

Wednesday, 15 April 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 15 April 11AM.

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GLENNON CAPITAL

# Glennon Capital Quarterly Webinar April 2020

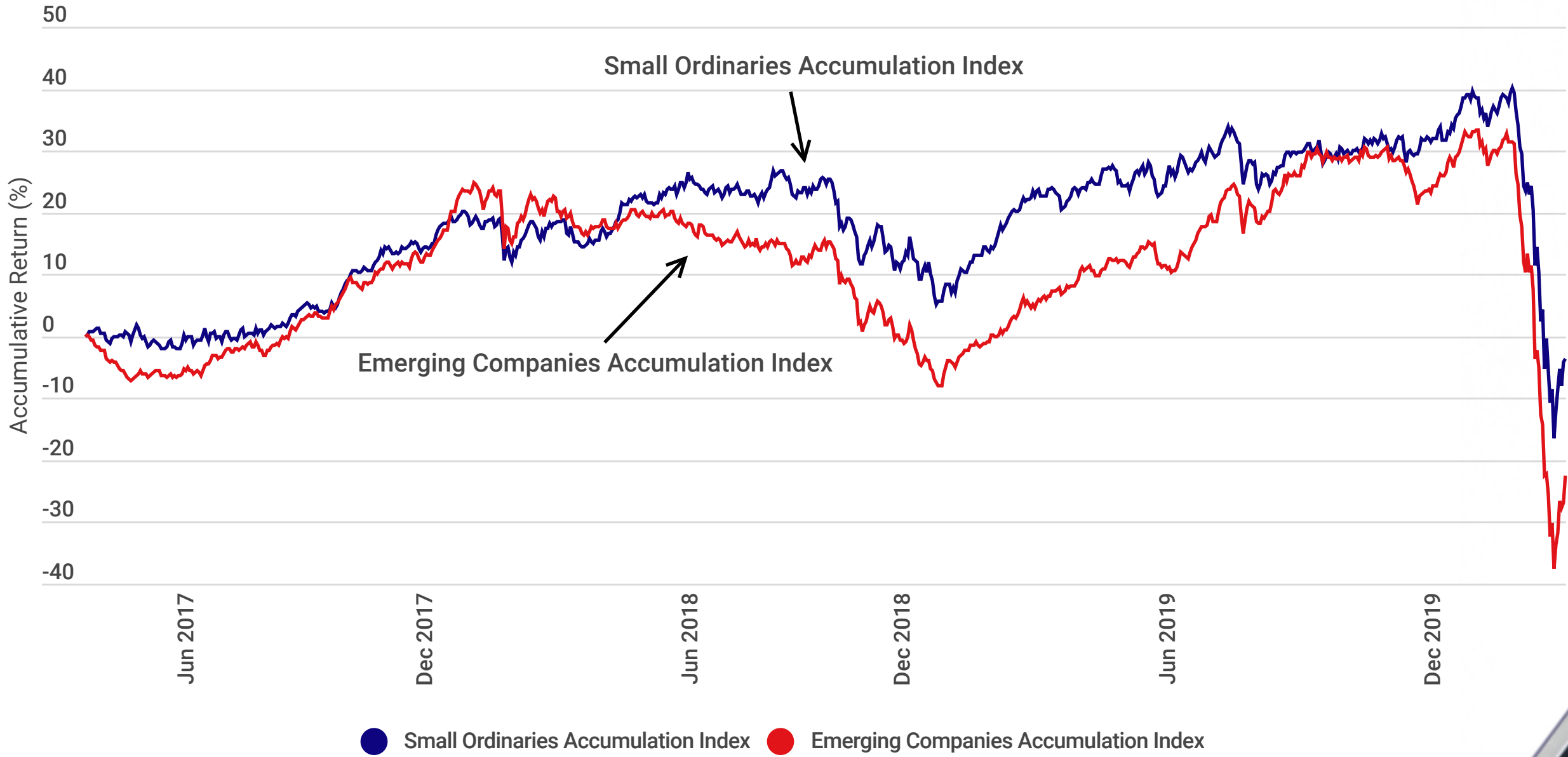


# MARKET PERFORMANCE (3-YEAR)

Small ordinaries outperform

## Emerging Companies vs Small Ordinaries

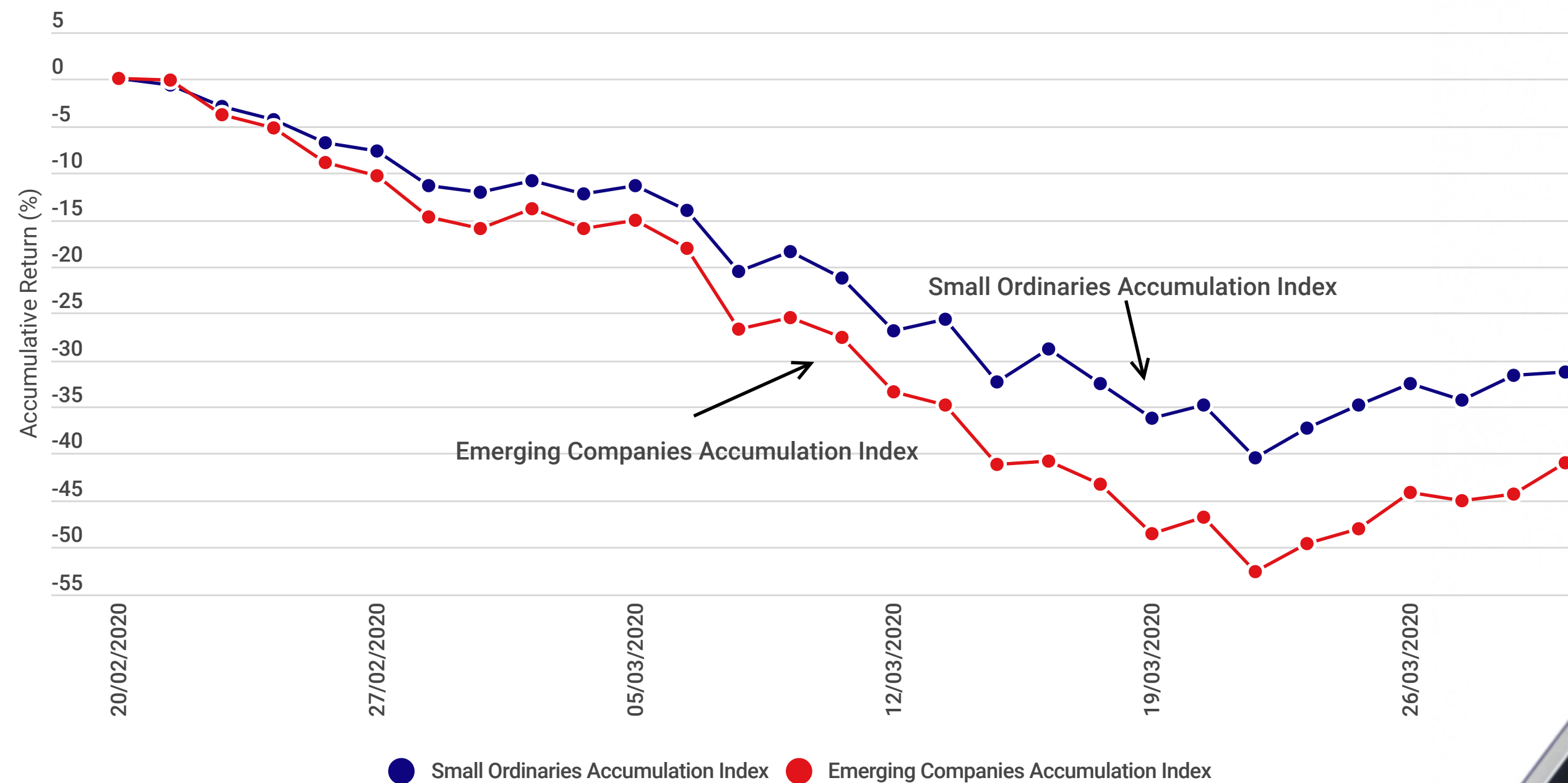
	FY17	FY18	FY19	FY20 to 19th Feb	19th Feb to 31st Mar
Emerging Companies Accumulation Index	-2.80%	23.22%	-2.89%	14.85%	-41.05%
Small Ordinaries Accumulation Index	7.01%	24.25%	1.92%	10.10%	-30.85%



# MARKET PERFORMANCE (1-MONTH)

Small Ordinaries: With higher liquidity, small caps outperformed during bear market

