GLENNON
SMALL COMPANIES LTD

Wednesday, 12 February 2020

Company Announcements
Australian Securities Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

**Glennon Small Companies Limited (ASX: GC1) – Quarterly Webinar**

Please find attached a copy of the Company's Quarterly Webinar Presentation that Michael Glennon, Executive Chairman and Chief Investment Officer will be using when presenting to investors on Wednesday 12 February 11AM.

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# Glennon Capital Quarterly Webinar

February 2020

# WHAT HAPPENED IN MARKET IN LAST QUARTER?

- **Large caps v. small caps:** positive return of 0.68% and 0.76%


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# 2019 PORTFOLIO STRATEGY

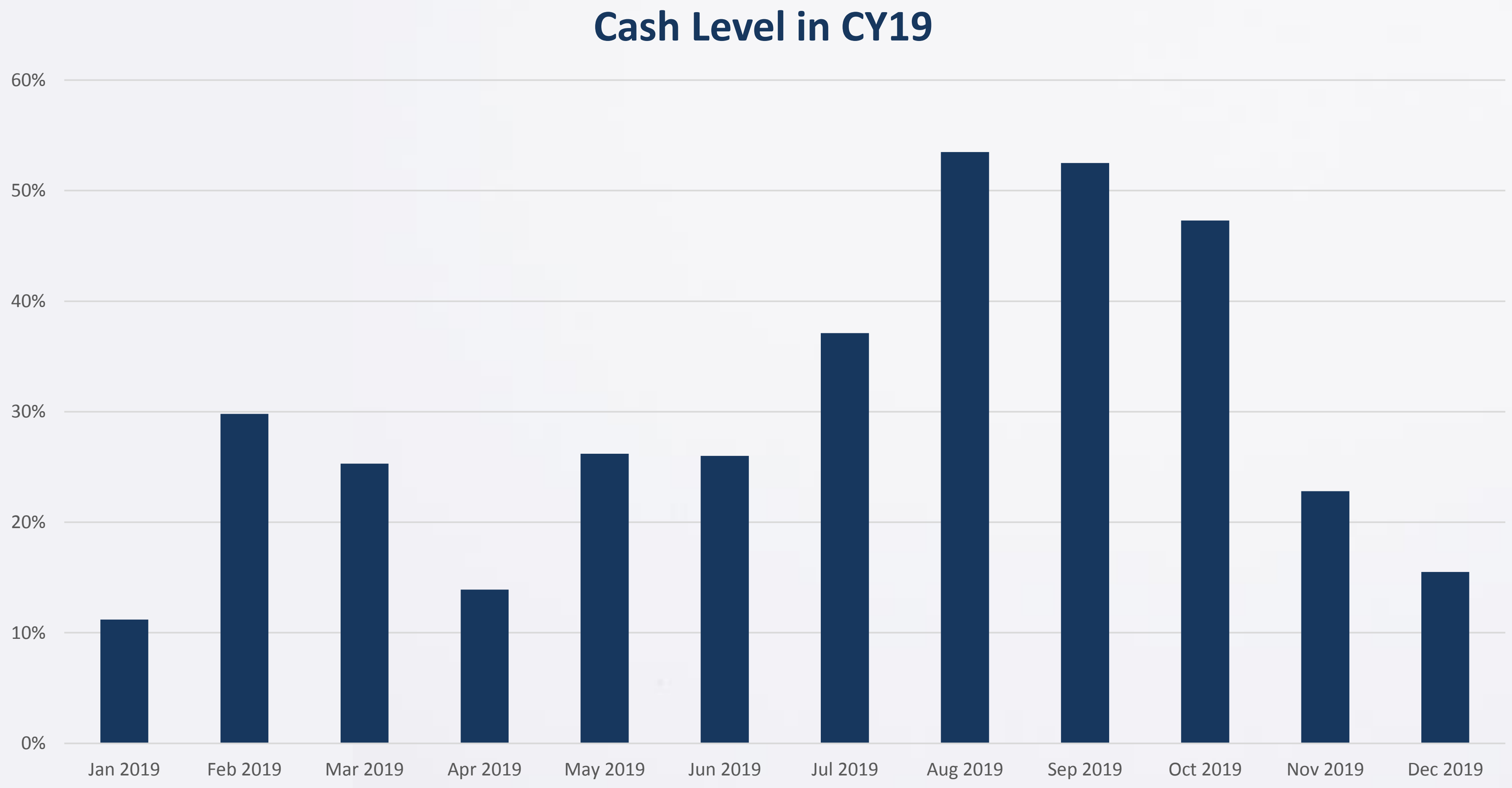
- **Held high level of cash**
- **Waited for values**
- **Exited high PE stocks**
- Tried to play a conservative game and hit singles, rather than trying to hit the ball out of the Park

# GC1 PERFORMANCE IN THE LAST QUARTER

| | October | November | December | Quarter |
|---|---|---|---|---|
| GC1 | -1.22% | +2.46% | -0.03% | +1.18% |
| ASX Small Ords | -0.50% | +1.56% | -0.29% | +0.76% |
| Outperformance | -0.72% | +0.91% | +0.25% | +0.43% |

