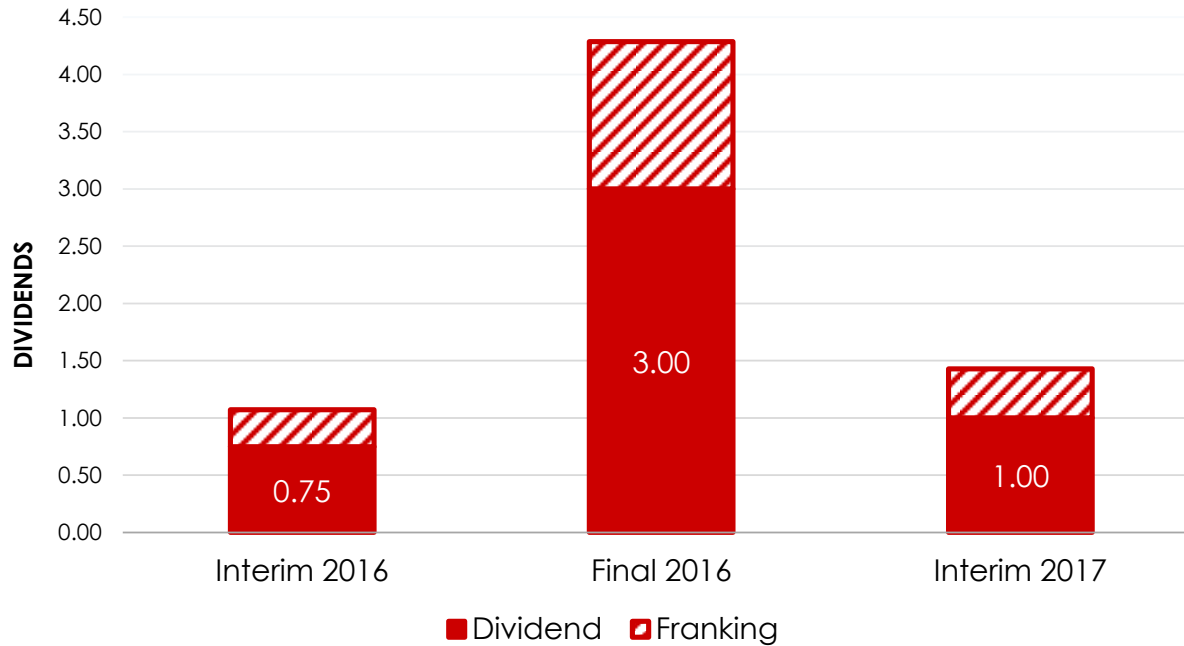
Number of Equity Holdings    39

Median Market Cap            \$197m

**Fund Size**                      \$44.7m



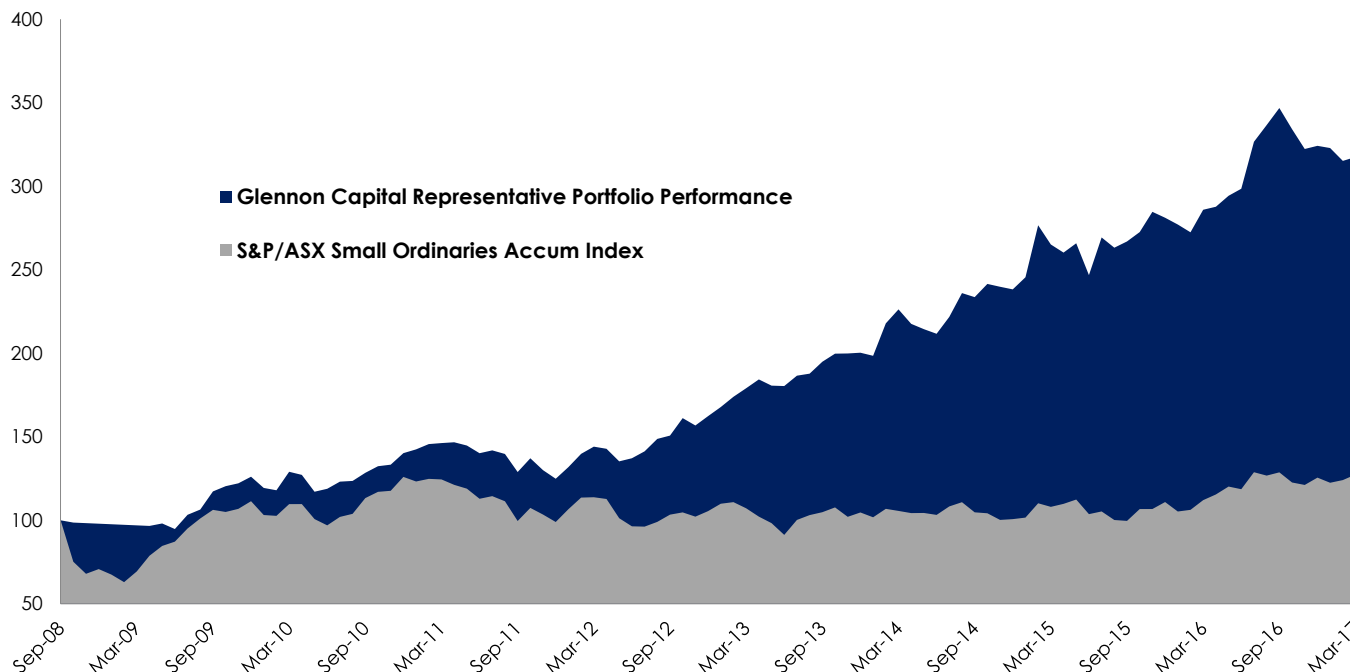
# GC1 DIVIDENDS



## DIVIDEND POLICY

The Board is committed to paying a growing stream of fully franked dividends to shareholders over the long term, provided the Company has sufficient profit reserves and franking credits, it is within prudent business practices, and it is in line with capital growth objectives.

# LONG TERM PERFORMANCE



30-Apr-17	1 Year	3 years	5 Years	Since Inception
Glennon Small Companies Portfolio	9.5%	44.8%	120.6%	215.0%
S&P / ASX Small Ordinaries Accumulation Index	10.0%	21.8%	12.7%	27.1%
Under / Outperformance	-0.6%	22.9%	107.9%	188.0%

30-Apr-17	1 Year	3 years %pa	5 Years %pa	Since Inception (%pa)
Glennon Small Companies Portfolio	9.5%	13.1%	17.1%	14.3%
S&P / ASX Small Ordinaries Accumulation Index	10.0%	6.8%	2.4%	2.8%
Under / Outperformance	-0.6%	6.3%	14.7%	11.5%

Note: Glennon Capital representative portfolio performance. Shown on a gross basis, before expenses and taxes. Past performance is not a reliable indicator of future performance.

# INVESTOR COMMUNICATION

## WEEKLY NEWSLETTER



March 05, 2016

### National Veterinary Care Limited

- We met with management of National Veterinary Care Limited this week, following the release of their financial results.
- Glennon Capital were early investors in National Veterinary Care Limited and it would be interesting to have a look at how they have emulated some of the success of other companies in the sector.
- Watch our video to find out more.



February 20, 2016



### Insight | Paragon Care (ASX:PGC)

February 19, 2016 | By Glennon Capital