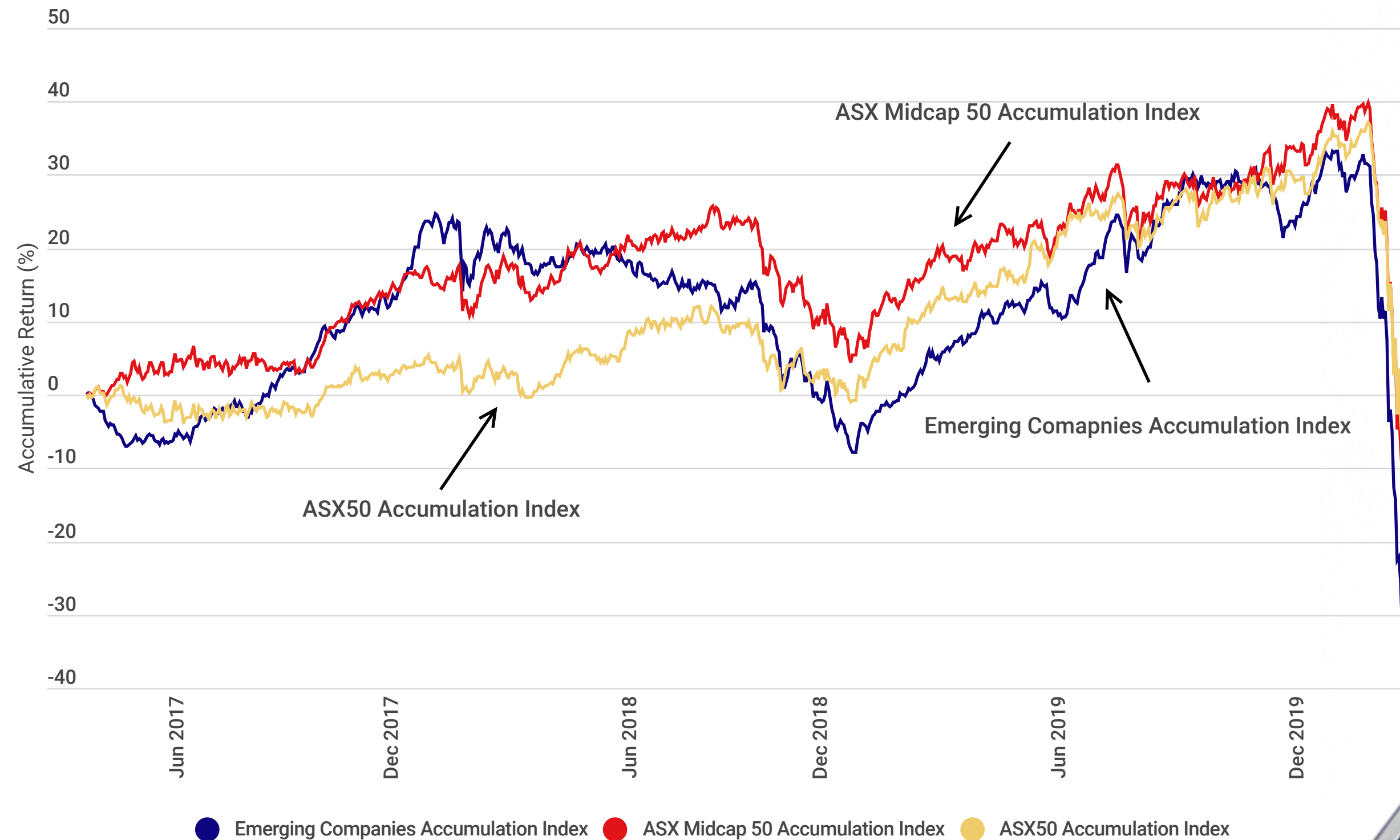
## Emerging companies vs Small ordinaries