# CASH LEVEL OVER THE LAST YEAR

- **Reduction in cash level:** deploy cash into overlooked undervalued stocks

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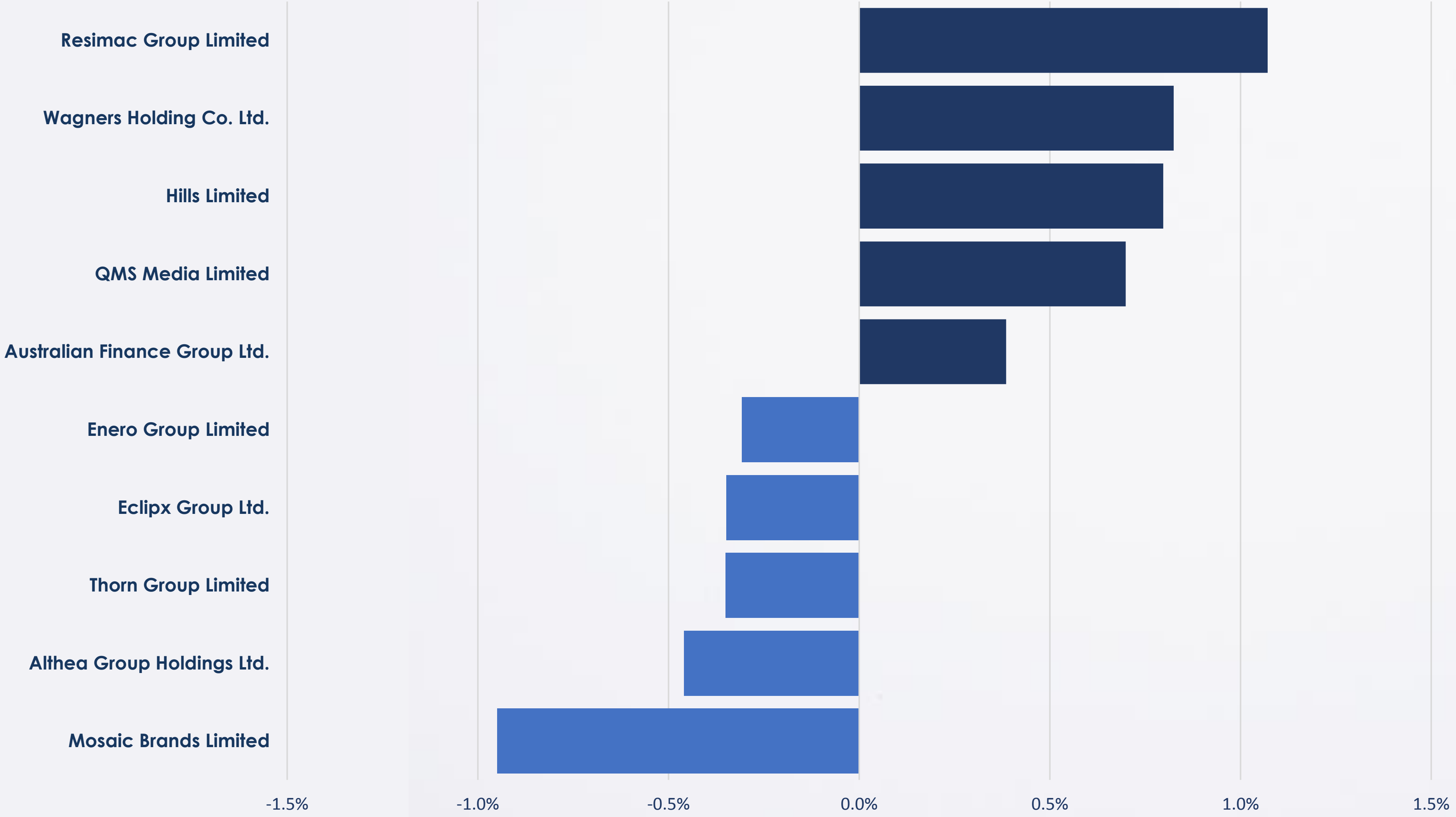
# GC1 PERFORMANCE IN THE LAST QUARTER

