



GLENNON SMALL COMPANIES LIMITED

Investment Report and NTA
31 December 2019
ASX Announcement Date: 10 January 2020



NTA

NTA (before tax)	\$0.96
NTA (after tax)	\$0.96

ASX Code	GC1
Inception date	21 August 2015
Share price (31/12/19)	\$0.84
Cumulative dividends*	14.75c

* Excluding GST and franking

PORTFOLIO

Cash weighting	15.5%
Number of holdings	43

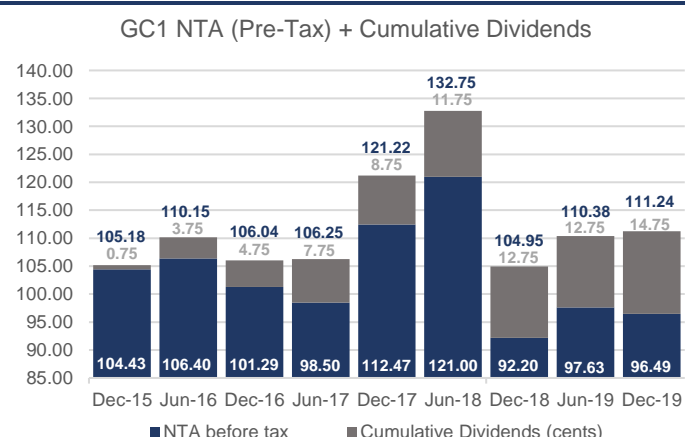
DIVIDEND HISTORY

Period ended	Type	Amount (cps)
31 December 2015	Interim	0.75
30 June 2016	Final	3.00
31 December 2016	Interim	1.00
30 June 2017	Final	3.00
31 December 2017	Interim	1.00
30 June 2018	Final	3.00
31 December 2018	Interim	1.00
30 June 2019	Final	2.00
Total dividends		14.75

TOP 5 HOLDINGS

Company Name	ASX code
Brickworks Limited	BKW
Money3 Corporation Limited	MNY
Probiotec Limited	PBP
Resimac Group Limited	RMC
Viva Leisure Limited	VVA

NTA + DIVIDENDS



REVIEW OF THE QUARTER

The December quarter was an optimistic quarter. Good news around the globe and Australia turned the market sentiment to optimistic. The U.S. and China agreed on the Phase-One Deal, marked a breakthrough in the US-China trade war that has hurt the global economies. The U.S. Federal Reserve Bank take steps to strengthen the American economy by cutting rates.

The Australian market and economy have a similar reaction. The unemployment rate and retail sales were both better than market expected. Even with the recent economic improvement, RBA may still need to take steps to achieve its employment and inflation target. RBA Governor Philip Lowe signaled the floor of interest rate in Australia and suggested possible steps in unconventional monetary policy. The market widely expected two rates cut in 2020, which resulted in a bull market for this quarter.

The Small Ordinaries fell -0.29% for the month and rose +0.76% for the December quarter. Small Industrials advanced by +0.90% for the quarter, with the Small Resources rising +0.04%. GC1 returned of -0.03% for the month and returned 1.18% for the quarter, outperforming the market for both the month and the quarter.

STOCK STORIES

During the quarter we took a small allocation in Amaero (3DA), another 3D printing business similar to Titomic where we had made strong returns historically, while only a small position its up +87% for the quarter. Our position in Wagners (WGN) also performed well returning +52% for the quarter after announcing several contract wins during period. Resimac (RMC) was also a strong performer with the shares up +32% for the quarter taking Resimac into our top 5 holdings.

In terms of the largest contributors to performance, Resimac, Hills and Wagners were the top 3 contributors to performance, While Mosaic Brands (MOZ) was the largest detractor from portfolio performance.

In terms of new positions, we have added a position in Probiotec Limited (PBP), a leading Australian pharmaceutical and consumer health manufacturer. The company is growing both organically through innovation and quality systems, and through acquisition.

Despite the recent low-rate and high premium market atmosphere, this company is careful in making acquisitions. PBP spent ~\$23 million on Australian Blister Sealing Incorporated (ABS), representing a multiple of 4x EBITDA. The recent acquisition of Contract Pharmaceutical Services of Australia Pty Ltd is priced at 2x to 2.5x EBITDA. These acquisitions allow PBP

grow the earnings at a reasonable price and are all accretive in terms of the multiple paid.

Considering the effect of acquisitions, the earnings growth should be at around 90% depending on the acquisition related costs, which gives us a forward PE multiple of approximately 16x. Given the disciplined approach in acquisitions, we expect the market will re-rate the company once the earnings growth from acquisition is materialized.

PORTFOLIO OUTLOOK

This year is expected to be a volatile year. Despite the trade war discussion is going to an end temporarily, some volatility is expected to rise especially during the U.S. Presidential Election. RBA's attitude towards unconventional monetary policy is also a concern in the market. We remain cautious and focus on finding value stocks with attractive earnings multiples and with healthy balance sheets. The earnings season is approaching and we are prepared to react on any irrationality.



Michael Glennon
Executive Chairman

HOW TO INVEST

Glennon Small Companies Limited shares are traded on the Australian Securities Exchange (ASX) under the ticker code 'GC1'.

If you are a first-time investor, you purchase shares through a stockbroker in the same way as you buy shares in other companies. If you do not have a stock broker, the ASX provides a service which can assist you. Please visit their site at:

<http://www.asx.com.au/education/first-time-investors.htm>

GENERAL ENQUIRIES



GLENNON CAPITAL

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