# MARKET PERFORMANCE (3-YEAR)

## Small cap vs Large cap



# WHAT WE ARE DOING IN COVID-19

Talking to management

Looking at balance sheet

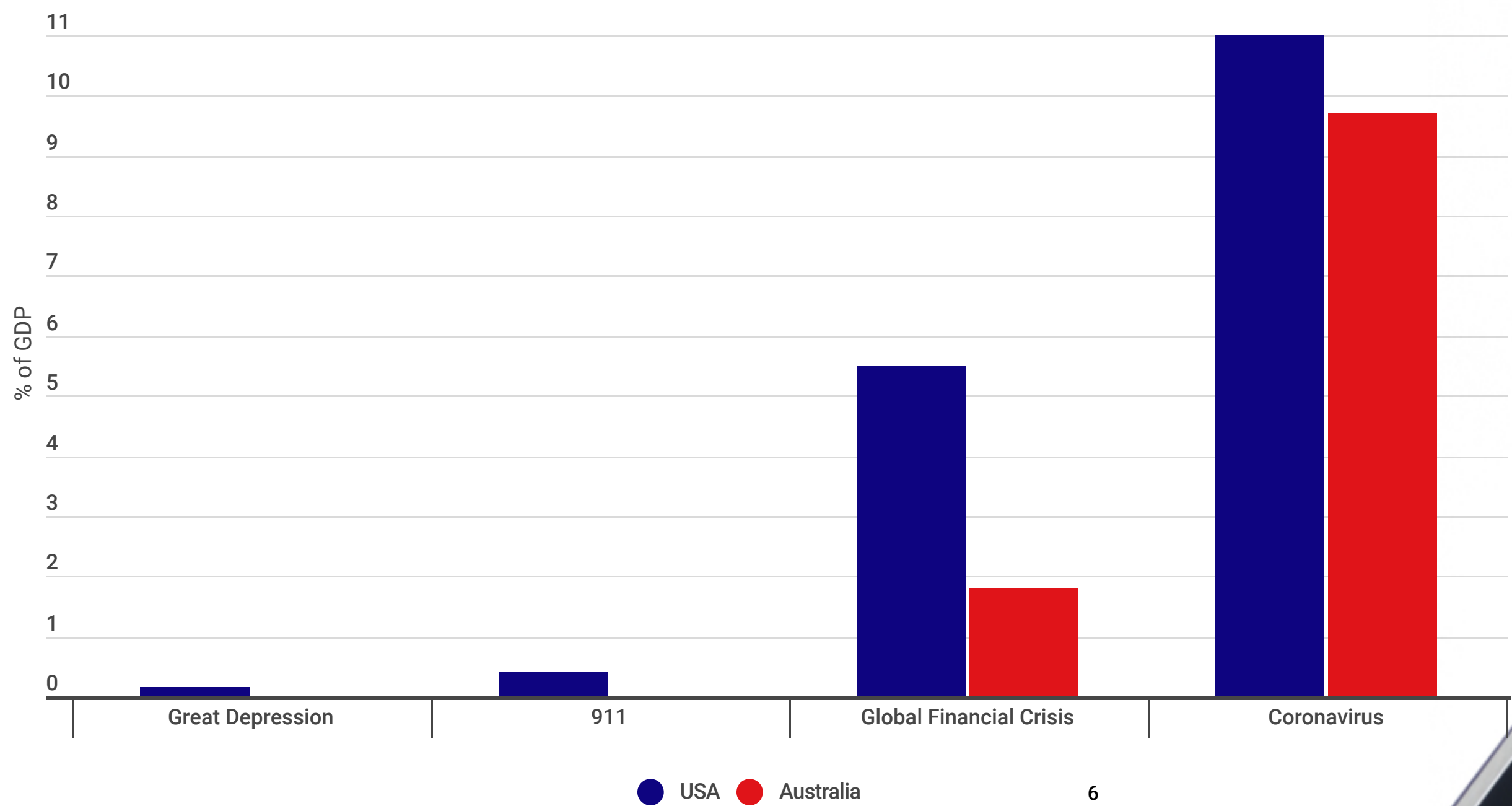
Looking at range of earnings outcomes



# GOVERNMENT STIMULUS

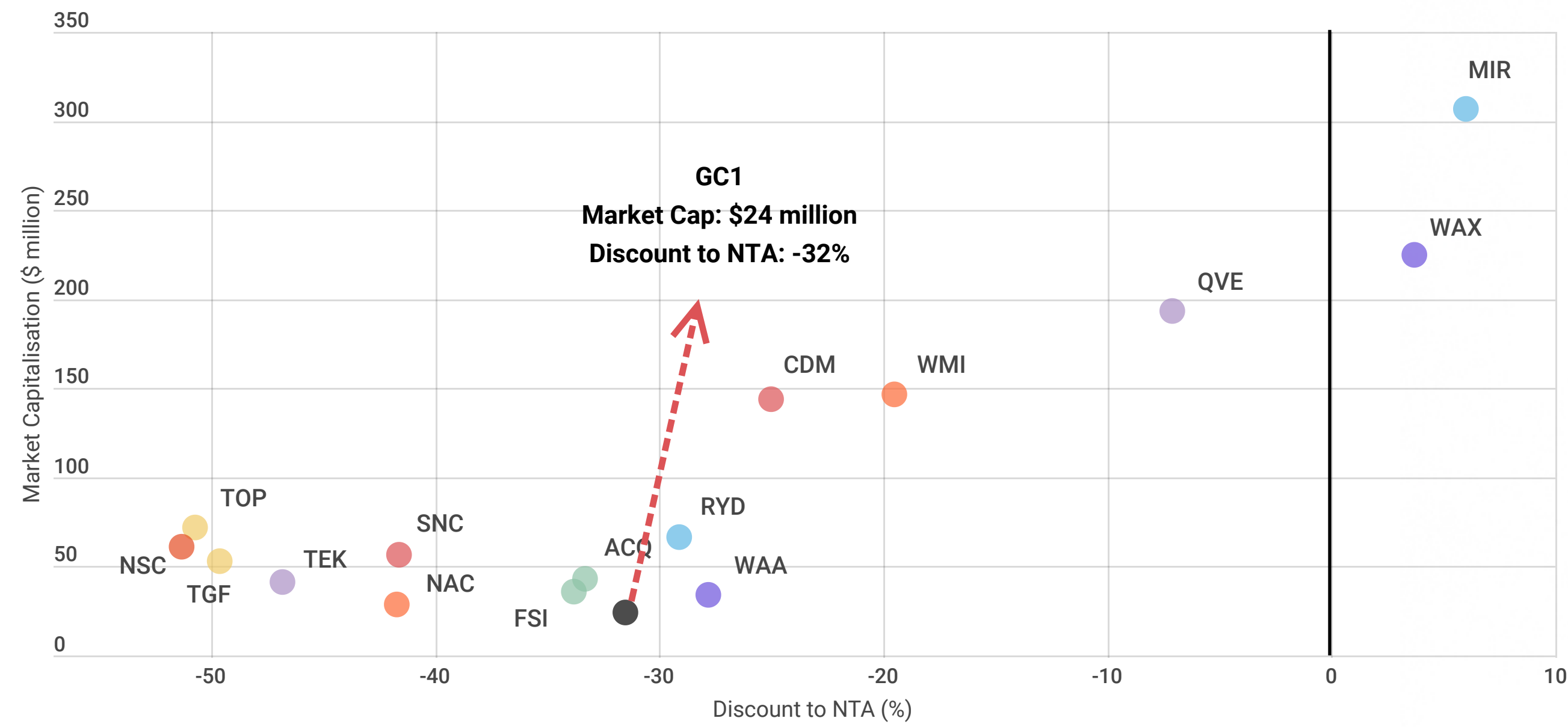
Money injects directly from government: Support employment, consumption  
Support from banking sector: Waive fees to deferred business loan and overdraft repayments  
QE from RBA: Reduce long term interest rate and provide liquidity to corporations  
Greatest stimulus package in history: Provide strong support to recover the economy

