



# SPECIALIST SMALL COMPANIES INVESTMENT MANAGER

April 2018





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# AGENDA

## **Market Update**

What is happening in the Australian small cap market?

## **Portfolio Insights**

How does the GC1 Portfolio look in last 6 months?

## **LIC Outlook**

How does the GC1 Portfolio look like in 2018?





# Why Invest With Glennon

Established in 2008  
as a specialist  
small companies  
investment manager

Focused on  
finding value  
in small listed  
companies

Undertake  
our own  
research



Extensive small company  
experience in investing,  
along with extensive  
contacts among small  
listed companies

Only invest in quality  
business; it's as much  
about avoiding the  
disasters as picking  
winners.

Co-investment. We back  
our own investment  
decisions and have  
our funds invested  
alongside our clients

## Our values

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**We want to add  
absolute value**

**We want to  
be aligned  
with our clients**

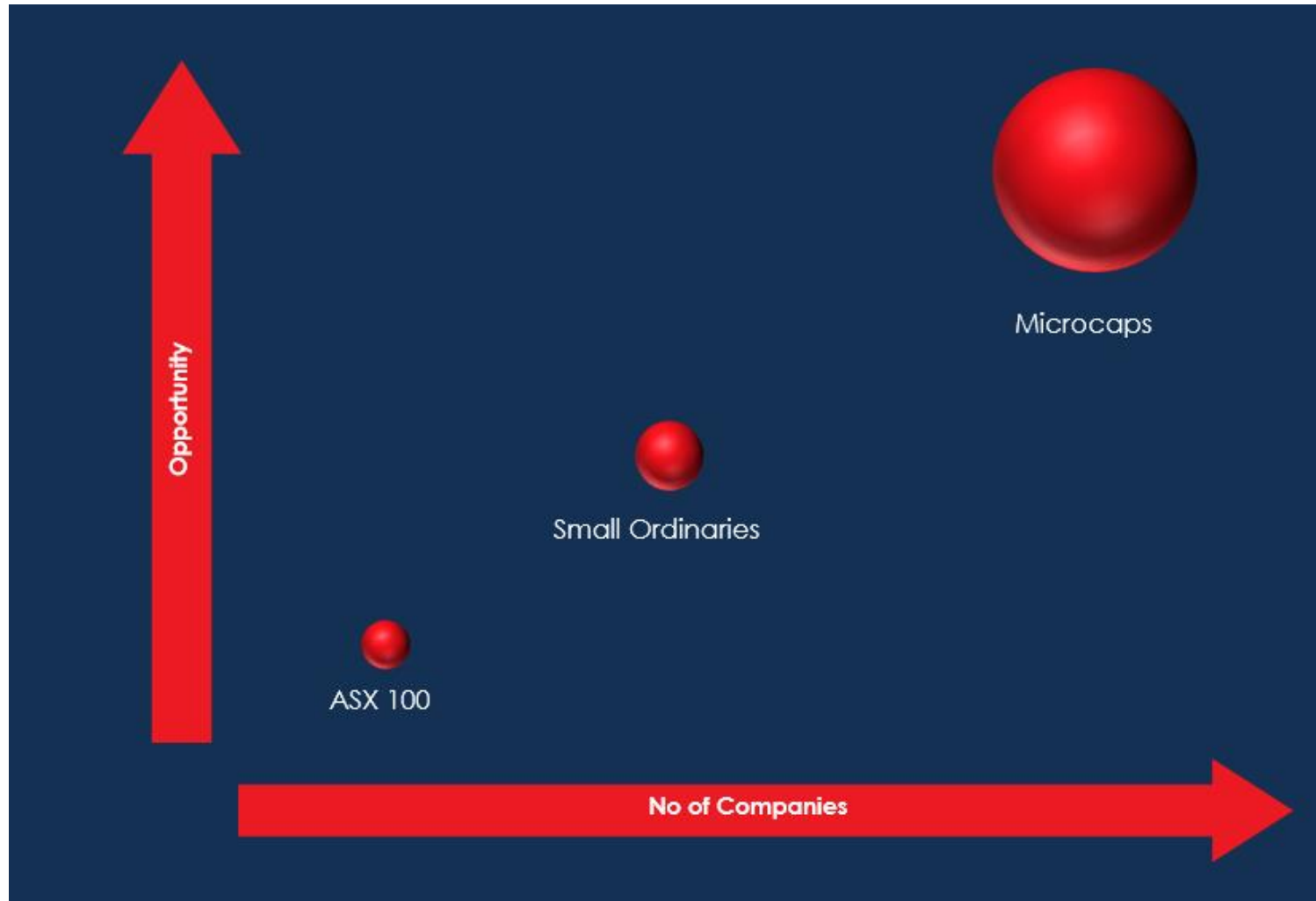
**We want our  
investment to grow  
with our clients  
investments**

**We want to communicate  
with our clients so they  
have confidence in our  
capability, and to reassure  
them when  
markets are volatile**

