

Spheria Emerging Companies Limited  
ACN 621 402 588



# Spheria Emerging Companies Limited

ASX : SEC

Annual General Meeting  
1 November 2018





# Agenda

1. Chairman's Address
2. Investment Update
3. Q & A
4. Formal Business

# Chairman's Address

Mr Jonathan Trollip

# Chairman's Address

## Overview

- SEC (**Company**) offers investors access to an actively managed Australian and New Zealand small cap equities portfolio
- Managed by Spheria Asset Management Pty Limited (**Manager**)
- IPO raised \$132 million and listed on the ASX on 5 December 2017
- The Manager identifies smaller companies where the future value of cash flows can be reasonably ascertained and the companies are assessed to be trading at a discount to their intrinsic value

# Chairman's Address

## Investment Objective

The Company's investment objectives are to:

- outperform the benchmark, the S&P/ASX Small Ordinaries Accumulation Index, over each full investment cycle (which the Manager considers to be a period of typically 3 to 5 years); and
- provide capital growth (over each investment cycle) and income.

The Company aims to maximise total Shareholder return via a combination of capital growth and income, with the aim of regularly paying fully franked dividends to Shareholders.

# Chairman's Address

## Company Details

### Manager

Spheria Asset Management

### Board of Directors

- Jonathan Trollip (Chairman)
- Lorraine Berends
- Adrian Whittingham
- Alex Ihlenfeldt (Alternate)

Shares <sup>1</sup> (ASX: SEC)	
<i>Outstanding</i>	66,337,546
<i>Price</i>	\$1.765
<i>Market capitalisation</i>	\$117m
NTA <sup>2</sup>	
Which includes tax provided for on realised gains	\$1.942
Which includes tax provided for on realised and unrealised gains	\$1.995

<sup>1</sup> As at 31 October 2018

<sup>2</sup> As at 26 October 2018, excluding deferred tax assets relating to capitalised issue cost related balances and carried forward tax losses of \$0.004.



# Chairman's Address

## Dividends

- The Company aims to pay fully franked dividends from the portfolio income at least annually, subject to available profits, cash flow and franking credits
- The Board declared its first fully franked dividend of 4.0 cents per share which was paid to Shareholders on 21 September 2018

Dividend	
Amount	4.0 cents per share
Ex-dividend Date	6 September 2018
Dividend Record Date	7 September 2018
Dividend Payment Date	21 September 2018

# Chairman's Address

## Company Performance

### NTA Performance<sup>1</sup>

- -0.9% from listing date to 26 October 2018 (from \$2.00 at inception to \$1.942, with dividends paid of \$0.04 during the period). This compares to Benchmark<sup>2</sup> performance of -3.0% for same period.
- Current share price<sup>3</sup> of \$1.765 a 9.1% discount to pre-tax NTA<sup>4</sup>
- Consistent with widening discount for Australian equities LIC's generally and especially smaller LIC's
- Active steps being undertaken to narrow discount

### TSR Performance<sup>5</sup>

- -9.8% from listing date to 31 October 2018 (share price of \$1.765 compared to an issue price of \$2.00, with dividends paid of \$0.04 during the period)

<sup>1</sup> Calculated as movement in Company's pre-tax NTA (which includes tax on realised gains and other earnings, but excludes any provision for tax on unrealised gains), plus dividends paid by the Company

<sup>2</sup> S&P/ASX Small Ordinaries Accumulation Index

<sup>3</sup> As at 31 October 2018

<sup>4</sup> As at 26 October 2018

<sup>5</sup> Measured as movement in share price plus any dividends paid during the period

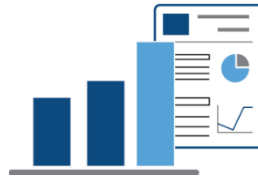


# Chairman's Address

## Shareholder Engagement



Regular shareholder  
email updates



Weekly NTA  
announcement and  
monthly updates



Half & full year  
financial results



Website  
[spheria.com.au](http://spheria.com.au)



Media



Conference  
presentations

# Investment Update

Mr Marcus Burns and Mr Matthew Booker  
Portfolio Managers, Spheria Asset Management

# Spheria Philosophy

*“Purchase securities where the present value of future free cash flows can be reasonably ascertained and the security is trading at discount to its intrinsic value. Explicit risk controls include a preference for companies with low or no balance sheet gearing.”*

# Experienced, cohesive investment team

## Matthew Booker (PM)

Over 20 years industry experience.  
Significant alpha generation  
managing Small Companies funds at  
Concord Capital and Schroders.



