



# Glennon Small Companies Annual General Meeting 2018

# GC1 Directors



## **Michael Glennon** **Chairman GC1**

Founder Glennon  
Capital  
Chief Investment Officer  
GC1 Portfolio Manager

- Souls Funds Management (now Celeste)
- Paradise Investment Management
- Adam Smith Asset Management

## **John Larsen** **Director GC1**

- Head of Equities – Mercantile Mutual (now ING)
- Head of Investment bank, Bain & Co, then Deutsche Bank
- Head of Desk, County Natwest

## **Garry Crole** **Director GC1**

- Founder of DKN financial services (now part of IOOF)
- Founder of InterPrac, Current MD Director Diversa (DVA.AX)
- Senior Manager, Colonial



A low-angle, upward-looking perspective of several modern skyscrapers with glass facades, reaching towards a cloudy sky. The image is overlaid with a semi-transparent dark blue filter. The text 'FORMAL BUSINESS' is centered in the middle of the image in a white, bold, sans-serif font.

# FORMAL BUSINESS

# Proxy Results



## Resolution 1 – Remuneration Report

To consider and, if thought fit, to pass the following resolution as a non-binding resolution:

“That the remuneration report, as contained in the directors report of the Company for the financial year ended 30 June 2018, be adopted.”

For	Against	Abstain
1,000,697	20,000	75,922

# Proxy Results



## Resolution 2 – Re-Election of Director – Michael Glennon

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

“That Michael Glennon, who retires in accordance with the clause 20.3 of the Company’s constitution and being eligible, offers himself for re-election, be re-elected a director.”

For	Against	Abstain
1,086,619	0	10,000



A low-angle, upward-looking perspective of several modern skyscrapers with glass facades, reaching towards a cloudy sky. The image is overlaid with a semi-transparent dark blue filter.