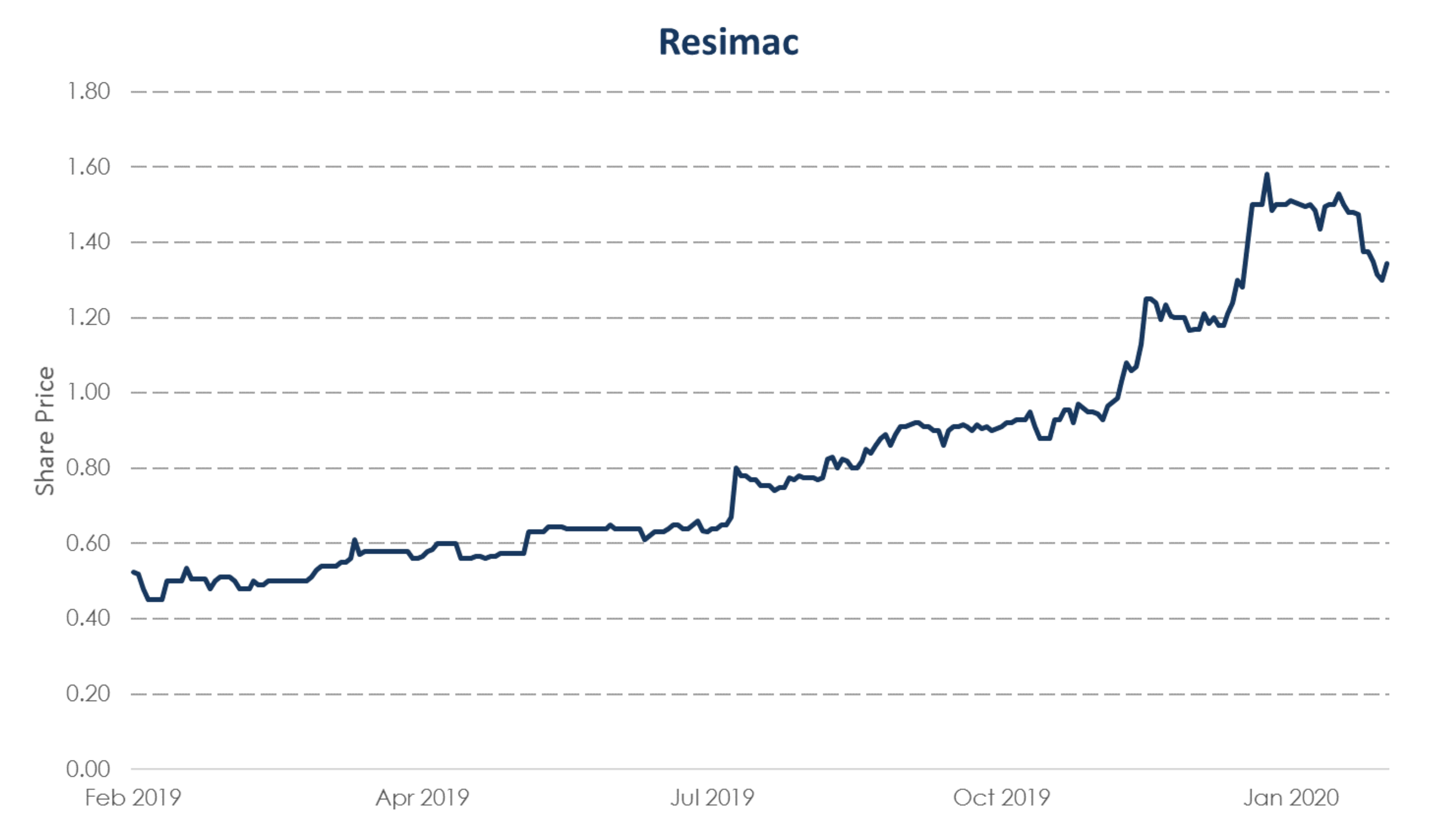


# Resimac (M.Cap: $579 m)

- **Non-bank residential mortgage lender:** benefit from the Royal Commission
- **Non-bank market share is rising:** up from c.6% in 2016 to c.8.5% in 2019
- **Quality loan book:** portfolio outperforming the industry benchmark in delinquencies and write-offs
- **Attractive valuation**

| ($m) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Net Interest Income | 117.9 | 135.6 | 146.9 | 154.4 |
| Underlying NPAT | 31.1 | 45.5 | 49.7 | 52.3 |
| EPS (cents) | 7.7 | 11.2 | 12.2 | 12.9 |
| EPS Growth | | 44.5% | 9.3% | 5.2% |
| PER | 18.0 | 12.3 | 11.3 | 10.7 |

# Resimac (M.Cap: $579 m)



# Wagners (M.Cap: $356 m)

- **Growth from contracts momentum:** contract wins expected to deliver significant earning contribution in FY21
- **Offshore growth opportunities:** sale of bridges and pedestrian infrastructure in international markets
- **Strong balance sheet:** sufficient capital to fund future growth

| ($m) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Net Interest Income | 239.8 | 233.7 | 312.1 | 319.5 |
| Underlying NPAT | 13.6 | 13.0 | 20.7 | 20.6 |
| EPS (cents) | 16.0 | 8.4 | 6.9 | 11.1 |
| EPS Growth | | -17.4% | 59.7% | -0.7% |
| PER | 12.6 | 22.5 | 27.3 | 17.1 |

# Wagners (M.Cap: $356 m)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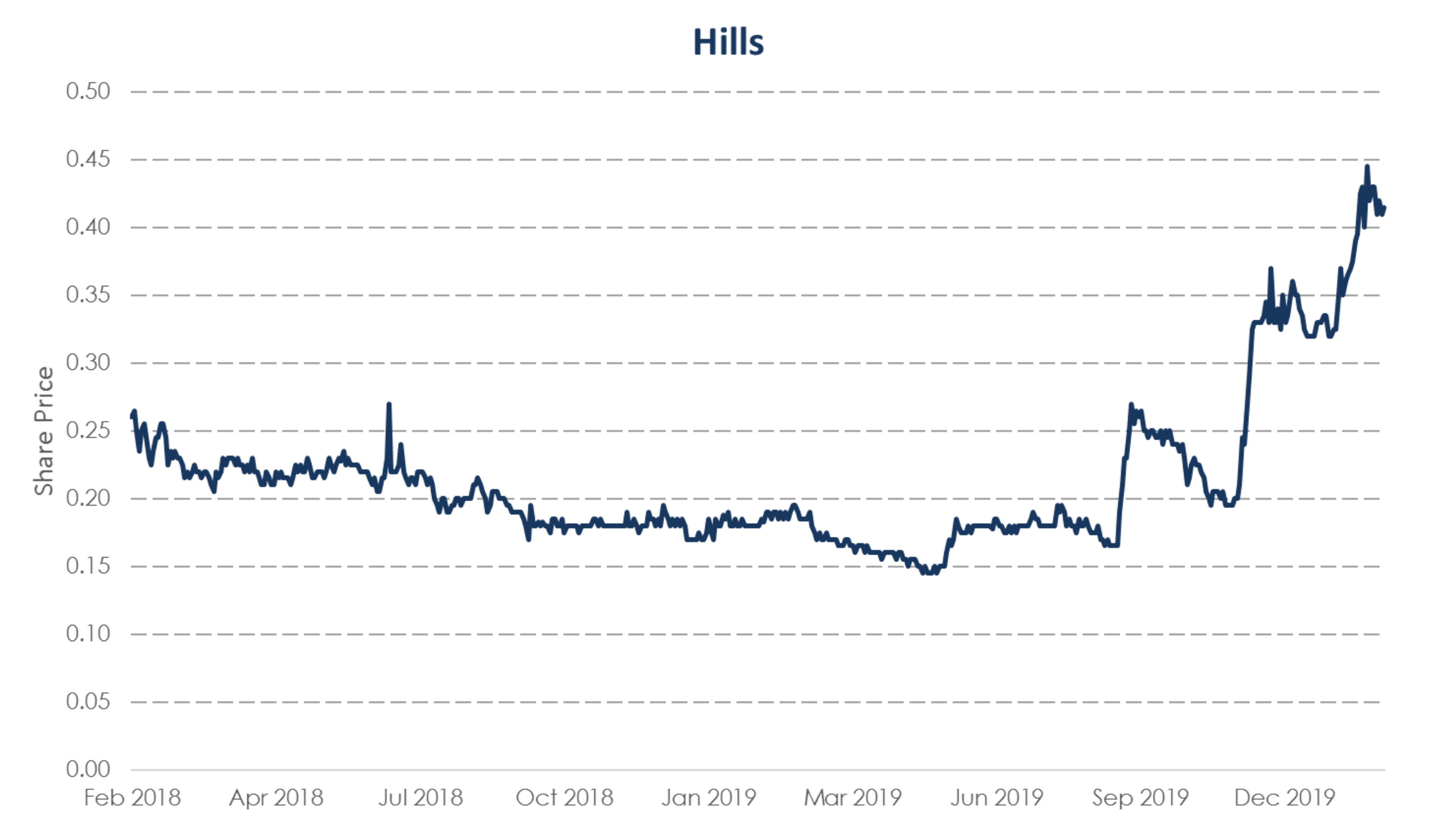
# Hills (M.Cap: $99 m)