## Marcus Burns (PM)

Over 20 years industry experience of  
which 7 years in London.  
Significant alpha generation  
Australian small caps at Schroders.

## Adam Lund (Analyst / Trader)

Over 10 years experience in small and  
microcaps at Schroders and Spheria.  
Trading and research responsibilities



## Olivier Coulon (Analyst)

Over 11 years experience in small  
and microcaps at BT Investment  
Management, analysing and  
recommending positions.

## Allister Doecke (Trader)

Over 10 years experience in equities  
dealing at Taylor Collison Australia.  
Trading responsibilities



## Gino Rossi (Analyst)

Over 16 years experience in small,  
microcaps and Global at Arnhem  
Investment Management, Citigroup  
and Renaissance AM..

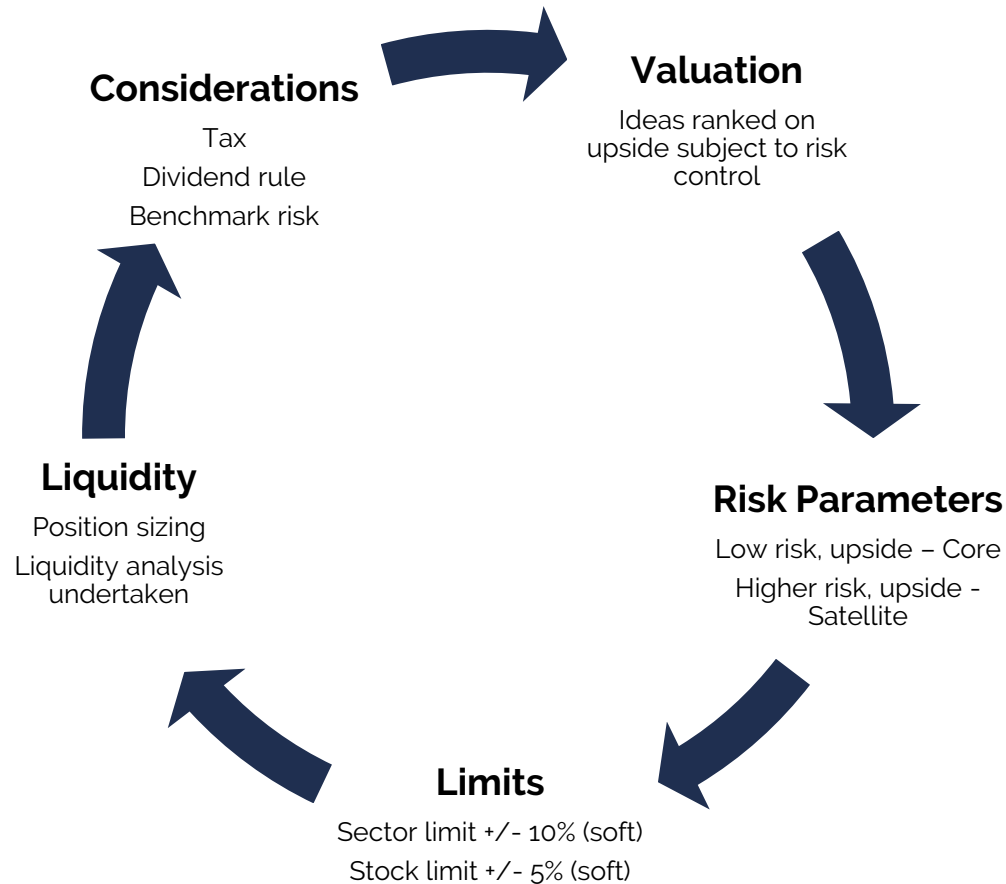
# Spheria Investment Process

How our investment process is **different**

1. Focus on quality businesses with risk control overlay
  - Sustainable free cash flow generation through the cycle
2. Fundamental investment focus
  - Free cash flow valuation model
  - Lowly geared balance sheets (ideally)
  - Discount to valuation
3. Keep an open mind (facts change)
  - Inflection points, changes in management/strategy, shifts in industry structure
4. Market under-researched and inefficient outside of larger companies