**We want to  
think creatively  
and outside  
the box**

**We want to  
be long term  
and look through  
the noise**

# WHY SMALL CAPS?



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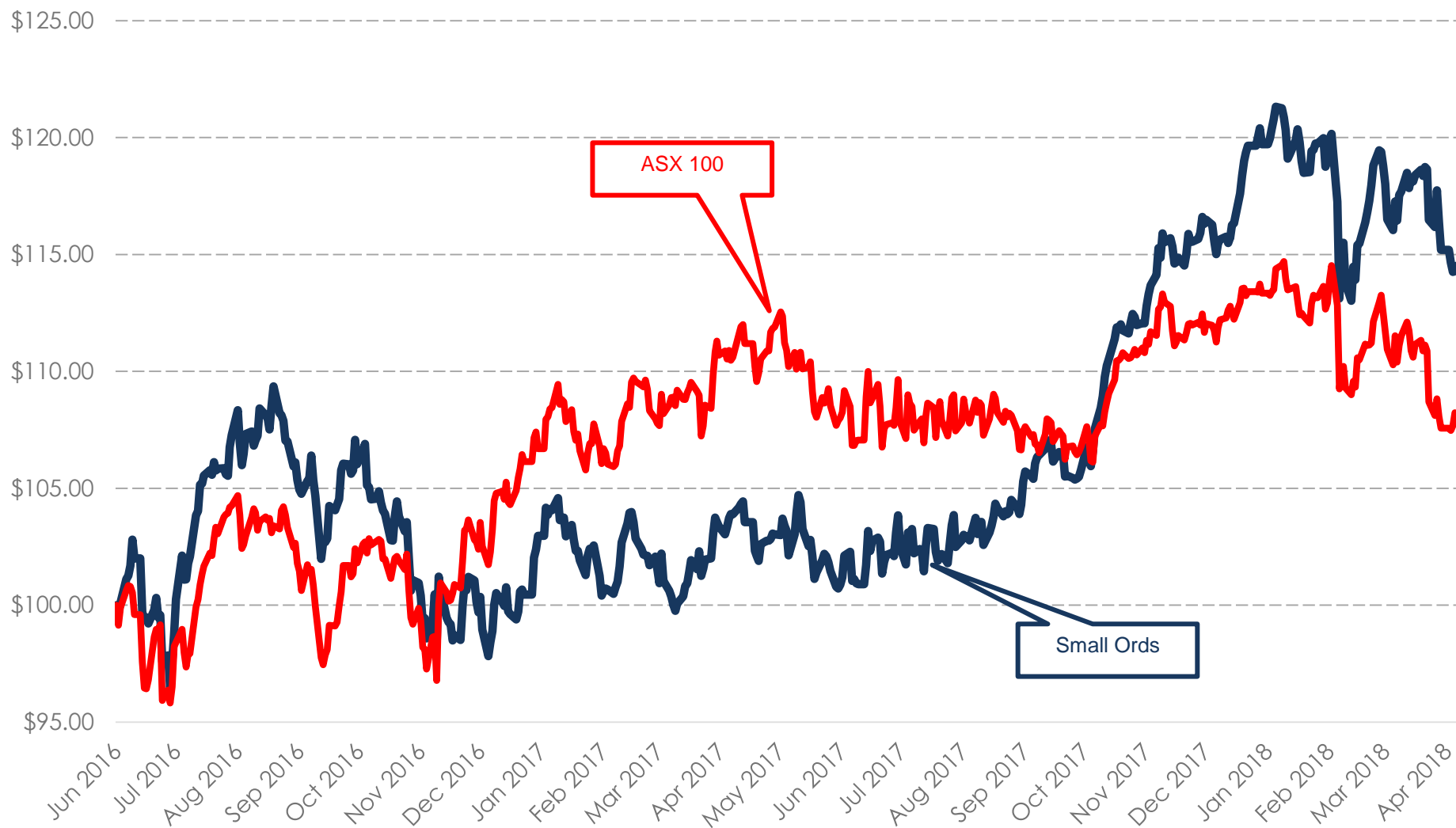
# Small Cap Market Review

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## Small Ords v ASX100





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# Small Cap Strategies – HUB24 Wholesale