- **Sale of communication business:** clear unprofitable capital intense business
- **Leading nurse call system:** installed in 43% of all public hospital beds
- **Highly profitable health division:** return on capital employed is 48.7%
- **Focus on health division:** provide high growth opportunities

| ($m) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Revenue | 267.4 | 227.3 | 215.9 | 220.1 |
| NPAT | -8.8 | 4.8 | 7.8 | 8.0 |
| EPS (cents) | -4.3 | 2.1 | 3.4 | 3.5 |
| EPS Growth | | | 61.9% | 3.0% |
| PER | | 20.2 | 12.5 | 12.1 |

# Hills (M.Cap: $99 m)



# WHAT WE BOUGHT

1. **Probiotec**

2. **Brickworks**

3. **Johns Lyng Group**

# Probiotec (M.Cap: $181 m)

- **Leading pharmaceutical manufacturers:** sales from some of the world largest blue chip consumers
- **Strong customer relationship:** no major contract losses in past 5 years
- **Underutilised facility:** expansion of warehousing capacity in FY18 improves efficiency
- **Disciplined acquisition:** recent acquisition (CSPA) is priced at 2x EBITDA

| ($m) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Sales | 79.1 | 107.2 | 121.7 | 128.8 |
| Underlying NPAT | 3.8 | 7.9 | 10.7 | 12.1 |
| EPS (cents) | 6.2 | 12.0 | 16.2 | 18.3 |
| EPS Growth | | 94.6% | 34.8% | 12.9% |
| PER | 48.0 | 23.1 | 17.1 | 15.1 |

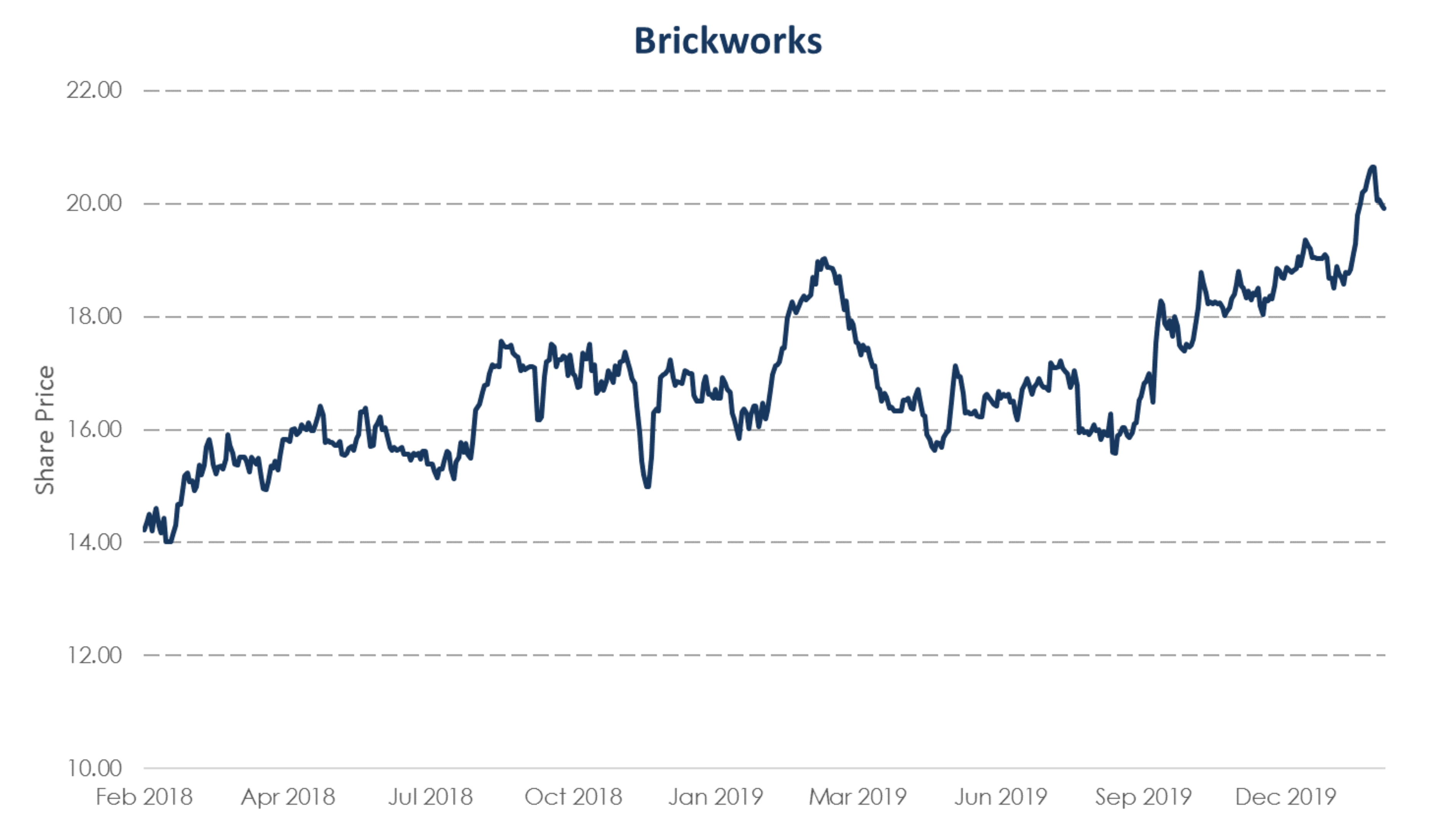
# Probiotec (M.Cap: $181 m)

# Brickworks (M.Cap: $3,017 m)

- **Stable domestic operations:** 45% share of clay brick manufacturing market
- **US market consolidation opportunity:** 37 players in US vs 5 in AUS
- **US housing market recovery:** permits expected to rise
- **Strong dividend payer:** no dividend cut in past 20 years

| ($m) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Revenue | 918.7 | 926.4 | 926.9 | 948.2 |
| Underlying NPAT | 234.2 | 165.5 | 164.9 | 168.1 |
| EPS (cents) | 156.5 | 110.6 | 110.2 | 112.3 |
| EPS Growth | | -29.3% | -0.4% | 1.9% |
| PER | 12.9 | 18.2 | 18.3 | 17.9 |