# **CHAIRMANS ADDRESS AND INVESTOR UPDATE**

Michael Glennon



# Key Personnel



## Investment Team



Michael Glennon  
Founder  
Chief Investment Officer

Years in industry: 19+  
Founded Glennon  
Capital in 2008



Tim Powditch  
Portfolio Manager

Years in industry: 34+  
Joined Glennon  
Capital in October 2017



Jackson Lee  
Portfolio Analyst

Years in industry: 5+  
Joined Glennon  
Capital in July 2018

## Operations Team



Paul Bolinowky  
Chief Executive Officer

Years in industry: 32+  
Joined Glennon  
Capital in June 2018



Brooke Logan  
Marketing Director

Years in industry: 32+  
Joined Glennon  
Capital in August 2018





# GC1 Highlights



# GC1 Gross Performance



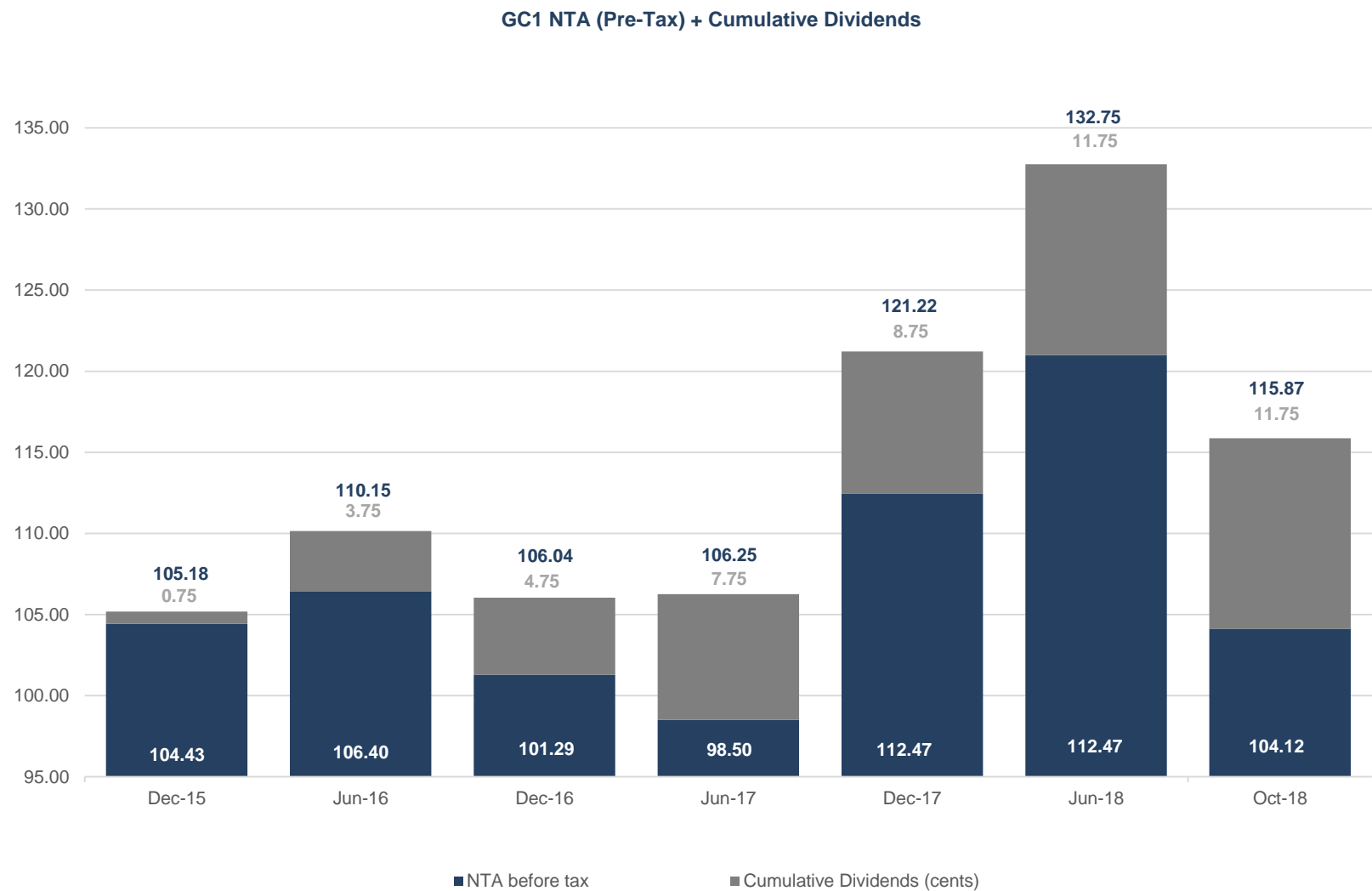
Portfolio Growth of \$10,000 Since Inception



