



# Cadence Capital Limited



## AGM and Investor Briefing 1 December 2021



# Agenda

1. Welcome
2. Company Update
3. Portfolio Update
4. Questions
5. Formal part of the meeting



# CDM Performance Update

Gross Performance* to 31st October 2021	CDM	All Ords Accum	Outperformance
1 Month	-2.7%	0.1%	-2.8%
YTD	15.4%	2.2%	+13.2%
1 Year	42.7%	29.0%	+13.7%
3 Years (per annum)	12.3%	12.9%	-0.6%
5 Years (per annum)	10.2%	11.4%	-1.2%
8 Years (per annum)	7.6%	8.7%	-1.1%
10 Years (per annum)	9.4%	10.2%	-0.8%
Since Inception (16.1 years) (per annum)	13.6%	7.6%	+6.0%
Since Inception (16.1 years) (total return)	682.2%	222.4%	+459.8%

\* Gross Performance: before Management and Performance Fees

- YTD Biggest contributors to performance:
  - TMC The Metals Co
  - Upstart
  - Life360
  - Asana
  - DigitalOcean
  - Whitehaven Coal
  - Appen (short)
- YTD Biggest detractors from performance:
  - Resimac
  - Bed Bath and Beyond
  - A2 Milk



# CDM Historic Dividends

Calendar Year	Interim	Final	Special	Total	Gross (Inc. Franking)
2007	2.0c	2.0c	2.0c	6.0c	8.6c
2008	2.5c	2.2c*	-	4.7c	5.8c
2009	-	2.0c	-	2.0c	2.9c
2010	2.0c	2.0c	-	4.0c	5.7c
2011	3.0c	3.0c	3.0c	9.0c	12.9c
2012	4.0c	4.0c	4.5c	12.5c	17.8c
2013	5.0c	5.0c	1.0c	11.0c	15.7c
2014	5.0c	5.0c	-	10.0c	14.3c
2015	5.0c	5.0c	1.0c	11.0c	15.7c
2016	5.0c	4.0c	-	9.0c	12.9c
2017	4.0c	4.0c	-	8.0c	11.4c
2018	4.0c	4.0c	-	8.0c	11.4c
2019	3.0c	2.0c	-	5.0c	7.1c
2020	2.0c	2.0c	-	4.0c	5.7c
2021	2.0c	3.0c	-	5.0c	7.1c
<b>TOTAL</b>	<b>48.5c</b>	<b>49.2c</b>	<b>11.5c</b>	<b>109.2c</b>	<b>155.0c</b>