# Spheria Portfolio Construction Process

Valuation and risk based portfolio outcome





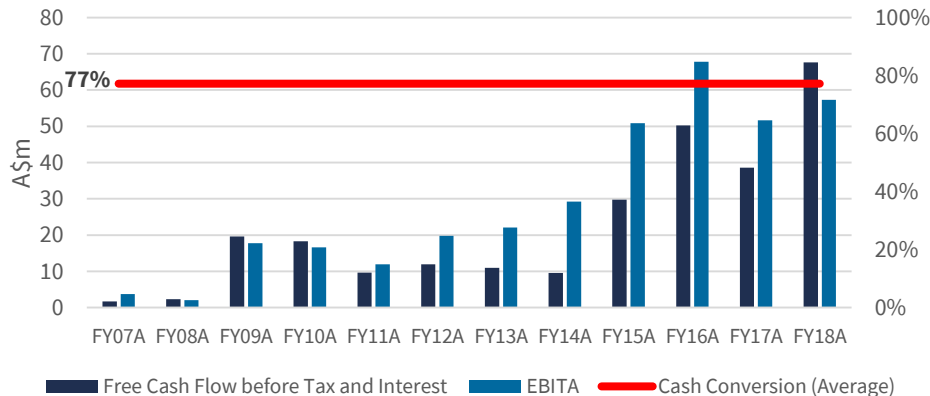
# Spheria Investment Process

Example of process in action

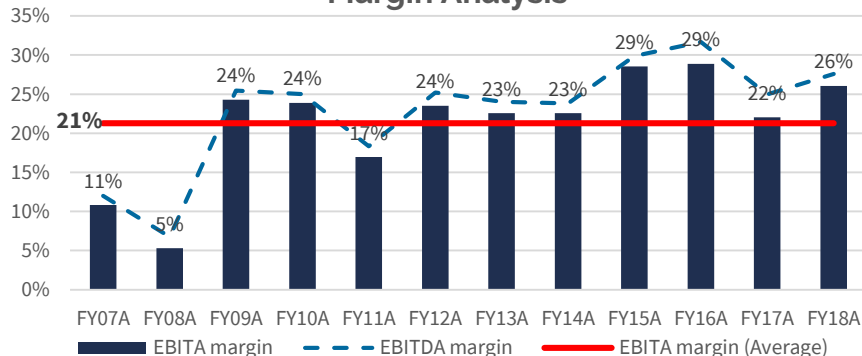


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## Cash Flow Conversion



## Margin Analysis



Source : Morningstar, Spheria.

## Spheria Risk Scorecard

<b>Quantitative Risk Factors:</b>	
Balance Sheet - last fy end	Net Cash
Net Interest (CF) - last fy	2.6
Avg Borrowing Cost (CF) - last fy	0.0%
Forecast Interest Cover (CEBITA)	-7.8x
Forecast Fixed Charge Cover (EBITDA)	-18.1x
<b>Qualitative Risk Factors:</b>	
Industry Cycle	3. Middle
Fixed Cost Leverage	2. High
<b>Average Score</b>	<b>3.0</b>

## Spheria Valuation Scorecard

<b>Industry: Porter's Five Forces</b>	
Threat of new entrants	5. Very Low
Threat of substitute products or services	4. Low
Industry rivalry	4. Low
Bargaining power of customers (buyers)	5. Very Low
Bargaining power of suppliers	5. Very Low
<b>Average Score</b>	<b>5.0</b>
<b>Company specific:</b>	
Business rating	5. Excellent
Board rating	3. Sound
Management rating	3. Sound
<b>Average Score</b>	<b>4.0</b>