- Paragon is a distributor of consumable medical beds into the Australian healthcare market. The company has been successful in acquisitions and consolidating a very fragmented market.
- To watch our video on Paragon, click on the link below.

[Watch now](#)



January 30, 2016



### Insight | Silver Chef Limited (ASX:SIV)

January 29, 2016 | By Glennon Capital



- Silver Chef Limited (ASX:SIV) is a small company that operates an equipment financing business predominantly for the food industry. The business is 30 years old and has been listed since 2005. In the past few years the company has expanded offshore and is starting to get good growth in Canada and New Zealand.
- The offering has also been expanded outside the food industry through the 'GoGetta' brand, which offers small loans to businesses, predominantly for equipment. The main benefit for Silver Chef clients is that financing allows them to avoid the need to make large up-front investments.

[Watch our video to learn more](#)



## STAY IN TOUCH



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# **CASE STUDIES**



# NATIONAL VET CARE

## (ASX:NVL)



- veterinary services provider in Australia and New Zealand, which has 54 vet services businesses
- industry characteristics are favourable and barriers to entry are high while management is experienced and driven to succeed
- business has an acquisition model supplemented by a margin improvement process led by corporate initiatives

# ZIPMONEY

(ASX:ZML)



- digital wallet offering point-of-sale credit online and offline
- attracting retail partners by offering increased conversion and increased order value while customers get to purchase interest free
- sharp growth in customer numbers, loan book and revenue on a scalable fixed cost base

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