\* Off market Equal access buy back

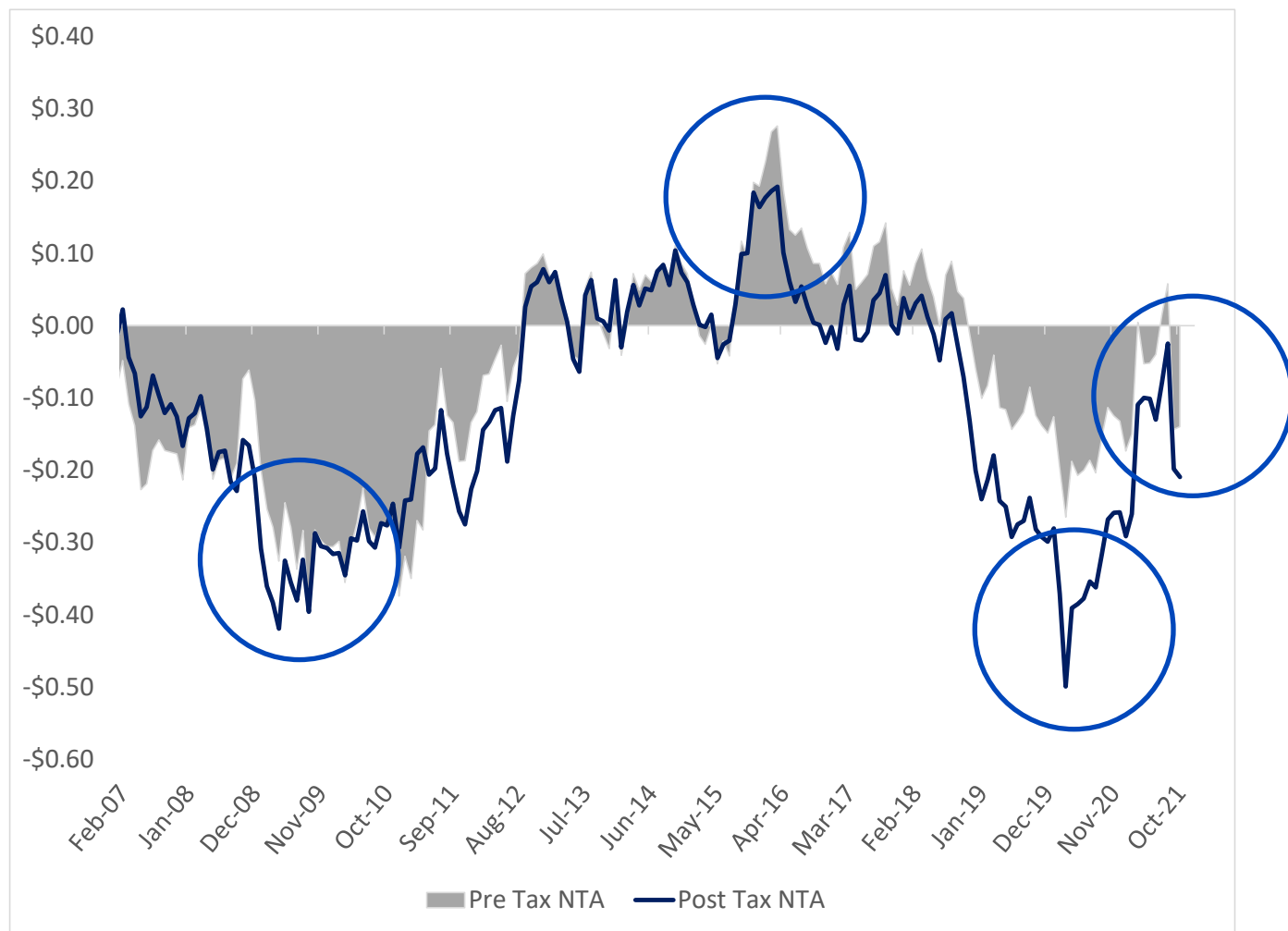


# CDM Dividends

- Since listing CDM has paid out \$1.09 in Dividends and \$1.55 if you include Franking (around 1.5X the current share price)
- 2021 final dividend of 3.0c fully franked (equating to an annualized yield of 5.6% fully franked (gross yield 8%) based off the October Month end share price of \$1.065)
- CDM has a healthy profits reserves balance from which it can pay future dividends of around 34 cents per share
- Based off 2021 final dividend this is several years of future dividends before earning any future profits
- The company will continue realising franking from both its tax payments on realised taxable income and franking on dividends received



# CDM Discount and Premium to NTA





# CDM Top 20 Holdings as at 30 Oct 2021

Code	Position*	Direction	Currency Exposure
GOOGL US	Alphabet Inc	Long	AUD
ALQ	ALS Limited	Long	AUD
ASAN US	Asana Inc	Long	AUD
BET	Betmakers Technology Group Ltd	Long	AUD
CAR	Carsales.com Ltd	Long	AUD
CTT	Cettire Ltd	Long	AUD
CCP	Credit Corp Group Ltd	Long	AUD
DOCN US	DigitalOcean Holdings Inc	Long	AUD
JLG	Johns Lyng Group	Long	AUD
ABNB US	Airbnb Inc	Long	AUD
360	Life360 Inc	Long	AUD
MGH	Maas Group Holdings Ltd	Long	AUD
MNY	Money3 Corp Ltd	Long	AUD
NHC	New Hope Corporation Ltd	Long	AUD
NTO	Nitro Software Ltd	Long	AUD
RMC	Resimac Group Ltd	Long	AUD
SPSC US	SPS Commerce Inc	Long	AUD
WHC	Whitehaven Coal Ltd	Long	AUD
TMC US	TMC The Metal Company Inc	Long	AUD
UWL	Uniti Group Limited	Long	AUD

