

Investment Report & NTA Update

14 JULY 2023

Net Tangible Asset Value per share as at 30 June 2023

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA*	Post Tax NTA*	Share Price	Number of Holdings
\$0.874	\$0.904	\$0.931	\$0.64	28

Investment Portfolio Performance[†]

	1 Month	3 Months	1 Year	2 Years p.a.	3 Years p.a.	Inception p.a. [^]	Inception (Total Return) [^]
SB2	-1.78%	-2.66%	-2.03%	-5.65%	-	-2.78%	-5.73%
ASX Small Ordinaries Accumulation Index*	0.03%	-0.54%	8.45%	-4.43%	-	-4.62%	-9.43%
Difference	-1.81%	-2.12%	-10.48%	-1.22%	-	1.84%	3.70%

[†] Investment portfolio performance is calculated net of Management fees but before taxes, other fees, and expenses. Performance has not been grossed up for franking credits received by shareholders.

[^] Inception date is 27 May 2021.

* Source: IRESS. References to ASX Small Ordinaries Accumulation Index are for illustrative purposes only, as it is compositionally different to the Investment Portfolio.

Key Contributors & Detractors

Key Contributors for June 2023

#	Company Name	Price Chg. (%) (Absolute)	Weighted Avg. Price Chg (%)
1	Close The Loop Limited (CLG)	+28.9%	+1.5%
2	Nuheara Limited (NUH)	+28.6%	+0.9%
3	Probiotec Limited (PBP)	+8.2%	+0.6%

Key Detractors for June 2023

#	Company Name	Price Chg. (%) (Absolute)	Weighted Avg. Price Chg (%)
1	MediSecure	-52.7%	-1.0%
2	DGL Group Limited (DGL)	-13.0%	-0.6%
3	VEEM Limited (VEE)	-13.0%	-0.6%

Key Features of the SB2 Portfolio

- Taking a two year view, the weighted average valuation upside of the listed holdings in the portfolio based on SB2 forecasts is 82.7%.
- The SB2 equity portfolio quantitatively reflects the investment philosophy of the Investment Team – that is focused on capital preservation, long-term capital growth and income from its investments and generating attractive risk adjusted returns over the long term.
- As such, the weighted average investment profile of our portfolio (as at 30/06/2023) features:
 - Weighted average FY23-24F revenue growth of +25%
 - Weighted average FY23-24F EBITDA margin of c.18%
 - Weighted average FY23-24F NPAT margin of c.8%
 - Weighted average FY23-24F P/E multiple of 8.3x

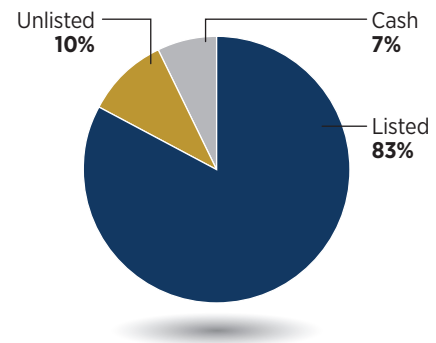
Metrics of the Portfolio*

	FY22A	FY23A	FY24F
Key Ratios			
EV / Revenue (x)	2.4x	1.7x	1.3x
EV / EBITDA (x)	11.8x	9.5x	8.3x
EV / EBIT (x)	8.2x	8.6x	6.7x
P / E (x)	9.0x	9.2x	7.3x
Portfolio Financials			
Revenue Growth (%)	+40%	+33%	+16%
EBITDA Margin (%)	12%	16%	19%
EBIT Margin (%)	5%	9%	13%
NPAT Margin (%)	2%	6%	9%

* All metrics reflect weighted averages of the combined portfolio based on SB2 forecasts, as at 30/06/2023, adjusted for abnormalities

Portfolio Composition

- The SB2 Portfolio has 23 Listed holdings (83% of the total value), 5 Unlisted holdings (10% of the total value) and 7% cash.
- The weighted average market capitalisation of the stocks in the listed portfolio is ~\$140m.
- The investment strategy was compliant with the emerging companies' investment requirements of the Australian Significant Investor Visa regime for the period ending 30 June 2023.



June 2023 Monthly Update

The Portfolio delivered a return of -1.78% for the month of June 2023, versus the ASX Small Ordinaries Accumulation Index being broadly flat for the month. The underperformance was impacted by an asset write-down of an unlisted legacy investment within the Portfolio. Adding back this write-down would result in a normalised Pre Tax NTA per Share of \$0.89 ending 30 June 2023 or -0.47% return. The Manager retains conviction that the current portfolio presents an attractive risk versus reward proposition over the medium term as market conditions stabilise.

During the month, the top three positive contributors to the portfolio were Close the Loop Limited (**CLG**), Nuheara Limited (**NUH**) and Probiotec Limited (**PBP**). The top three key detractors were MediSecure, DGL Group Limited (**DGL**) and VEEM Limited (**VEE**).