Source: Glennon Capital, Link Fund Solutions. As at October 2018



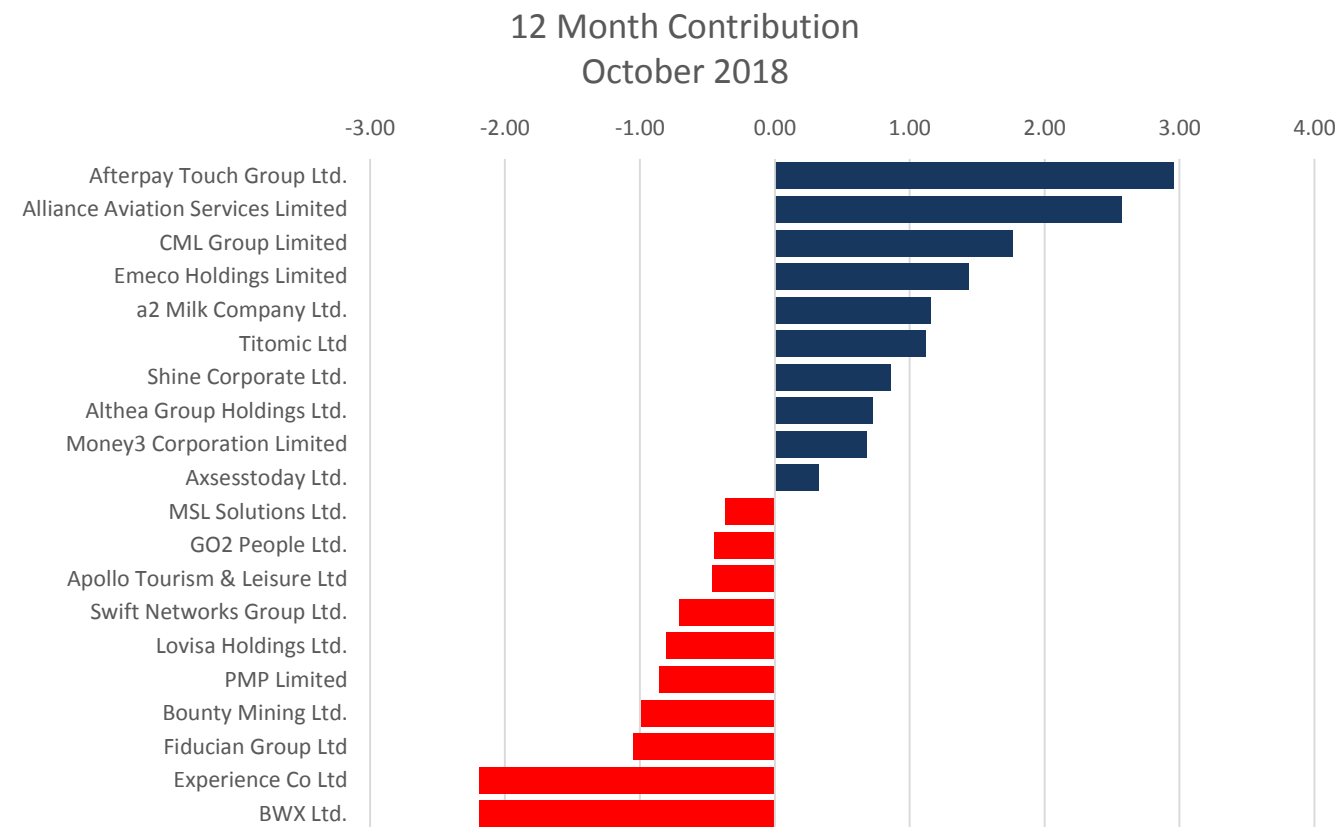
# GC1 NTA + Dividends Paid



Source: Glennon Capital, Link Fund Solutions. As at October 2018



# GC1 Top Contributors & Detractors



Source: Glennon Capital, Link