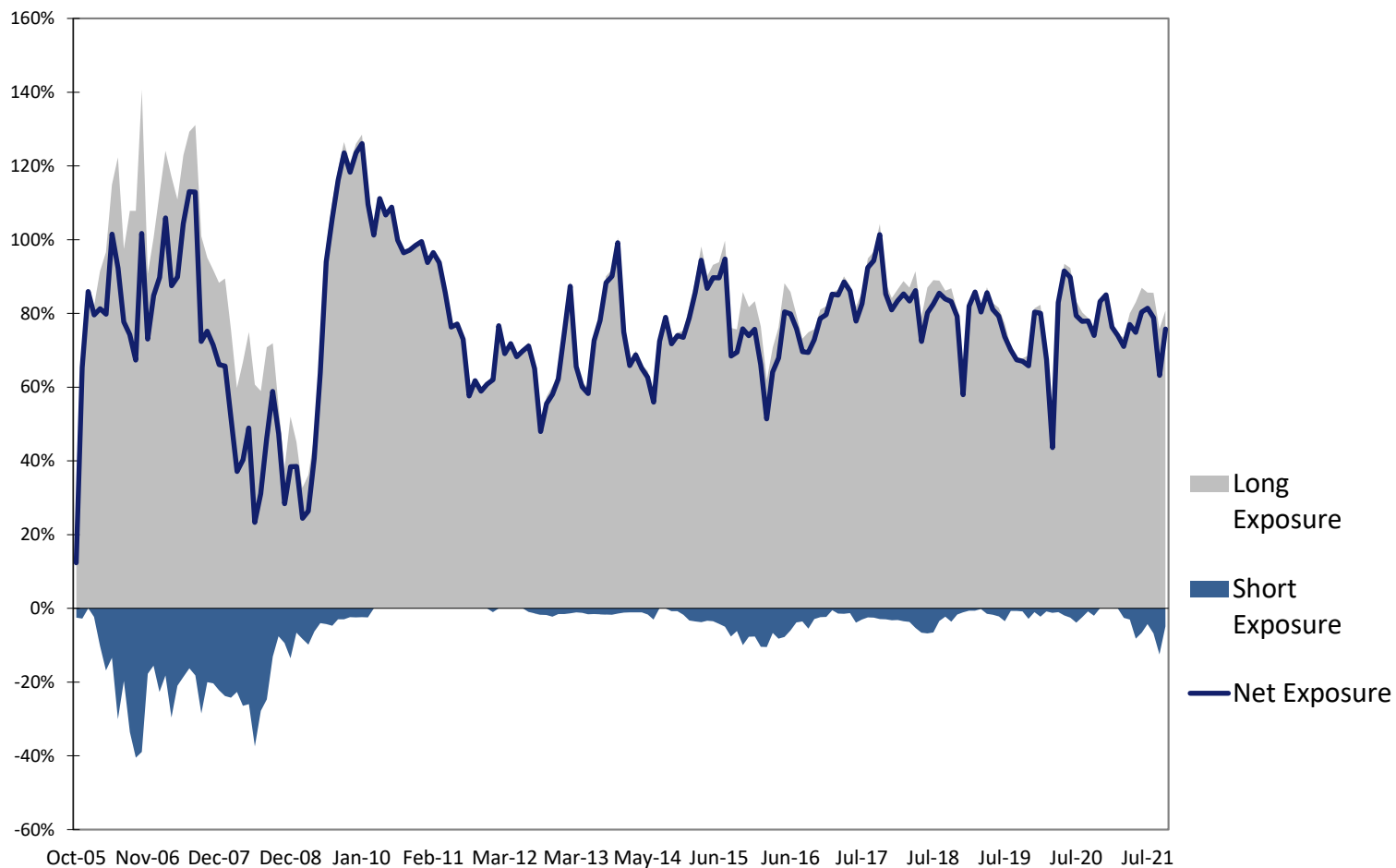
\* In Alphabetical Order

A more  
**diversified** and  
more **liquid**  
portfolio.  
Approx. 83% of  
the portfolio  
equity holdings  
can be liquidated  
in less than 1  
week and 97% in  
one month

- *TMC now the 3<sup>rd</sup> biggest position at 4.7%*



# Portfolio Exposure







# 360 – Trade Position (Long)

- World leading safety and communication platform with features such as location sharing, roadside assistance, crash detection etc.
- \$120m USD annualized revenue growth (+45% year over year) ex Jiobit
- 33.8m Monthly Active Users (31% year over year)
- 1.1m paying circles (+26% year over year)
- Average revenue per paying circle (+24% year over year) – new tiered subscription model introduced July 2020
- Changes in commissions structure paid to App stores – \$2m p.a reduction in commissions to Google, Apple TBD
- Strategic Review underway – acquisitions + US listing
  - Global comps trade on 15x revenue vs. 360 at 11x revenue
- Originally entered stock at \$5 and have added as it trended higher