# Spheria Portfolio Positioning

Diversified exposures across companies and sectors

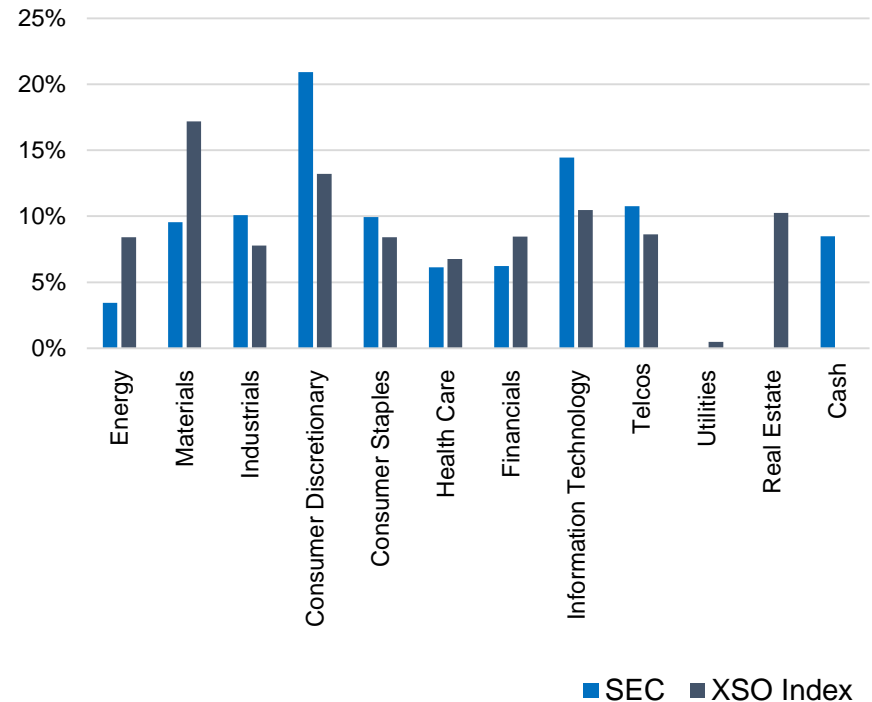
## Spheria Emerging Companies Portfolio\*

Ticker	Name	% Portfolio
BGA	Bega Cheese Ltd	6.3%
CL1	Class Limited	4.6%
TNE	Technology One	5.0%
NVT	Navitas Limited	5.0%
HT1	Ht&E Limited	4.2%
CAB	Cabcharge Australia	3.9%
FBU	Fletcher Building	4.6%
PTM	Platinum Asset	4.3%
MND	Monadelphous Group	4.3%
MGX	Mount Gibson Iron	3.3%

**Top 10**

**45.6%**

## Spheria Emerging Companies Portfolio\*



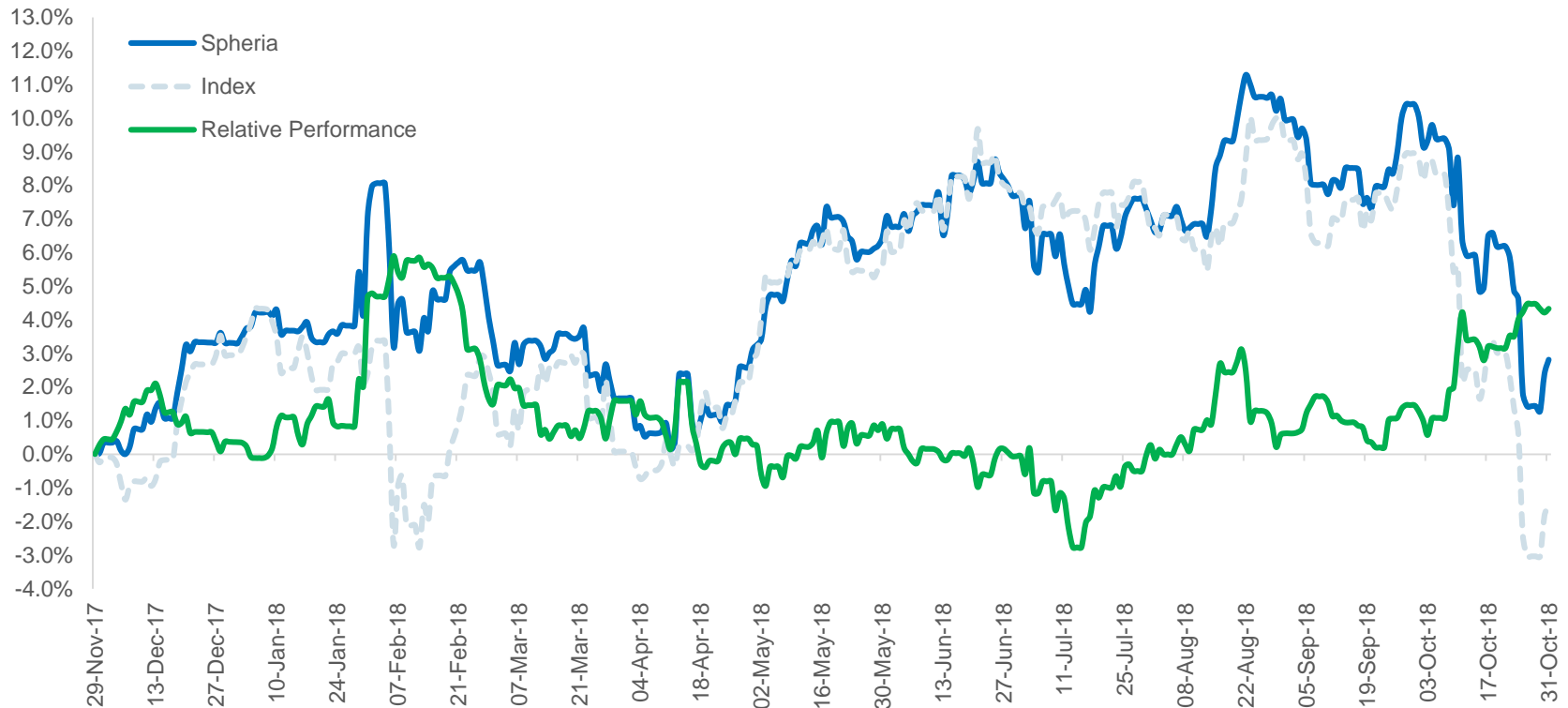
Spheria Emerging Companies portfolio as at 5<sup>th</sup> October 2018.