Fund Solutions. As at October 2018





# Market Expectations



# Small Industrials vs. Small Resources 1Y (%)



Source: Bloomberg. As at 14 Nov 2018

GC1 | AGM & Investor Update November 2018



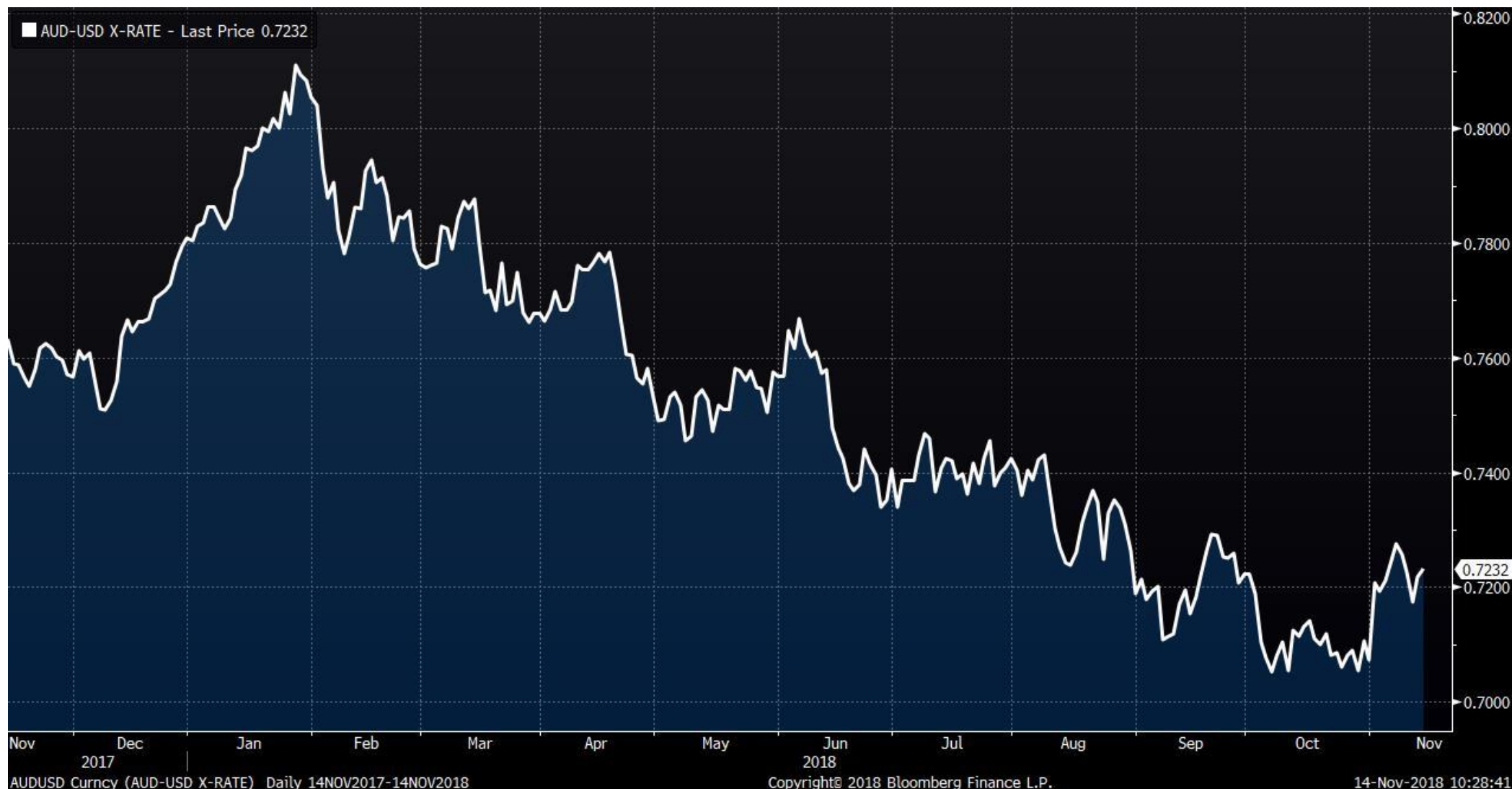
# FAANGs Performance 1Y (%)