# Brickworks (M.Cap: $3,017 m)

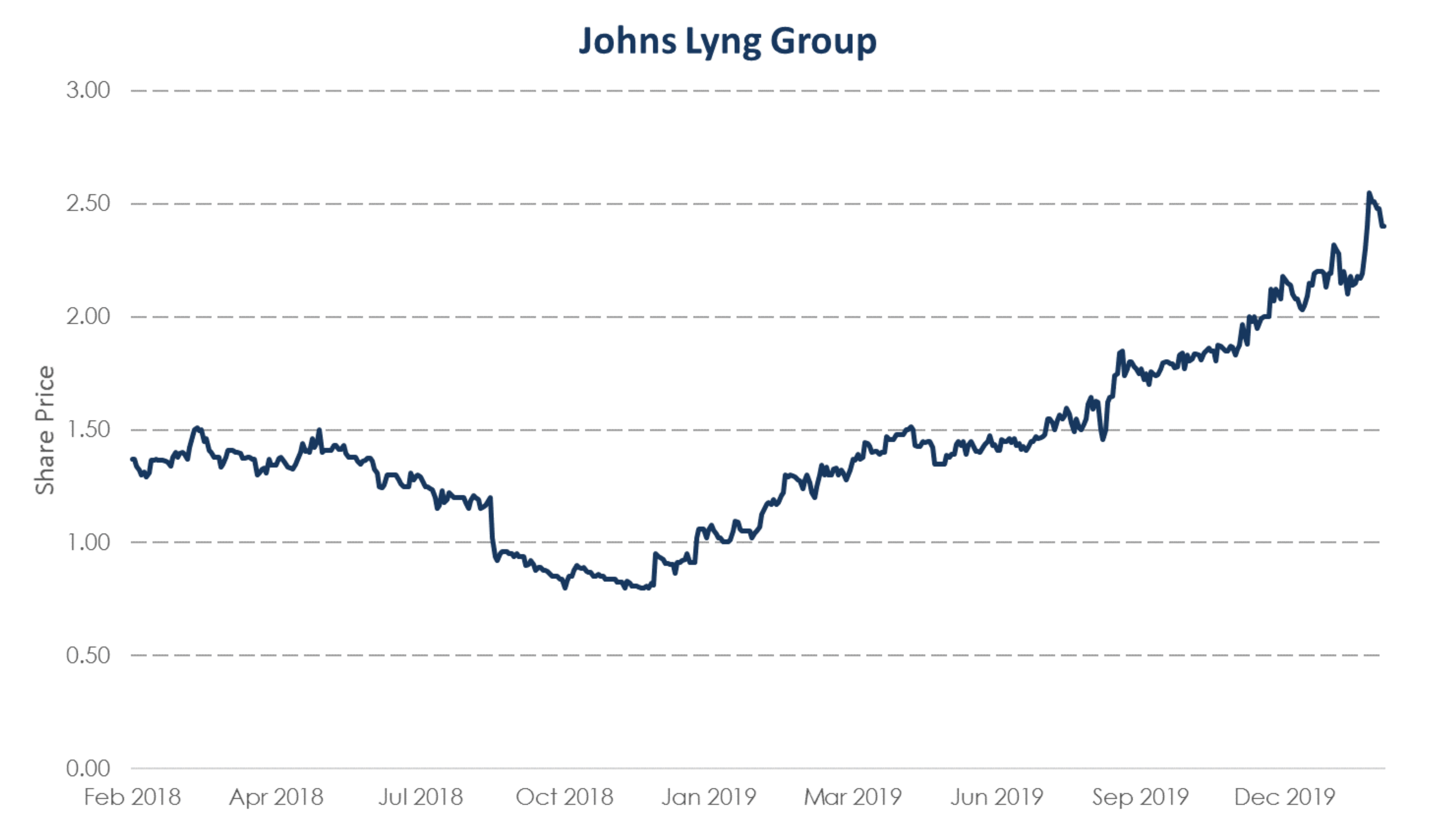


# Johns Lyng Group (M.Cap: $602 m)

- **Upside opportunity from conservative guidance:** guidance remains unchanged in AGM despite growth in potential market
- **Growth from vertical acquisition:** expand into strata market and cross-sell JLG building services
- **Organic growth from new contract wins:** new contracts signed with big insurance players

| ($m) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Revenue | 335.1 | 440.6 | 454.0 | 487.8 |
| Underlying NPAT | 13.5 | 16.3 | 17.3 | 19.1 |
| EPS (cents) | 6.1 | 7.3 | 7.8 | 8.6 |
| EPS Growth | | 19.7% | 6.9% | 10.3% |
| PER | 44.3 | 37.0 | 34.6 | 31.4 |