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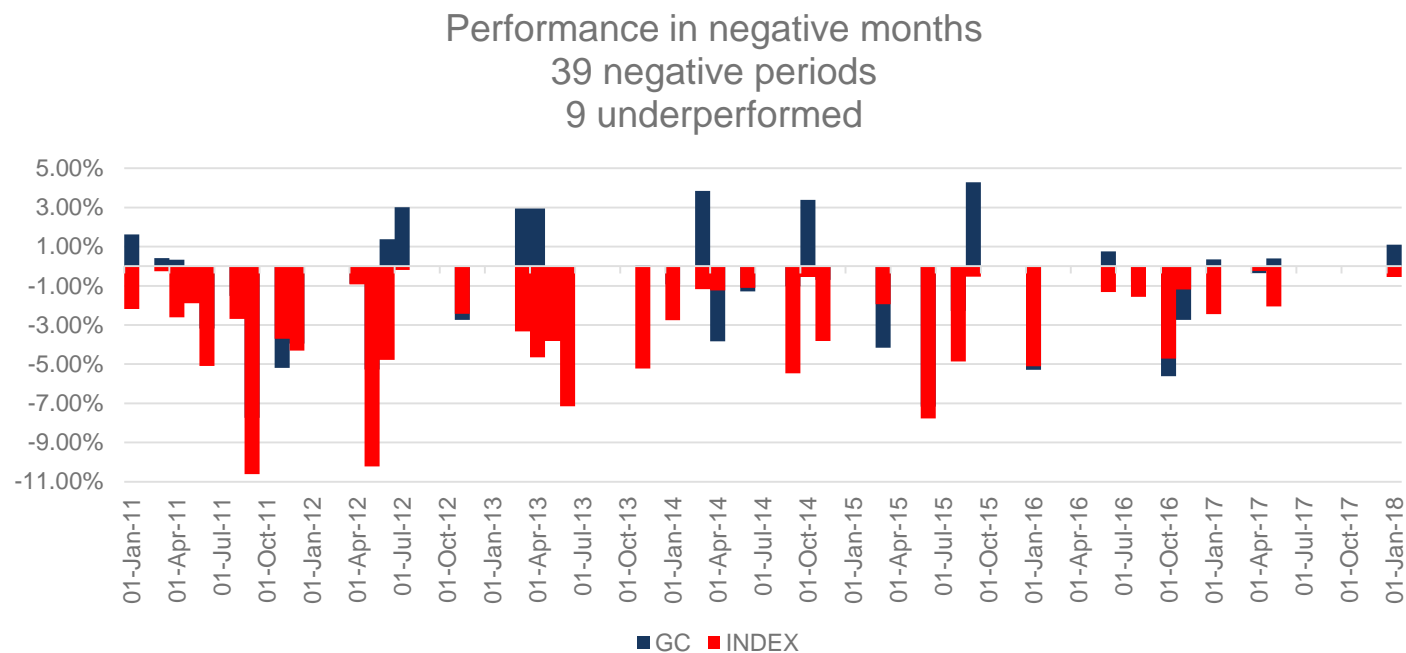
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## Top 10 positions

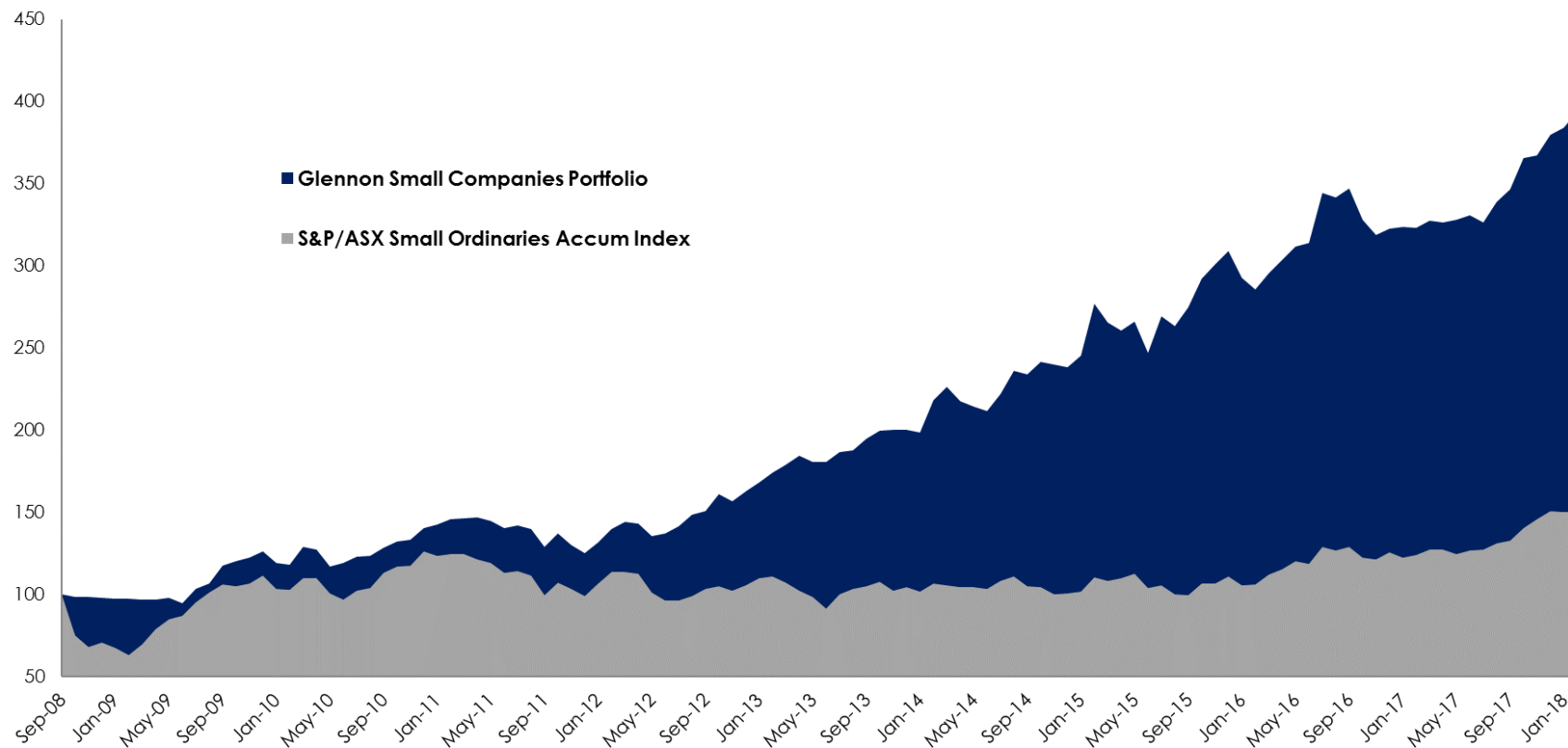
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Company	Weight
Emeco Holdings Limited	7.93%
Altium Limited	6.46%
Alliance Aviation Services	5.75%
A2 Milk Company	5.34%
Macmahon Holdings Ltd	5.16%
Money 3 Limited	5.05%
Apollo Tourism & Leisure Limited	4.86%
BWX Limited	4.65%
CML Group	4.54%
National Veterinary Care	4.52%