Source: Bloomberg. As at 14 Nov 2018

GC1 | AGM & Investor Update November 2018

# AUD/USD Dropping



Source: Bloomberg. As at 14 Nov 2018

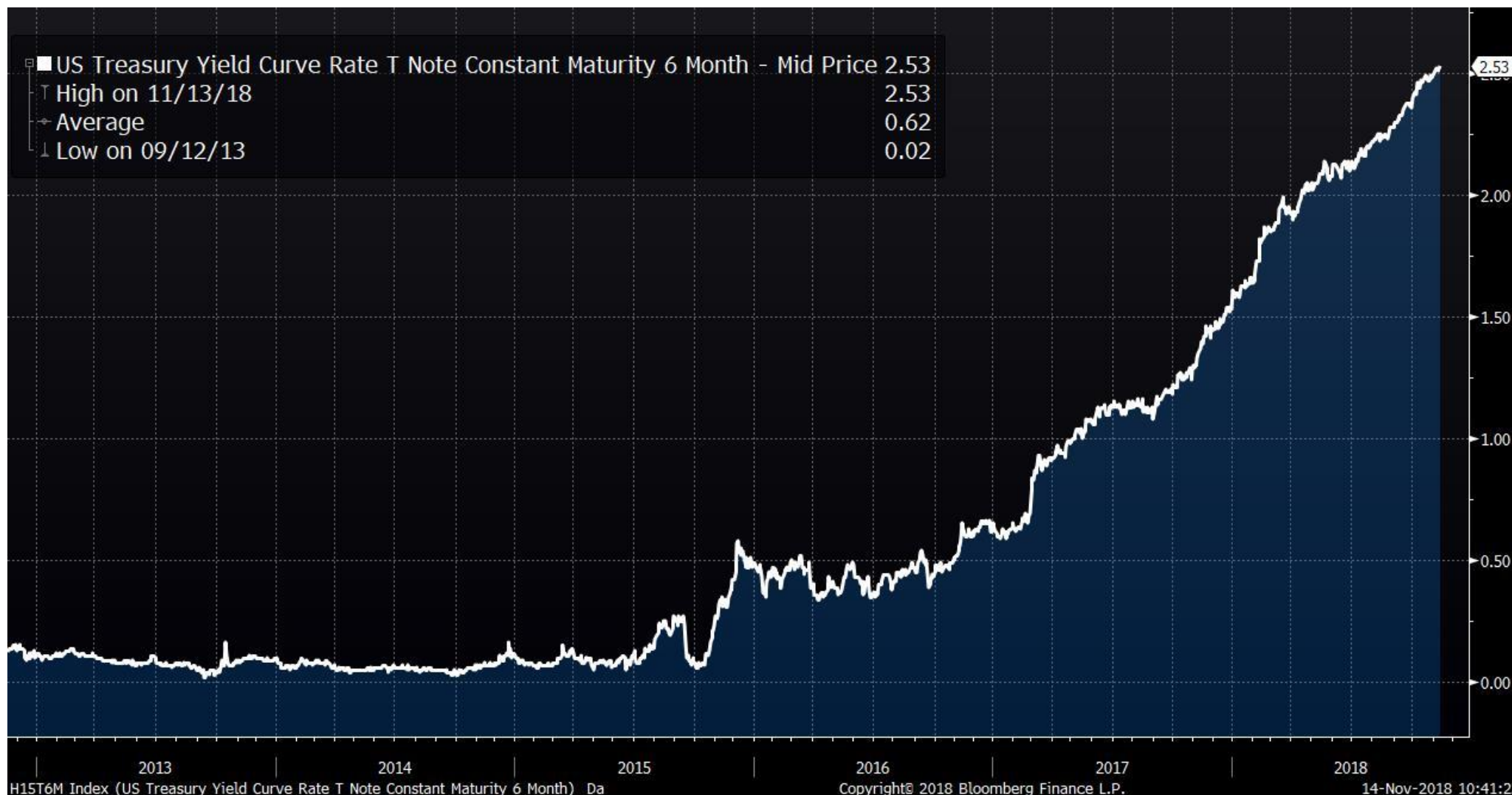


# USD/AUD Rising



Source: Bloomberg. As at 14 Nov 2018

# Rising Yields Affecting Valuations



Source: Bloomberg. As at 14 Nov 2018

GC1 | AGM & Investor Update November 2018



# Auction Clearance Rates Falling



## CoreLogic Auction Clearance Rate Results



Last Weekend  
11-Nov-18

42%



48%



38%



56%



25%

Same Time  
Last Year

69%

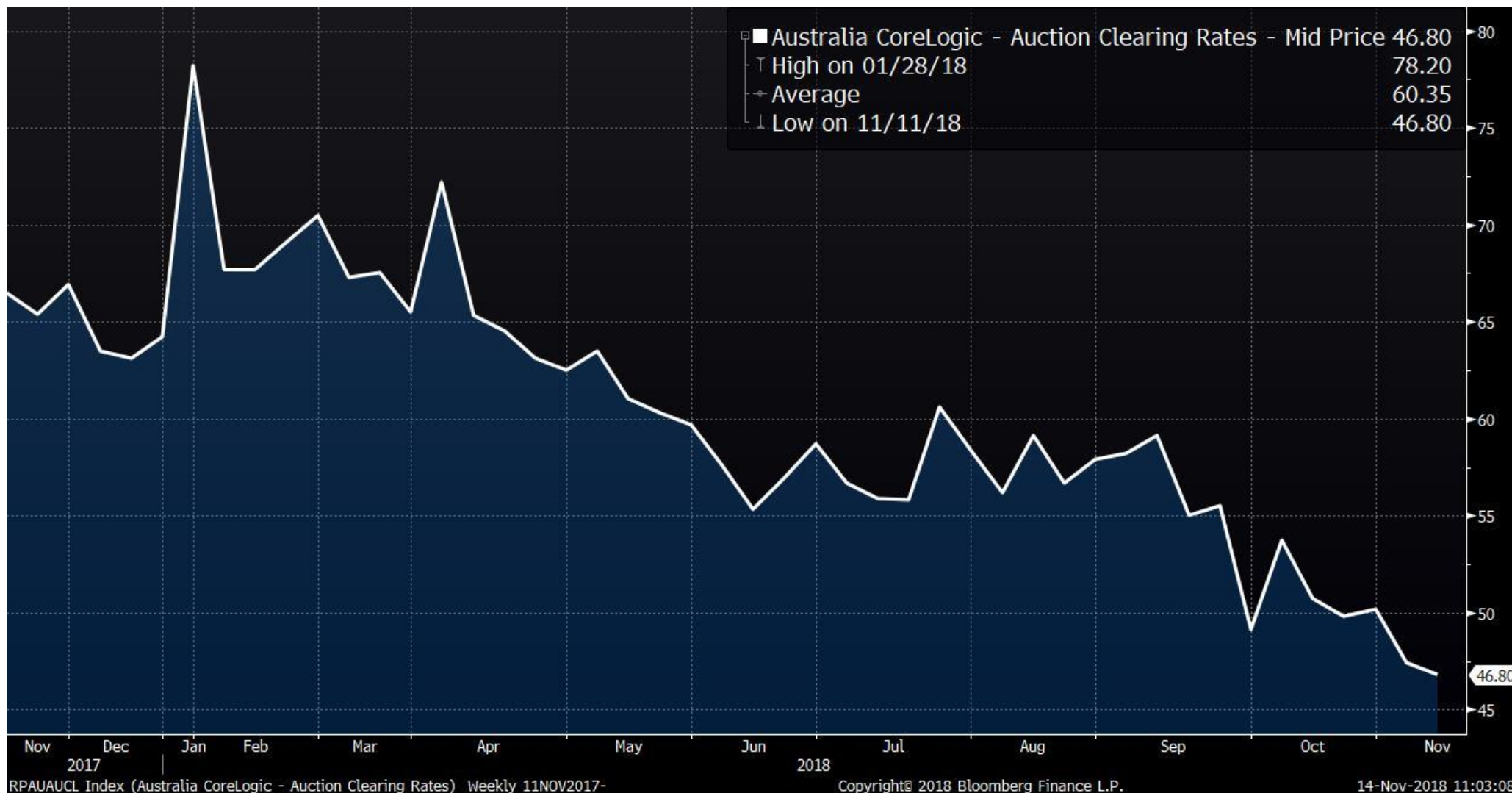
72%

46%

63%

44%

# ...And Falling



Source: Bloomberg. As at 14 Nov 2018



# Where To From Here?



- October market correction has potentially created opportunities.
- Australian economics are still not in dangerous territory – low interest rates, low inflation, high employment. But we will keep an eye on rising rates in the US which could impact funding costs for leveraged businesses and which is scaring investors away from equities.
- International trade disruption continue to create uncertainty – local small caps not fundamentally impacted, good idea to stick to established drivers. Blurred lines between value and growth, so stock picking is the answer.
- Infrastructure and resources investment recovery leading the way. Mining and infrastructure services companies preferred, with some specific direct resources investments.
- Not chasing inflated tech opportunities, but disruptive technology does appeal. As do Australian companies with international exposure. Lower \$A comes into play.