# Johns Lyng Group (M.Cap: $602 m)

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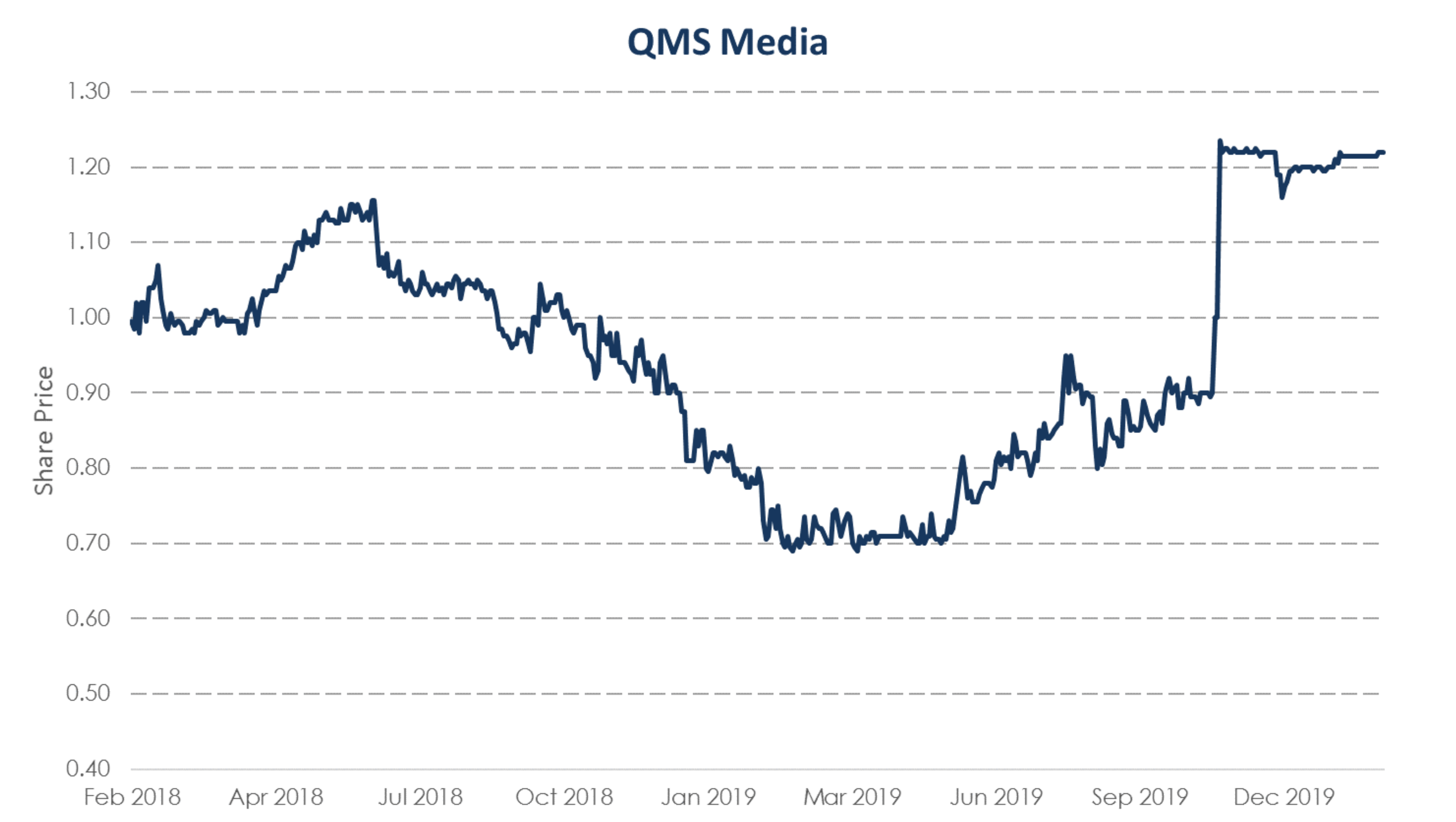
# WHAT WE SOLD

1. **QMS Media**
2. **Collins Foods**
3. **InvoCare**

# QMS Media (M.Cap: $426 m)

- **Received takeover offer from Quadrant:** Quadrant offered $1.22 per share
- **Market fully priced in a takeover success:** share price jumped to $1.22
- **Sold position:** sold to deploy cash elsewhere