Close the Loop Limited (**CLG**) released a positive trading update in the second half of May. This announcement covered the progress of the recent ISP TEK acquisition and gave guidance for FY23 and FY24. For FY24, revenue is forecast to be approximately \$200m, with EBITDA of at least \$43m. The FY24 forecast does not account for previously identified synergies, nor the expansion of contracts and product lines. The Manager recently met with key management personnel and is pleased with the operating momentum within CLG and has conviction there is further significant share price upside over the near to medium term.

Nuheara Limited (**NUH**) completed a \$4.4m raise to accelerate US market growth off the back of their recent US FDA approved, over the counter medical device. SB2 participated in this raise increasing its substantial holding within NUH from 7% to 10%. The Manager monitors this position closely and retains a high conviction on NUH, a business with high potential upside.

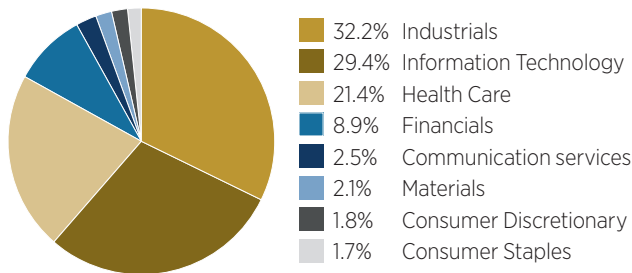
In June, Probiotec Limited (**PBP**) continued to trade strongly as the market increases the focus on the strategic value and fundamentals of this quality business. PBP continues to provide an attractive risk versus reward proposition for investors and continues to be a core holding of the Portfolio.

The key detractor for the month of June was an unlisted investment in MediSecure. MediSecure is health tech business which facilitates electronic prescribing and dispensing of prescriptions. The investment position was taken in 2021 and had been performing positively over the last 2 years. MediSecure has recently been informed by the Commonwealth of Australia represented by the Department of Health and Aged Care ("DoH") that it has been unsuccessful in its Request for Tender for the continued operation of Prescription Delivery Services, which is the Company's largest revenue source. Accordingly, the Directors considered this an impairment indicator and undertook a revised assessment of the valuation as at 30 June 2023 using the latest information available. This development resulted in a write down of approximately ~50% of the carrying value or ~\$1.1m.

DGL Group Limited (**DGL**), is a business operating in the agriculture, chemical manufacturing and distribution industries. The Manager only recently started a small relative position in the Company and continues to monitor the position closely. DGL announced a disappointing FY23 trading update revising its EBITDA guidance range from \$71.5-\$73.5m to \$64.0-\$66.0m, despite hitting revenue and cash flow targets. The reasoning behind the downgrade is related to an increase in costs particularly in the environmental division. DGL Management has suggested the inflation pressures causing the margin squeeze are short term and cost increases can be passed on. The Manager is waiting for further data points prior to changing the initial portfolio position. In the interim the current share price sees DGL trading at hard asset value of the underlying property and plant and continues to hold a leading position in the sector.

Despite a positive new partnership and trading update, during June, VEEM Limited (**VEE**) saw share price weakness. This weakness is difficult to rationalise on fundamentals and was likely a result of June tax loss selling by a number of shareholders. VEE announced an exclusivity agreement with Strategic Marine for Gyro stabilisers, to be delivered over the next three years with a value in excess of US\$5.6m. VEE also released a positive business and trading update.

Portfolio Sector Weights



Top 5 Holdings

1. Acrow Formwork And Construction Ltd (ASX:**ACF**)
2. RPMGlobal Holdings Ltd (ASX:**RUL**)
3. OFX Group Ltd (ASX:**OFX**)
4. Probiotec Ltd (ASX:**PBP**)
5. Close The Loop Ltd (ASX:**CLG**)

Investment Team



Gregg Taylor

Investment Director
25+ years' experience
Previous:
Bombora Investment Management,
Blue Ocean Equities



Advait Joshi

Senior Analyst
5+ years' experience
Previous:
Bombora Investment Management,
UBS Investment Bank



Francis Crossle

Analyst
1+ years' experience

Contact

E | info@salterbrothersemergingcompanies.com.au **P** | 03 9258 2100 **W** | www.salterbrothersemergingcompanies.com.au
Authorised for release by the Board of SB2.

Important information

This information has been prepared by SB2 and Salter Brothers Funds Management Pty Ltd ABN 94 608 295 683, an authorised representative of Salter Brothers Asset Management Pty Ltd ABN 33 119 833 760 (Australian Financial Services Licence 308971) (**Disclosers**).

This is general information only and is not financial advice and does not consider any individual's objectives, financial situation or particular needs. Before making an investment decision an individual should assess whether it meets their own needs and consult an appropriately licensed financial adviser. No warranty (express or implied) is made as to the accuracy, completeness or reliability of any statements, estimates or opinions or other information contained in these materials (any of which may change without notice) and to the maximum extent permitted by law, the Disclosers disclaim all liability and responsibility (including, without limitation, any liability arising from fault or negligence on the part of any or all of the Disclosers) for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from these materials.

Past performance is not a reliable indicator of future performance.