# Portfolio characteristics



# Glennon Capital performance



31-Mar-18	1 Month	3 Months	6 Months	1 Year %pa	3 years %pa	5 Years %pa	Since Inception (%pa)
Glennon Small Companies Portfolio	-1.9%	1.9%	11.6%	18.0%	13.4%	16.6%	15.3%
S&P / ASX Small Ordinaries Accumulation Index	-2.3%	-2.8%	10.5%	15.0%	10.7%	6.4%	4.1%
Under / Outperformance	0.4%	4.7%	1.1%	3.0%	2.7%	10.2%	11.2%

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# Small Cap Strategies – GC1

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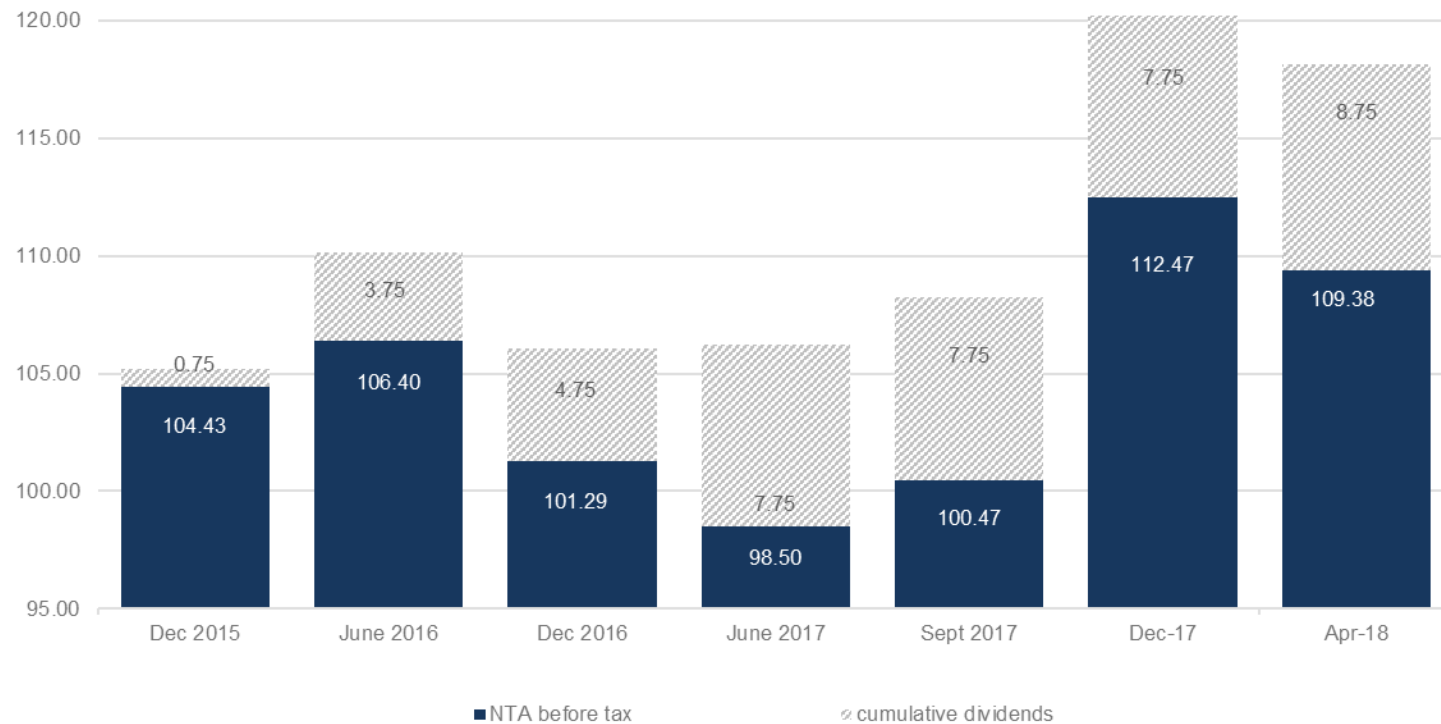
## Top 10 positions