## Size of Government Stimulus



# GC1 PERFORMANCE

## Discount to NTA vs Market Capitalisation



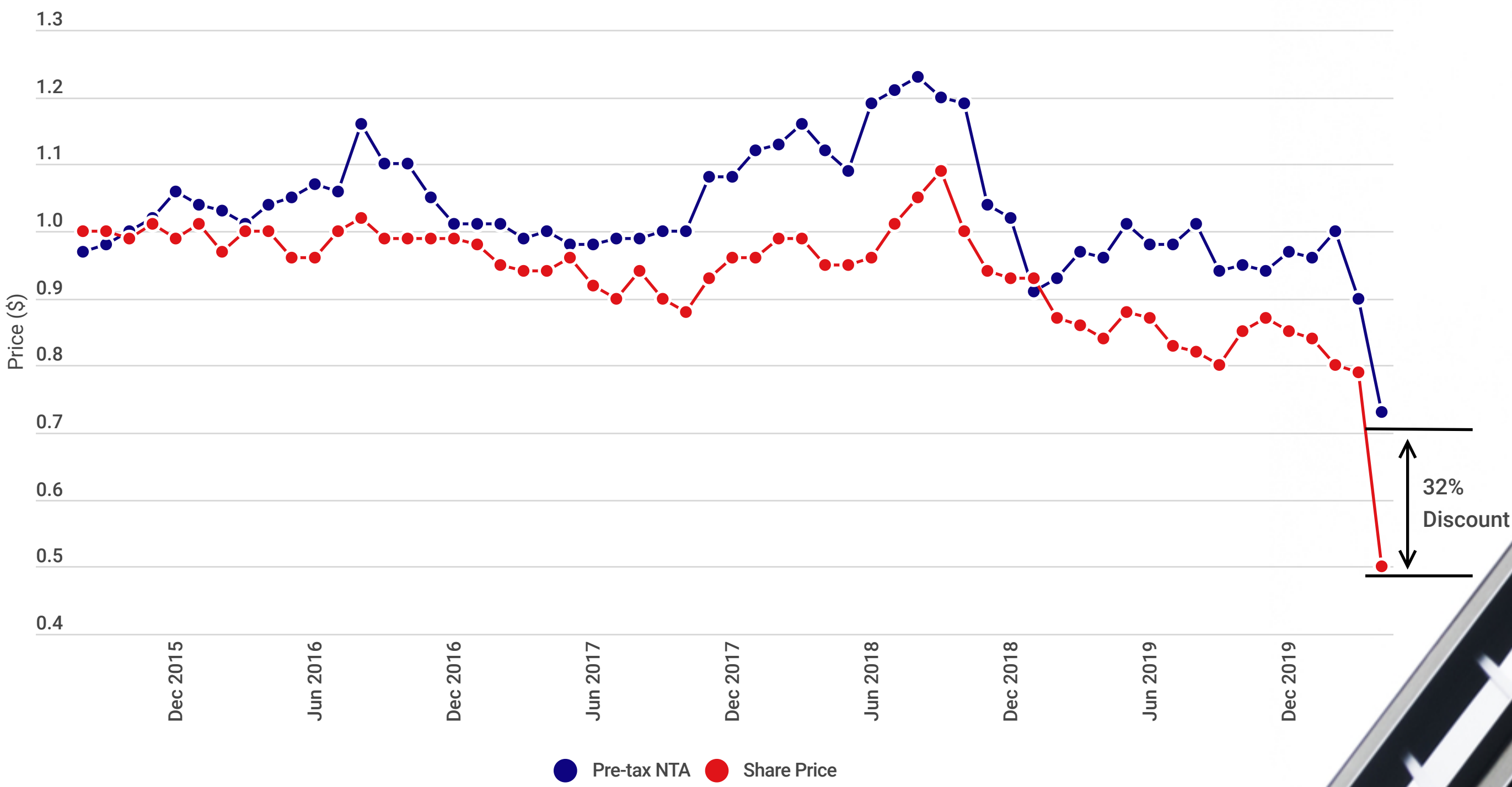
FSI CDM TOP RYD TEK WAA NAC NSC ACQ SNC TGF MIR QVE WAX WMI GC1

As at 31/3/2020  
Source: Bell Porter LIC Weekly Report



# GC1 SHARE PRICE V NTA

Widening discount: provides a buying opportunity for investors



# TOP 3 POSITIONS

**Sustainable revenue during or post lockdown:** A sustainable revenue ensures speedy recovery after lockdown is lifted

**Manageable debt level:** Most companies' operation and revenue are now disrupted. A management debt level can protect companies from survival

**Low probability of raising capital:** Raising capital will dilute owner's earnings, which we want to avoid

**1.) Probiotec (PBP):** High product demand and an upgrade is expected during pandemic

**2.) Shine Justice (SHJ):** Legal cases are not dependent on economy

**3.) Johns Lyng (JLG):** Bush fire benefit



# Probiotec (Market Cap: \$142 mil)

**Non-cyclical product:** Probiotec manufactures pharmaceuticals products. Demand and operation should not be disrupted in current pandemic

**Low net debt:** Probiotec has sufficient amount of cash to pay off short term borrowings. Long term borrowing repayable within 3 years

**Strong customer relationship:** No major contract loss in past 5 years

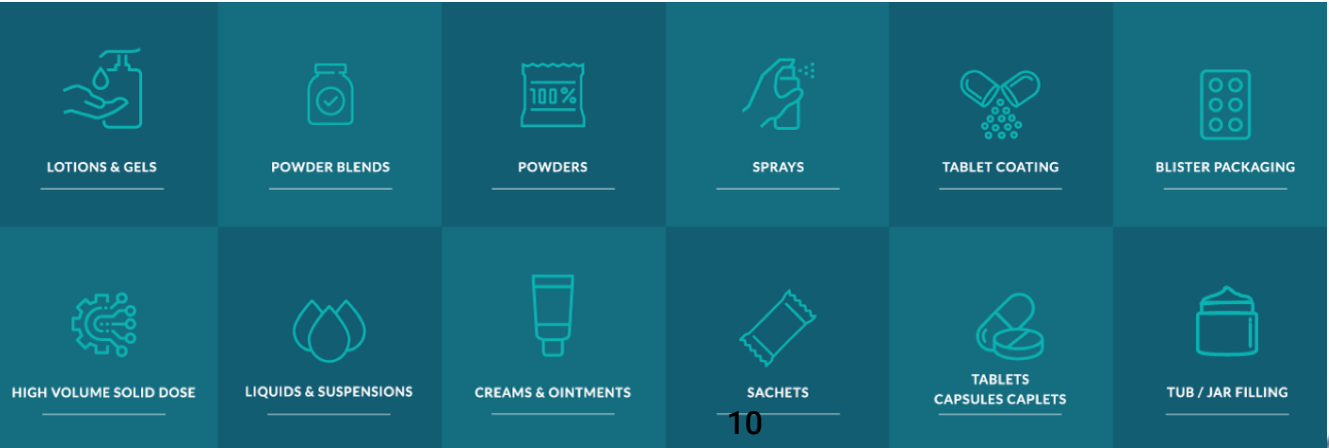
**Keep dividend payment:** Dividend payment is not deferred, indicating a healthy cash flow position