**Valuations & Stock Picking Will Prevail**





# GC1 Portfolio



# Our Portfolio



As of 31<sup>st</sup> October 2018

## Portfolio Characteristics

- 35 Holdings
- Top 10 positions represent 49.9% of the portfolio
- Cash at 11%
- Largest market cap Afterpay \$2.99B, Smallest market cap GO2 People \$10.6M
- Average M.Cap \$413.9M
- Median M.Cap \$178.1M

## Top Portfolio Holdings

Emeco Holdings Limited	7.70%
Alliance Aviation Services	6.77%
Cml Group Limited	6.65%
Macmahon Holdings Ltd	6.52%
Afterpay Touch Group Limited	5.61%

## GC1 Gross Portfolio Performance

Performance at 31 October 2018	1 Month	3 Month	6 Month	1 Year	Since Inception
Glennon Small Companies Ltd	-12.57%	-12.89%	-1.40%	2.06%	12.17%



## Share Price @ \$0.31

M.Cap	(\$m)	970
EV	(\$m)	1260
Profit FY19	(\$m)	73
PE	X	13.0
EV/EBITDA	X	5.6

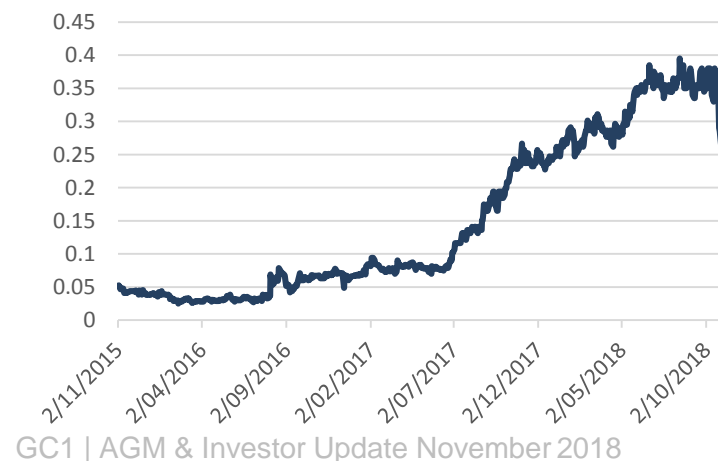
## Earnings Drivers

- Equipment shortage already upon the market. Utilisation rising.
- Resource sector revival underway and east coast Infrastructure provides upside and maintains market tension.
- Replacing expensive debt.

## Key Risks

- Execution risk
- Coal is 55% of domestic earnings
- WA mining outlook improving coal, gold, iron ore.
- Balance sheet pressure from utilisation ... counterbalanced by the ongoing reduction in debt levels.

## Share Price Chart



## Divisional Comments

- Mergers and acquisitions working well. Dominant market position in large equipment rental.
- Small players have gone out of business
- Domestic fleet only
- Efficiencies coming through from larger fleet and maintenance operations

## Valuation Assumptions

- Margins continue their improvement
- Merger leverage continuing
- Better pricing and utilisation
- Interest savings coming through.



# Alliance Aviation



## Share Price @ \$2.44

M.Cap	(\$m)	309
EV	(\$m)	345
NPAT FY19	(\$m)	21.0
PE	X	14.9
EV/EBITDA	X	5.3

## Earnings Drivers

- Increased fleet
- Increased fleet utilisation
- Increased resources-related demand
- Diversification into tourism - wet hire deals with Virgin Airlines

## Key Risks

- Changing market circumstances
- Lost contracts
- Earnings volatility on Virgin routes.
- Maturity

## Share Price Chart



## Divisional Comments

- Fleet enlargement continues unabated through the release of stored planes into the market
- Virgin demand growing

## Valuation Assumptions

- Fleet size and utilisation continuing upward trajectory
- Underlying demand solid
- Dividend payout increased to 60%.



## Share Price @ \$0.72

M.Cap	(\$m)	106
EV	(\$m)	220
Profit	(\$m)	9.4
PE	X	12.0
EV/EBITDA	X	10.8

## Earnings Drivers

- Scale continues to increase.
- Fourteenfold increase in invoices funded in past three years.
- Acquired Thorn debtor book now part of the business
- New banking facility, reduced cost.

## Key Risks

- Pricing risk.
- Competitor risk ... new owners of Scottish Pacific potentially could disrupt the market.
- Equipment finance division is new.
- Royal Banking Commission.

## Share Price Chart



## Divisional Comments

- Retains the key elements of nimbleness and pricing discipline that enable it to take market share.
- Largest competitor Scottish Pacific under takeover.
- Equipment finance division launched, leaning on the systems and knowledge gained from its invoice financing business.