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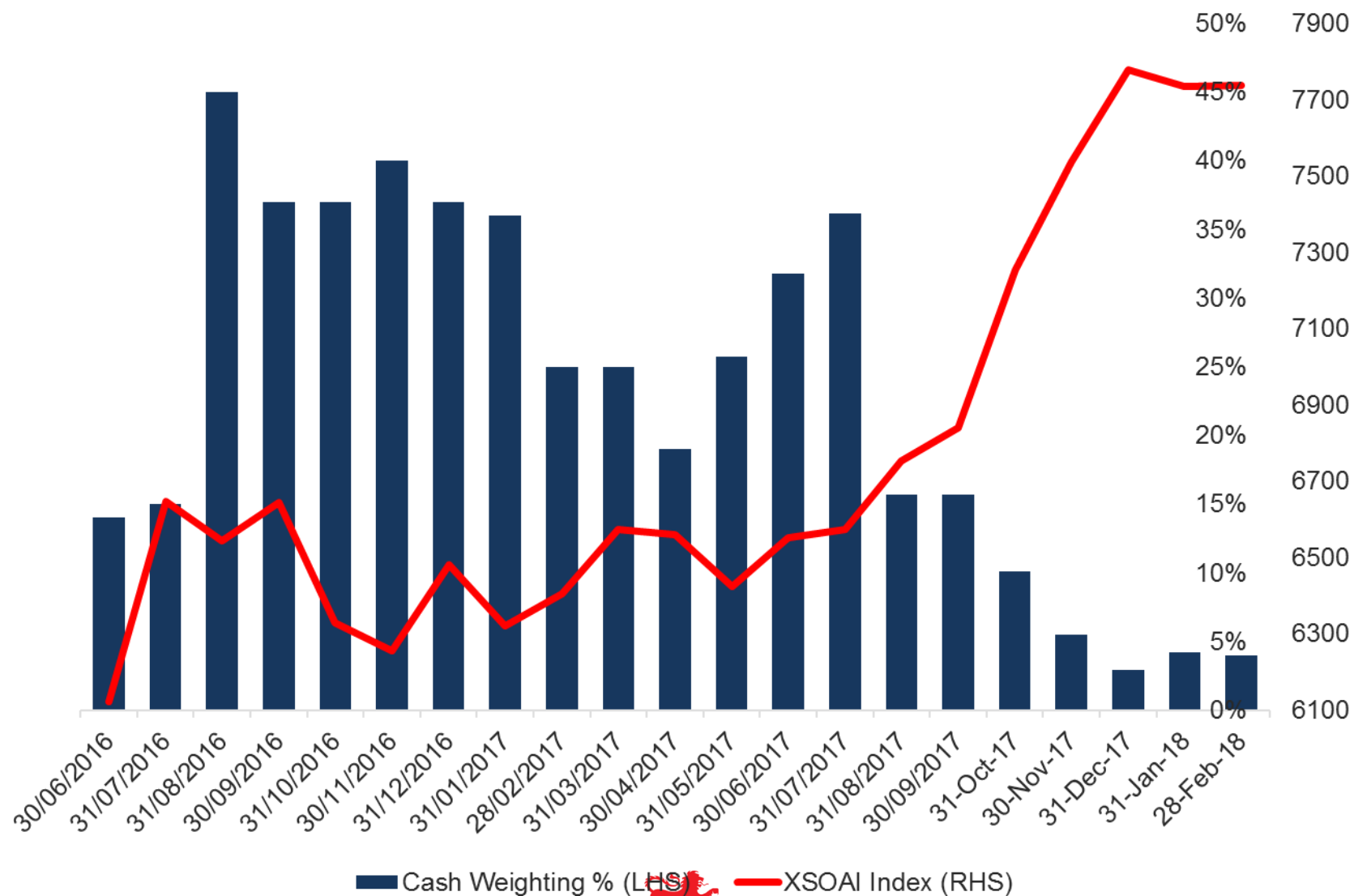
Company	Weight
Emeco Holdings Limited	9.28%
Tox Free Solutions Limited	7.56%
Cml Group Limited	6.99%
Shine Corporate	5.91%
Macmahon Holdings Ltd	5.83%
BWX Limited	5.34%
Apollo Tourism & Leisure Limited	5.14%
Alliance Aviation Limited	5.00%
Axesstoday Limited	4.78%
Afterpay Touch	4.66%