# QCOM US – Core Position (Long)

- Develops semiconductors, software and services related to wireless technology
- Owns critical patents related to 4G/5G and other communication standards
- On the eve of the next super-cycle, not dissimilar from when smartphones became mainstream
  - *"This is an amazing time to be part of Qualcomm. The need for our technologies and products has never been more evident. We are seeing demand across virtually every industry – because our products and technologies are essential ingredients that enable digital transformation and the cloud economy."*
    - Cristiano Anon, CEO Qualcomm
- Use cases: mobile, gaming, AI, Automotive, Cloud transition, IoT, metaverse, etc.
- 17x PE, growing at 20% - PEG < 1
- Early indications the 'chip shortage' is over, so consensus estimates may prove conservative
- Re-rate potential as the market understands QCOM is not a one trick pony anymore



# Short Positions

- Contributing meaningful alpha to the portfolio
- Some recent successes include: APX, MFG, AGL, A2M, PTON US, FICO US
- What we are looking for:
  - Structural headwinds
  - Downside earnings revisions
  - Management misalignment – selling stock or little ownership
  - Accounting irregularities/change in methodology
  - Technical indicators suggesting a downtrend is in place
  - Down volume greater than up volume
- We are NOT shorting valuation **alone**
- We are NOT necessarily looking for stock to go to zero, just stocks that are going down.



# UNI – Core Position (Long)

- UNI is a recent IPO which operates the Universal Store network of 67 stores across Australia
- The growth opportunity is both simple and significant for the business, with potential to increase the store footprint by over 50% in the next 4-5 years
- Standalone store performance will also be a meaningful driver, with the network having achieved consistent double digit same store sales growth since 2015
- Increasing penetration of higher margin private label brands also a focus
- We expect sales to bounce back strongly through the Christmas period as in-store shopping returns to favour and customers are again shopping for 'going out' clothes
- We estimate UNI is on a PE of 15x in FY23 with 35% growth, for a PEG ratio of 0.4
- We see potential for the stock to double over time as it executes on its strategy and re-rates closer to retail peers with similar characteristics



# DTL – Core Position (Long)

- Data #3 is Australia's leading IT services and solutions provider
- The company is very well managed by a long-standing management team
- The business has transformed over recent years to become much more predictable with recurring revenue now comprising over 60% of group sales
- DTL will benefit from the resumption of significant digital transformation projects which were put on hold through Covid
- The IT industry is expected to grow at 6% in 2022, one of its highest rates for many years. DTL has historically outperformed the market by a factor
- The company has provided guidance for PBT of \$15m-\$18m for 1H22
- Based on typical seasonality, we estimate DTL could generate NPAT of \$31m for FY22, putting it on a PE of 28x growing at 25%, or a PEG of 1.1
- We expect strong growth from DTL for years to come as the structural trends behind digital transformation and migration to the cloud continue to play out



# Trading Positions

- These have been some of the top contributors to performance over the past 12 months
- Many of these are listed in the US and are very liquid (US\$50M+ turnover per day)
- Some recent success include: DOCN, ASAN, UPST, ABNB, HUBS, CFLT
- What we are looking for:
  - Big sales and earnings growth potential
  - A surprise factor; something new and significant;
  - Management that are executing
  - Business quality & culture
  - Increasing institutional interest on the register
  - Technical criteria; consolidations within uptrends, tightening price and volume profile, price and volume surges on up days/weeks, 'tennis ball' action on retracements
- We use our scaling approach to make sure we are managing our risk and locking in profits
- Trading positions require discipline, exit when not working



# 2021/22 Outlook

- Stocks, and valuations, continue to grind higher despite investor concerns over rising bond yields, interest rates and inflation
- Earnings recovery has been strong but will slow as earnings 'normalise' to pre Covid
- The consumer remains in good shape overall with households still having excess savings
- 'Stay at home' spending has moved to 'getting out & about' and 'back to business' spending
- Wage and input cost inflation and supply chain issues are likely to be an ongoing feature for many businesses
- Good management and pricing power is key
- Interest rates are the big 'X' factor, has the 30-year trend of falling interest rates ended...
- There is likely to be volatility as stimulus is gradually removed
- Liquidity levels across the portfolio are high, illiquidity could be risky at points of inflection
- Overall environment is mixed with post covid returns a 'gift' not likely to be repeated in the short term



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