## Valuation Assumptions

- Expect the company to continue taking share ... its offer appeals to smaller businesses that require a quicker response time that the major player can give.
- Further product extensions over time.
- Reasonably priced with a decent yield and a habit of upgrading earnings.



# Macmahon Holdings Ltd



## Share Price @ \$0.25

M.Cap	(\$m)	560
EV	(\$m)	511
Profit	(\$m)	51
PE	X	9.3
EV/EBITDA	X	2.8

## Earnings Drivers

- \$1.1bn work secured FY19, more than \$1bn for FY20 and FY21. \$7bn pipeline.
- Margins lifting as expected.
- Byerwen project underway.
- Batu Hijau - likelihood of profit share bonus at current mining rates.
- Telfer losses eliminated

## Key Risks

- Weakening in resources demand
- Project risk
- Time delays
- Political risks in Indonesia
- Equipment access.

## Share Price Chart



## Divisional Comments

- Telfer is at break even or better
- All projects performing to plan or better.
- New civil works business, TMM, has started well.

## Valuation Assumptions

- There is upside risk to our valuation with the pull forward of contracts
- Margins expected to rise as projects scale up.
- Capex below depreciation
- Cash balance sheet ... acquisition or capital mgt on the cards.

# Afterpay Touch



## Share Price @ \$11.92

M.Cap	(\$m)	2,740
EV	(\$m)	3,083
Profit	(\$m)	15.0
PE	X	150
EV/EBITDA	X	75

## Earnings Drivers

- Continuing growth in ANZ.
- Rapid expansion into USA – 2,200 retailers committed in less than six mths. Market value of those retailers bigger than entire Aust online fashion market.
- UK expansion has started.
- Start-up costs.

## Key Risks

- Political and regulator enquiries into buy-now-pay-later providers.
- Competitor disruptors.

## Share Price Chart



## Divisional Comments

- Diversifying ANZ offer into dentistry and optometry.
- US and UK concentrating on online fashion markets to begin with.

## Valuation Assumptions

- There is upside risk to our valuation with the speed of the international penetration.
- Costs to establish market presence taken into consideration.
- Glennon valuation based on major US retail partners only.





# What We Got Wrong



# Experience Co



## Share Price @ \$0.30

M.Cap	(\$m)	165
EV	(\$m)	185
Profit	(\$m)	17.0
PE	X	9.7
EV/EBITDA	X	4.7

## What We Got Wrong

- Regional concentration is open to risks of single events (weather).
- Extreme tourism is open to single events (death).
- The business has grown via acquisition. Unsure how sustainable that is in this sector within current geographic boundaries.

## Do We Still Hold?

YES

## Share Price Chart



## Why We Still Hold

- Liquidity has prevented us from selling in a timely manner at an appropriate price.
- The business is now cheap for its growth profile – keeping in mind the vulnerability to left field events.
- Most recent updates have been more positive.

## What We Learnt

- The company's attempts at diversity, which do hold it in good stead longer term, were not enough to counter the business's risks.
- When management goes missing so does information flow.
- Sometimes you just get unlucky.



## Share Price @ \$2.93

M.Cap	(\$m)	364
EV	(\$m)	410
Profit	(\$m)	23.0
PE	X	15.6
EV/EBITDA	X	10.4

## What We Got Wrong

- Bought in at high valuation.
- Under-appreciated the disruption of three consecutive acquisitions.
- Misread the expense implications of launching Sukin in Coles – particularly the marketing spend to appease pharmacist customers.

## Do We Still Hold?

NO

## Share Price Chart



## Why We Sold

- Concern about the disruption of the management buyout on the business.
- Loss of the founder's influence and the time for new management to get a grip on the business and prove their capability.
- Look to buy again in the future.

## What We Learnt

- Short-term disruption trumps long term potential when high valuations are in play.
- Re-affirmed how management is crucial.
- Where there is smoke there is usually fire.

# Summary – Why Invest With GC1?



- Experienced Team
- High Conviction
- Market suits stock picking
- Staff Alignment

# Questions?





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