# Glennon Capital performance



# Glennon Capital performance



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# Portfolio Investments

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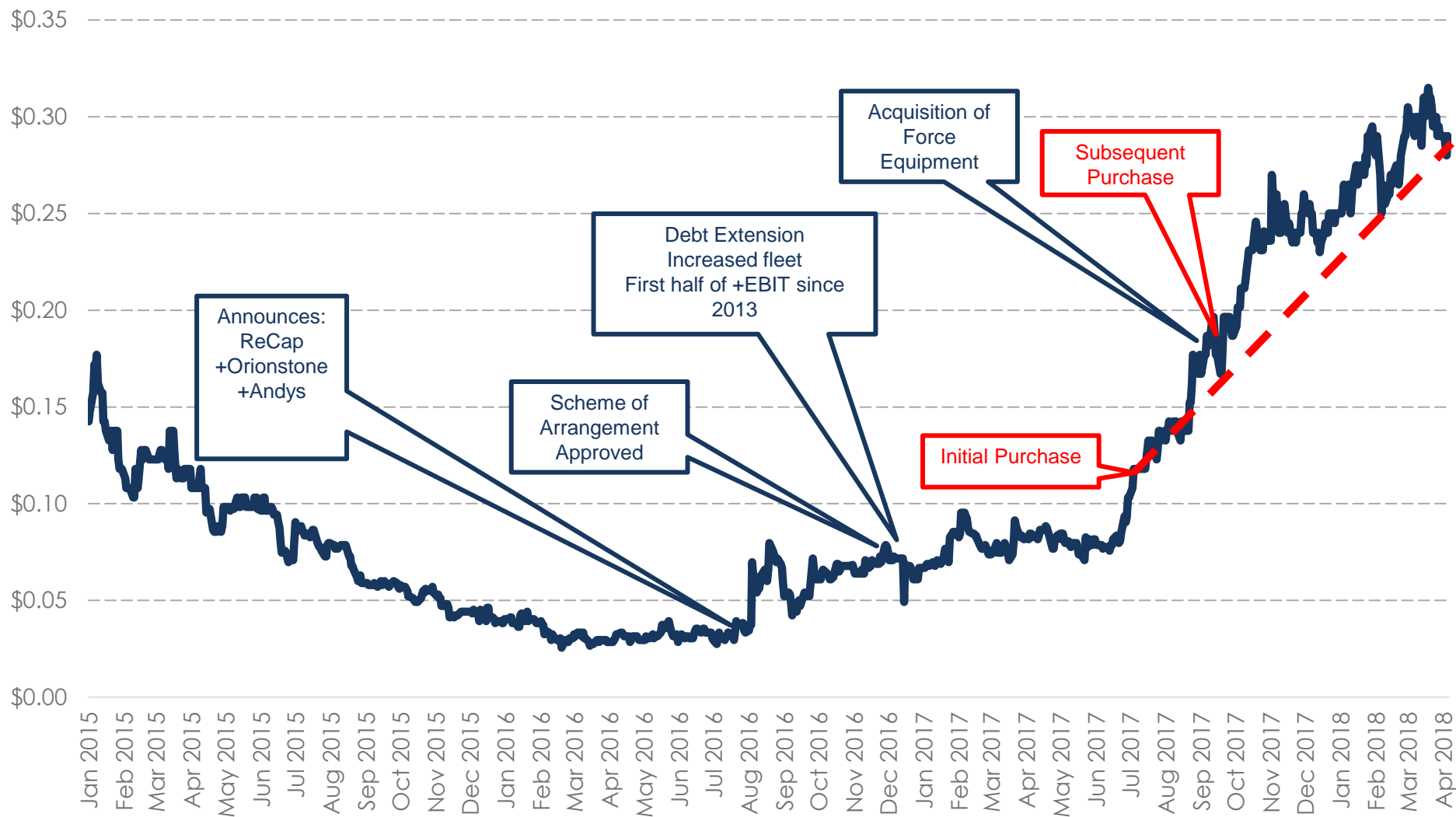
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# Emeco Limited (ASX:EHL)

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<b>Overview</b>	<p>Emeco provides earth moving solutions for the mining industry. Emeco had a near death experience post the GFC and resources price slump that followed. Utilisation rates decreased and the oversupply of earth moving equipment that was acquired through the mining boom pre 2008 was lowering the rates that contractors could achieve. In 2015 the return on assets was negative while historically it had been around 30%. In mid 2016 the company restructured and at the same time merged with its two largest competitors, Andy's earth moving and Orionstone. In 2017 the company acquired Force Equipment which allows rental fleet to be returned to work faster utilising their maintenance facilities.</p>	
<b>Background</b>	Listed in 2006 Acquisition PER nm Revenue \$265m	Profit -\$18m (\$90m EBITDA) Mkt Cap \$255m
<b>Thesis</b>	<p>Recapitalisation and merger with its largest competitors, Andy's Earthmoving and Orionstone, bringing a younger and more diversified fleet and a strong position in QLD. Acquisition of Force Equipment adds a much needed maintenance capability. Domestic only fleet of 800 units – exited offshore operations. WA recovery. Replacing and reducing expensive debt over the next two years.</p>	
<b>Now</b>	Mkt Cap \$788m Revenue \$390m (FY18)	Profit \$29m FY19 \$55 (EBITDA \$115 FY18 \$140 FY19) Trading on a FY18 PER of 26x, 15x FY19

# Emeco Limited (ASX:EHL)



# CML Group Limited (ASX:CGR)

<b>Overview</b>	CML Group started as a recruitment business (Careers Multi List), listing in 2010. In 2011 the company acquired Lester Group which had a small receivables factoring business (cash flow financing is the term used by the company). The factoring side of the business grew faster than recruitment with 150% growth in 2014. In May 2016 CML group acquired the trade debtors business of FSA group.	
<b>Background</b>	Listed in 2010 Acquisition PER of 8x Revenue \$40m	Profit \$3.8m Mkt Cap \$50m
<b>Thesis</b>	More nimble to market than it's main factoring competitor, Scottish Pacific. Winning share. Acquisition of Thorn Group's debtor finance group for 1x ebitda Entry into equipment finance – primarily in the transport sector (like Axesstoday), often lending on equipment already owned. Lower funding costs	
<b>Now</b>	Mkt Cap \$103m Revenue \$48m	Profit \$5.5m Trading on a FY18 PER of 17x