# QMS Media (M.Cap: $426 m)

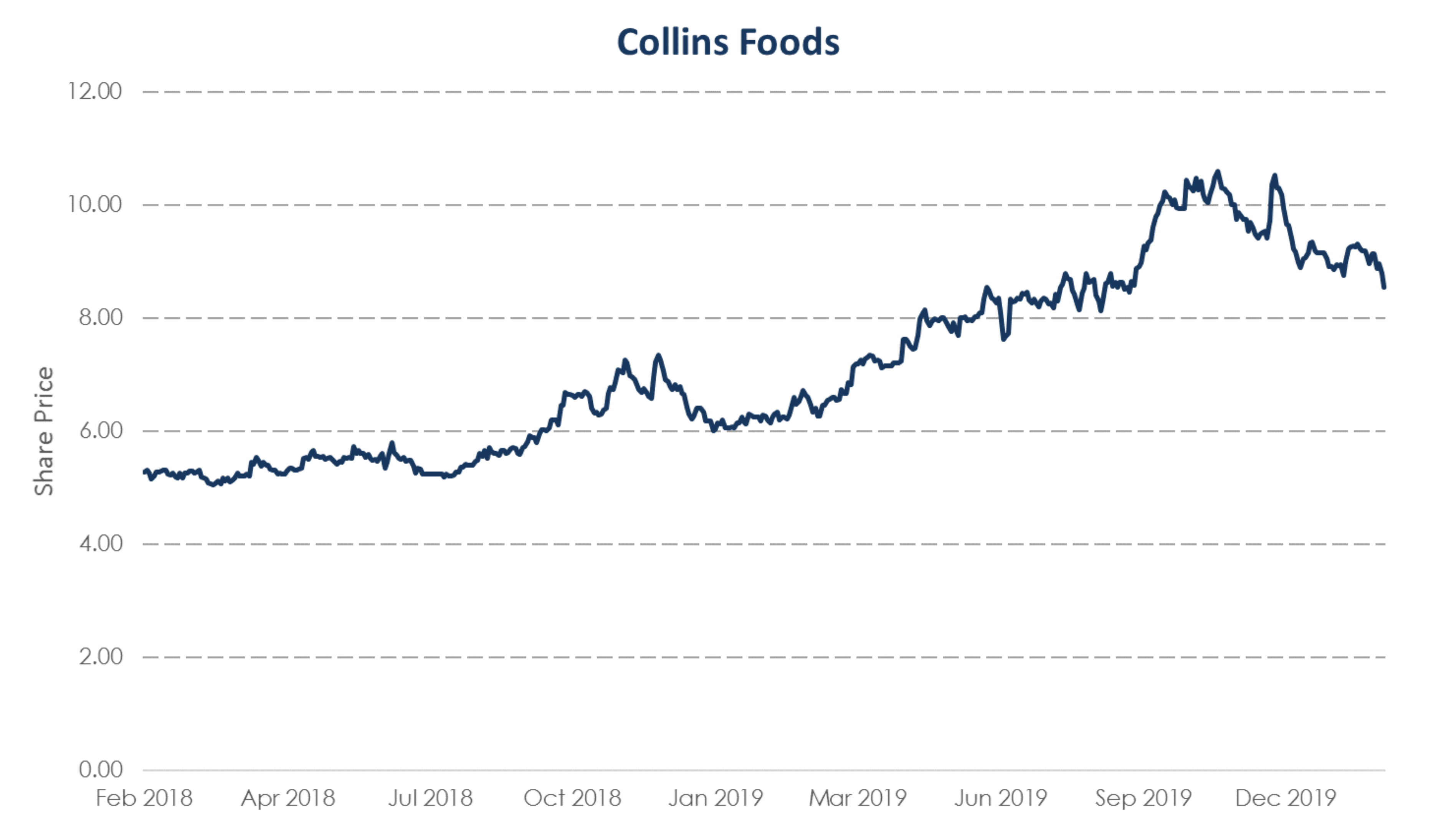


# Collins Foods (M.Cap: $1,095 m)

- **Poor performance from Europe:** EBITDA down by 33.8% due to underperformance in Netherlands
- **Valuation risk:** CKF is selling at 28.6x PE and 8.3x EV/EBITDA
- **Priced for perfection:** upside is limited

| ($m) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Sales | 901.2 | 981.9 | 1069.2 | 1186.4 |
| Underlying NPAT | 44.2 | 42.4 | 48.7 | 57.0 |
| EPS (cents) | 0.38 | 0.36 | 0.42 | 0.49 |
| EPS Growth | | -4.1% | 14.9% | 17.0% |
| PER | 16.3 | 28.6 | 24.9 | 21.3 |

# Collins Foods (M.Cap: $1,095 m)

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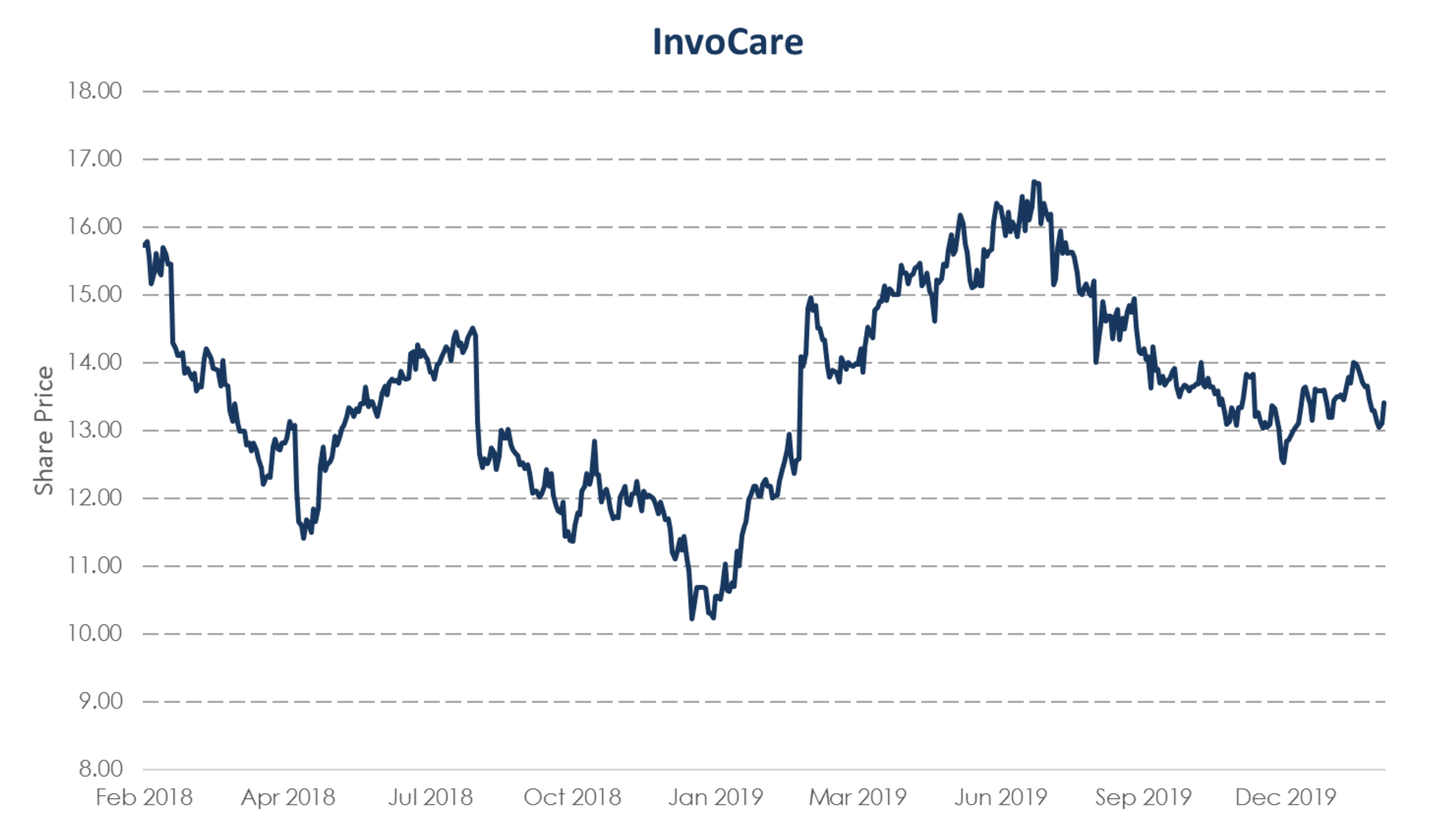
# InvoCare (M.Cap: $1,554 m)

- **Potential threat of acquisition strategy:** ACCC investigates acquisitions and consolidation in funeral industry
- **Catchup capex required:** renovation requires significant capital
- **Elevated gearing:** capex is funded by debt which adversely affected company's financial healthiness
- **Valuation risk:** IVC is selling at 29.9x PE and 15.4x EV/EBITDA

| ($m) | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|
| Sales | 480.2 | 522.3 | 554.0 | 596.3 |
| Underlying NPAT | 51.9 | 54.0 | 63.4 | 72.1 |
| EPS (cents) | 47.1 | 46.9 | 54.2 | 61.7 |
| EPS Growth | | -0.5% | 15.7% | 13.7% |
| PER | 29.7 | 29.9 | 25.8 | 22.7 |