	1H20
Cash	8.37 mil
Short term borrowing	1.64 mil
Long term borrowing	10.48 mil
Total borrowing	12.12 mil
Net debt	3.75 mil
Free cash flow	4.38 mil

## Example of key customers



## Products and services



# Shine Justice (Market Cap: \$127 mil)

**Practice area unaffected:** Legal actions are less likely to be affected. Inquiries from people on the Ruby Princess may also provide opportunities

**Opportunity for Claimify:** New product Claimify, an online platform servicing small Queensland motor vehicle injury claims, may benefit from lockdown

**Low amount of short term debt:** Shine is able to pay off all short term borrowings which indicates no liquidity problem

**Keep dividend payment:** Same as Probiotec, dividend payment is not deferred, indicating no solvency issue

	1H20
Cash	24.17 mil
Short term borrowing	2.96 mil
Long term borrowing	49.65 mil
Total borrowing	52.61 mil
<b>Net debt</b>	<b>28.44 mil</b>
Free cash flow	7.79 mil



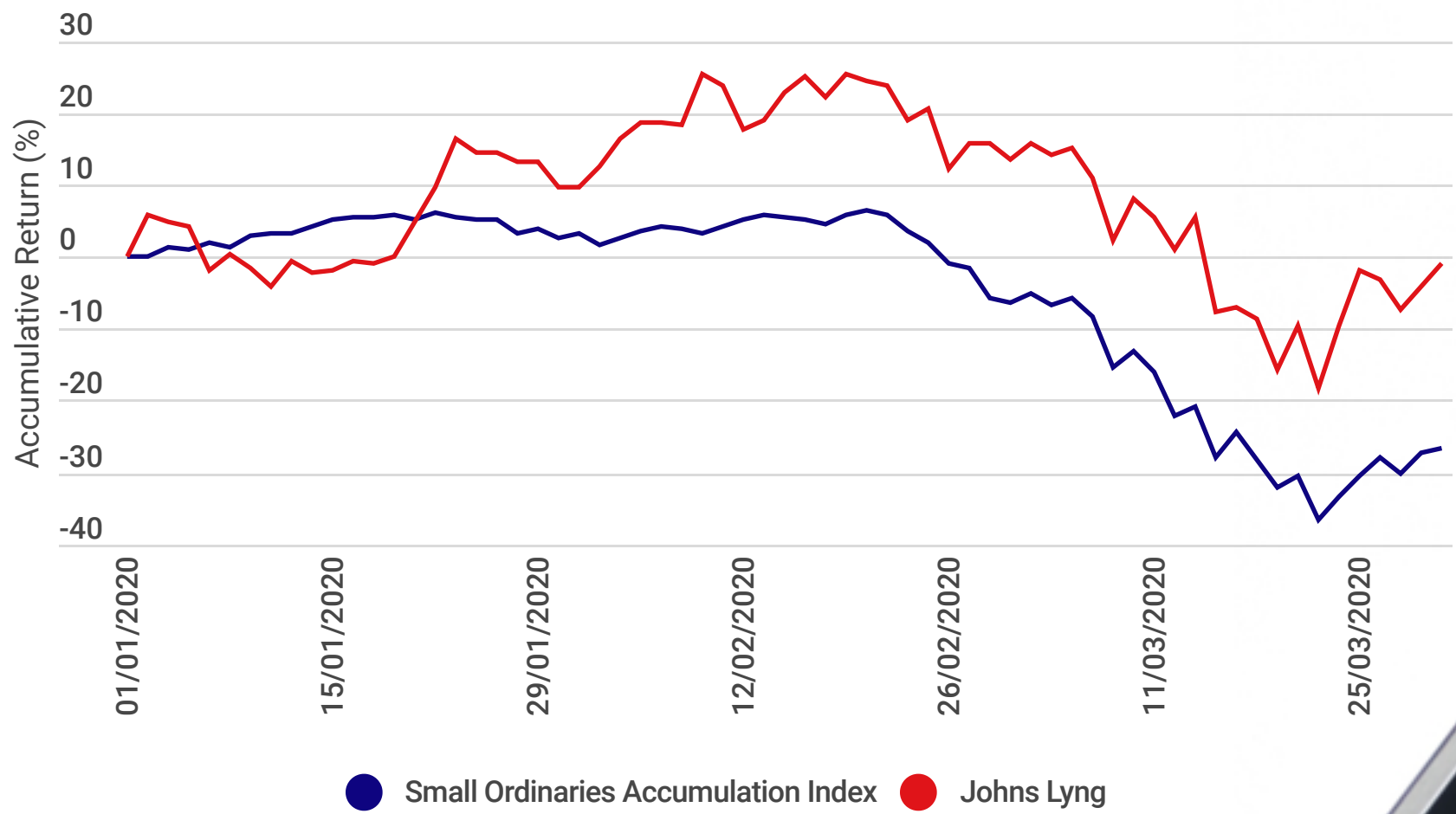
# Johns Lyng (Market Cap: \$489 mil)