# CML Group Limited (ASX:CGR)



# MacMahon (ASX:MAH)

<b>Overview</b>	<p>MacMahon provides both surface and underground mining services in Australia and Indonesia. The company is 44% owned by their Indonesian JV partner PT Amman Mineral Nusa Tenggara after forming an alliance with the group in January 2017 after a failed takeover offer by CIMIC (which in turn is 73% owned by Hochtief AG). The main contracts for the group are:</p> <ul style="list-style-type: none"> <li>• Tropicana – gold open pit</li> <li>• Telfer – Copper gold open pit</li> <li>• St Ives – Gold open pit</li> <li>• Martabe – Gold Open pipt</li> <li>• Various underground</li> <li>• Batu Hijau Copper / Gold open pit (second largest copper-gold in Indonesia)</li> <li>• Byerwen – Coal open pit</li> </ul> <p>The company had an unprofitable contract at Telfer and was losing \$30m per annum on the project. Additionally it was operating a loss making venture in Nigeria which has now been exited.</p>
<b>Background</b>	<p>Listed in 1983 Acquisition PER of nm Revenue \$369m</p> <p>Profit -\$22m (EBITDA 31.8) Mkt Cap \$312m</p>
<b>Thesis</b>	<ul style="list-style-type: none"> <li>• Telfer reduction in loss, expansion &amp; revenue uplift</li> <li>• Commencing new sizeable contracts in Indonesia (BatuHijau) and Queensland (Byerwen)</li> <li>• Contract mining sector improvement</li> <li>• Small entry into civil works with TMM Group acquisition</li> <li>• Strong cashflow - heading toward positive net cash balance on sheet FY19</li> </ul>
<b>Now</b>	<p>Mkt Cap \$452m Revenue \$675m</p> <p>Profit \$37m (FY18) EBITDA \$128m Trading on a FY18 PER of 12x</p>

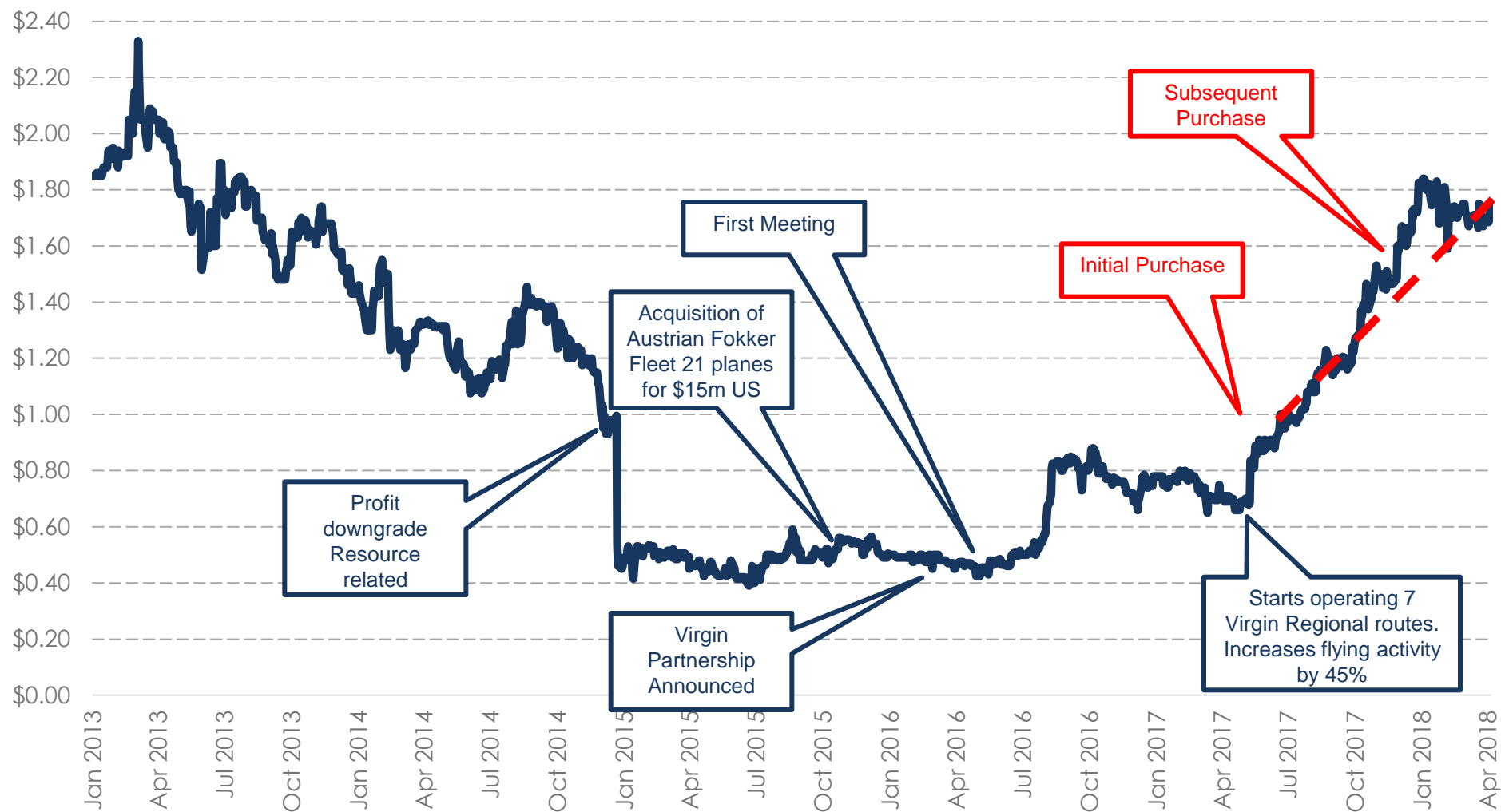
# MacMahon (ASX:MAH)