Source: Spheria & IRESS

# Spheria Illustrative Performance\*

Consistent performance in volatile market

## SEC Portfolio - Net Performance\* since Inception



\* Preliminary estimated performance of portfolio (net of management fees) from 29/11/17 to 31/10/18. Past performance is not a reliable indicate of future performance  
Source: Spheria & IRESS

# Outlook

Momentum trade unwinding?

Spheria portfolios NOT immune to volatility BUT:

- cash flow generative businesses;
- balance sheets strong; and
- most importantly valuations supportive.

Further takeover activity in our portfolios seems likely.

A wide-angle photograph of the Aurora Borealis (Northern Lights) over a calm lake at night. The aurora displays vibrant green and purple curtains of light against a starry sky. The horizon shows dark, snow-covered mountains and a few distant lights reflecting on the water's surface.

**Q & A**

Mr Jonathan Trollip

# Formal Business

Mr Jonathan Trollip



# Formal Business

## Financial Statements

- Financial Statements of the Company for the year ended 30 June 2018, together with the Directors' Report and the Auditor's Report as set out in the 2018 Annual Report.

# Formal Business

## Resolution 1

### 1. Re-election of Adrian Whittingham as Director

- To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

**“That Mr Adrian Whittingham, who retires by rotation in accordance with rule 6.7 of the Company’s Constitution and, being eligible, offers himself for re-election, be re-elected as a director of the Company.”**

# Formal Business

## Resolution 1 - Proxies

### Shares Voted

<b>For</b>	<b>1,353,863</b>	<b>95.42%</b>
<b>Open</b>	<b>60,257</b>	<b>4.25%</b>
<b>Against</b>	<b>4,700</b>	<b>0.33%</b>
<b>Abstain</b>	<b>50,000</b>	

# Formal Business

## Resolution 2

### 2. Adoption of the Remuneration Report

- To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

**“That the Remuneration Report of the Company for the financial year ended 30 June 2018 be adopted.”**

# Formal Business

## Resolution 2 - Proxies

### Shares Voted

<b>For</b>	<b>380,650</b>	<b>59.80%</b>
<b>Open</b>	<b>57,757</b>	<b>9.07%</b>
<b>Against</b>	<b>198,122</b>	<b>31.13%</b>
<b>Abstain</b>	<b>807,291</b>	

A photograph of the Aurora Borealis (Northern Lights) over a body of water at night. The aurora displays vibrant green and purple hues against a dark, starry sky. The lights reflect on the calm water in the foreground. The horizon shows a dark, silhouetted landscape with some distant lights.

# Thank you for joining us for our inaugural AGM

## SEC Shareholder Enquiries

For general information and investment enquiries please contact the Share Registry.

T: 1300 288 664

E: [hello@automic.com.au](mailto:hello@automic.com.au)



# Disclaimer

Spheria Emerging Companies Limited ACN 621 402 588 (SEC)

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