# InvoCare (M.Cap: $1,554 m)

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# WHAT WE GOT WRONG

1. **Mosaic Brands**

2. **Althea**

3. **Thorn**

# Mosaic Brands (M.Cap: $157 m)

- **Large regional exposure:** c32% of stores are located in regional areas
- **Impact of bushfires:** same store sales growth down to -8%
- **Weak consumer confidence:** expect recovery in FY21

| ($m) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Sales | 864.5 | 837.1 | 870.0 | 907.0 |
| Underlying NPAT | 8.13 | 15.0 | 20.3 | 22.1 |
| EPS (cents) | 8.0 | 14.8 | 20.0 | 21.8 |
| EPS Growth | | 94.6% | 35.1% | 9.0% |
| PER | 20.3 | 10.9 | 8.1 | 7.4 |

# Althea (M.Cap: $61 m)

- **Exit of large shareholder and supplier:** Aphria, supplying medicinal cannabis to Althea, sold 15.7% of the issued capital at a 25% discount
- **Supply contract risk:** Althea is approved to grow cannabis in South-East Melbourne. Althea needs to manage the relationship with Aphria during the transition period

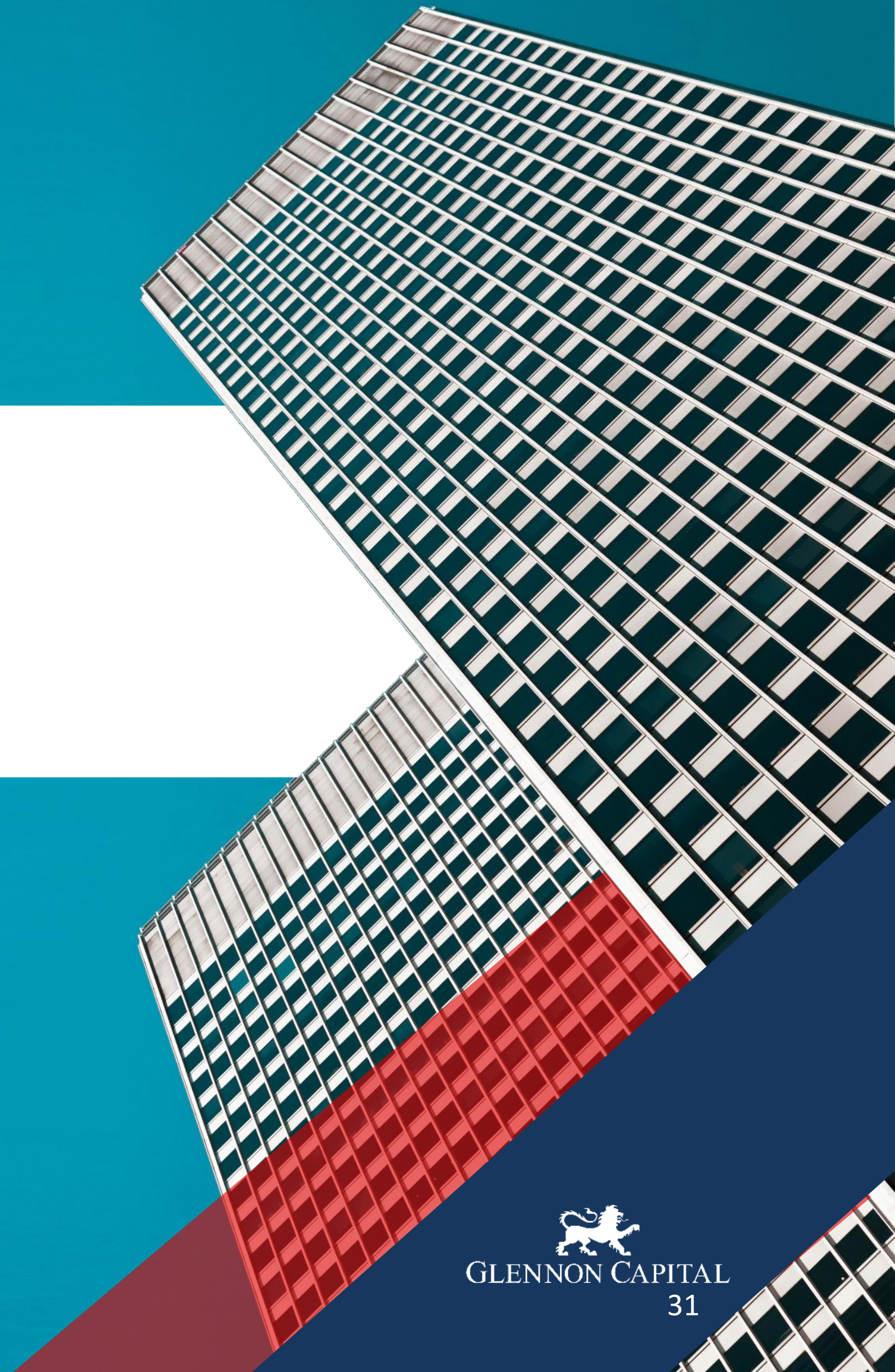
| ($m) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Sales | 0.8 | 7.0 | 24.7 | 60.0 |
| Underlying NPAT | -8.6 | -9.8 | -9.9 | 8.8 |
| EPS (cents) | | | | 3.8 |
| PER | 48.0 | 23.1 | 17.1 | 16.9 |

# Thorn Group (M.Cap: $69 m)

- **Downward price pressure from class action uncertainty**
- **Move on from class action settlement:** since the settlement amount is approved, the company can focus on its core operation
- **Significant cost reduction in radio rental business:** achieved by store closures and productivity gains

| ($m) | FY19 | FY20E | FY21E | FY22E |
|---|---|---|---|---|
| Sales | 155.2 | 146.2 | 149.1 | 157.5 |
| Underlying NPAT | -11.0 | 2.0 | 5.8 | 8.0 |
| EPS (cents) | -6.9 | 0.8 | 1.8 | 2.5 |
| EPS Growth | | | 225% | 38.9% |
| PER | | 28.0 | 12.6 | 9.0 |

# QUESTIONS



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