# Alliance Aviation Limited (ASX:AQZ)

<b>Overview</b>	Alliance is a charter operator, specialising in fly-in fly-out services, ad-hoc charter and regular transport flights in Australia and New Zealand. The company was founded in 2002 with 3 planes and now operates a fleet of 40 Fokker 70 and Fokker 100 jet planes. The company has over 500 staff and is headquartered at Brisbane International Airport.	
<b>Background</b>	Listed in 2011 Acquisition PER of 4x Revenue \$190m	Profit \$19m Mkt Cap \$80m
<b>Thesis</b>	<ul style="list-style-type: none"><li>• The company suffered a profit downgrade in 2014 and was forced to sell some planes after the company found it overexposed to Australian resource companies who were at the time struggling with depressed commodity prices. After the asset sales and profit downgrade the company has worked hard to turn the business around and has demonstrated significant success in doing so.</li><li>• The purchase of the Austrian air fleet of 21 Fokker planes was both good timing and an exceptional deal with the price being very cheap. It also coincided with a recovery in the resources sector. The company has worked hard to ensure that they have a diversity of clients by resource type as well as focusing on increasing non-resource related flying hours. The company has formed a JV with Virgin Airlines for regional routes and now fly's 11 regular regional transport flights for Virgin.</li><li>• When the share price was \$0.60 the company had an NTA of \$1.00</li></ul>	
<b>Now</b>	Mkt Cap \$214m Revenue \$244m	Profit \$22.1m Trading on a FY18 PER of 11.6x

# Alliance Aviation Limited (ASX:AQZ)



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# Investment Themes

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## Investment Themes

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ROLL UP / ROLL OUT

DISRUPTION

OWNER-OPERATORS




DEEP VALUE

MICROCAPS

## Investment Themes




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### ROLL UP / ROLL OUT

	32 Practices	60 Practices
	294 pieces of equipment	897 pieces of equipment
	\$71m ledger	\$112m ledger

# Investment Themes




## DISRUPTION

	<ul style="list-style-type: none"><li>• Afterpay is the modern equivalent to layby</li><li>• Retailer pays a 4% fee</li><li>• Younger generation not serviced by banks</li><li>• Allows online transactions</li><li>• Unable to get a credit card</li></ul>
	<ul style="list-style-type: none"><li>• 3d printing of titanium</li><li>• 70% of all manufacturing estimated to be 3d printed in 2030</li><li>• Allow use of a 40% cheaper feed stock</li><li>• CSIRO developed technology</li><li>• Current cashflow</li></ul>
	<ul style="list-style-type: none"><li>• Residential real estate one of the last to be disrupted</li><li>• Experienced management</li><li>• Exclusive deal with CBA</li><li>• Skin in the game</li><li>• Few competitors</li></ul>

## Investment Themes

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### OWNER-OPERATORS

	Touchet family	53%
	Indy singh	33%
	Anthony Boucaut	30%

# Investment Themes

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## DEEP VALUE

 <b>SHINE LAWYERS</b> RIGHT WRONG.	<ul style="list-style-type: none"><li>• Caught up in sell off with Slater &amp; Gordon</li><li>• Class action</li><li>• Founders left business</li></ul>	<ul style="list-style-type: none"><li>• Founders have returned to the business</li><li>• Class action insured</li><li>• Strong cashflows</li><li>• Billing for disbursements</li></ul>
<b>N O N I B</b>	<ul style="list-style-type: none"><li>• Historically family owned business</li><li>• Second generation were not as entrepreneurial as first generation</li><li>• Brand become mismanaged</li></ul>	<ul style="list-style-type: none"><li>• New management with good industry experience</li><li>• Acquired pretty girl</li><li>• Improvement in margins</li></ul>

## Investment Themes

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### MICROCAPS

	\$40m when bought	\$100m now
	\$18.5m when bought	\$32.0m now



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# OUTLOOK

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A low-angle, upward-looking shot of several modern skyscrapers with glass facades, reaching towards a blue sky with scattered white clouds. The perspective creates a sense of height and scale.

# Small Cap Outlook

WHAT IS HAPPENING IN  
SMALL CAPS?

# Outlook

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- Economy has a favourable outlook. No large macro headwinds
- Increased corporate activity
- Some pockets of overvaluation (small tech stocks)
- International economy positive. Australian companies starting to expand offshore.

# GLENNON WEEKLY NEWSLETTER



March 05, 2016

## National Veterinary Care Limited

- We met with management of National Veterinary Care Limited (ASX:NVC) this week, following the release of their first results announcement.
- Glennon Capital were early investors in Greencross and it would be interesting to have a look at this company to see if it can emulate some of the success of Greencross.
- Watch our video to find out more about NVL.

[Watch now](#)



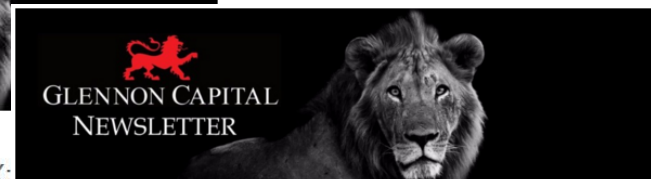
February 20, 2016

## Insight | Paragon Care (ASX:PGC)

February 19, 2016 | By [Glennon Capital](#)

- Paragon is a distributor of consumables and capital equipment into the Australian healthcare market. The business is focused on 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](#)



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