Essential construction work: Construction work is listed as essential services. Profitability should remain strong

Strong demand: Johns Lyng confirms a strong demand for its Insurance Building & Restoration Services

No solvency concern: Since Johns Lyng operation continues to generate large cash flows, lenders should have no concern over debt repayment ability

	1H20
Cash	33.15 mil
Short term borrowing	4.29 mil
Long term borrowing	20.85 mil
Total borrowing	25.14 mil
Net debt	-8.01 mil
Free cash flow	11.64 mil



# WHAT WE SOLD

**Significant reduction in revenue:** A reduction in revenue after lockdowns and social distancing will significantly damage the profitability

**High net debt level:** Lenders are less likely to provide refinancing when companies have high net debt and cash flow problem

**High probability of raising capital:** Raising capital will dilute owner's earnings, which we want to avoid

**1.) Viva Leisure (VVA)**

**2.) Enero (EGG)**

**3.) Thorn (TGA)**



## Viva Leisure (Market Cap: \$82 mil)

**Cancellation triggered by social distancing:** 1.5% of customers cancelled the membership and 8.2% of customers suspended. It takes time to recover

**GYM closure:** All gym are closed as required by the government. Digital membership continues with \$4 per week, 75% reduction of full membership fees

**Cash flow concerns:** The estimate cash outflow is \$1.8 million per month and Viva Leisure has \$9.7 million in net cash. All the cash will be burnt in 6 months

**Concern over duration of lockdown:** It is uncertain when the lockdown will be lifted. The longer the lockdown, the more cash will be burnt

**Uncertainty in ways of infection:** It is uncertain whether fluids in sports can infect people. Business will be disrupted if fluids can spread the virus

	1H20
Cash	11.00 mil
Short term borrowing	0.26 mil
Long term borrowing	1.04 mil
Total borrowing	1.30 mil
Net debt	-9.70 mil
Free cash flow	1.94 mil

## Enero (Market Cap: \$75 mil)

**Highly cyclical industry:** Enero provides integrating marketing services. During a recession, advertising expense is the first cost to be cut by companies

**Customer base:** 50% of customers are in media, retailing, manufacturing, transportation and banking industries,

**New CEO recruitment:** Uncertainty given Enero has undergone a long period of time without a CEO

	1H20
Cash	36.99 mil
Short term borrowing	6.56 mil
Long term borrowing	13.21 mil
Total borrowing	19.77 mil
<b>Net debt</b>	<b>-17.22 mil</b>
Free cash flow	12.00 mil



# Thorn (Market Cap: \$21 mil)

**Closure of business:** Radio Rental division closes all stores and the online platform continues to operate. Revenue will significantly reduce

**Clients at risk:** This business relies on client repayment ability

**Cheap company:** This company is still trading at a significant discount to net assets

**Client request for repayment reduction:** High write-off and bad debt impairment from Business Finance division indicates a cash flow problem

**Solvency concern:** Thorn has negative free cash flow and high net debt

**Funding concern:** Thorn has a high net debt. To fund the business, a capital raise may happen. In the worst case, it may end up in a run-off

	1H20
Cash	45.62 mil
Short term borrowing	119.54 mil
Long term borrowing	190.23 mil
Total borrowing	309.77 mil
<b>Net debt</b>	<b>264.15 mil</b>
Free cash flow	-4.96 mil

# OUTLOOK

## Opportunities arise:

**Short term benefits:** Companies, which sell essential products, are likely to receive a short term benefit from this pandemic

**Oversold:** Companies, which operation are not affected, are sold together with the market

**High recurring revenue:** Companies with high recurring revenue are more likely to retain profitability

**Highly discounted capital raises:** Investors, who buys the capital raise at a high discount, will make a great return when the companies recover



# QUESTIONS



# IMPORTANT INFORMATION

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