

Investment Report & NTA Update

13 OCTOBER 2023

Net Tangible Asset Value per share as at 29 September 2023

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA*	Post Tax NTA*	Share Price	Number of Holdings
\$0.829	\$0.859	\$0.899	\$0.605	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[#]	-4.52%	-4.98%	-14.94%	-13.14%	-	-4.41%	-10.04%
ASX Small Ordinaries Accumulation Index*	-4.04%	-1.94%	6.85%	-6.12%	-	-4.93%	-11.19%
Difference	-0.48%	-3.04%	-21.79%	-7.02%	-	0.52%	1.15%

[#] Salter Brothers Emerging Companies Limited (ASX:SB2)

[†] 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 September 2023

#	Company Name	Price Chg. (%) (Absolute)	Weighted Avg. Price Chg (%)
1	EVZ Ltd (EVZ)	+7.4%	+0.3%
2	Ansarada Group Ltd (AND)	+4.4%	+0.3%
3	Ai-Media Technologies Ltd (AIM)	+3.4%	+0.2%

Key Detractors for September 2023

#	Company Name	Price Chg. (%) (Absolute)	Weighted Avg. Price Chg (%)
1	VEEM Ltd (VEE)	-15.2%	-1.0%
2	Close the Loop Ltd (CLG)	-17.8%	-0.9%
3	BikeExchange Ltd (BEX)	-33.3%	-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 103.3%.
- The SB2 equity portfolio quantitatively reflects the investment philosophy of the Investment Team – that is focused on capital preservation and 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 29/09/2023) features:
 - Weighted average FY24-25F Revenue growth of +16%
 - Weighted average FY24-25F EBITDA margin of c.19%
 - Weighted average FY24-25F NPAT margin of c.8%
 - Weighted average FY24-25F P/E multiple of 8.8x

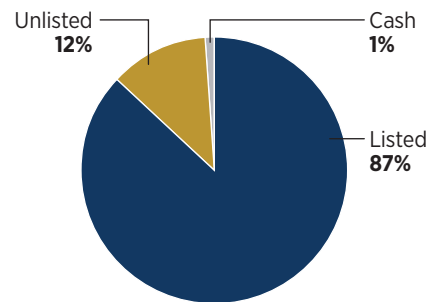
Metrics of the Portfolio*

	FY23A	FY24F	FY25F
Key Ratios			
EV / Revenue (x)	4.7x	1.4x	1.1x
EV / EBITDA (x)	6.8x	7.0x	5.4x
EV / EBIT (x)	7.6x	7.9x	7.0x
P / E (x)	9.4x	9.3x	8.0x
Portfolio Financials			
Revenue Growth (%)	+24%	+17%	+14%
EBITDA Margin (%)	13%	18%	20%
EBIT Margin (%)	5%	10%	13%
NPAT Margin (%)	0%	6%	9%

* All metrics reflect weighted averages of the combined portfolio based on SB2 forecasts, as at 29/09/2023, adjusted for abnormalities

Portfolio Composition

- The SB2 Portfolio has 23 Listed holdings (87% of the total value), 5 Unlisted holdings (12% of the total value) and 1% cash.
- The weighted average market capitalisation of the stocks in the listed portfolio is ~\$146m.
- The investment strategy was compliant with the emerging companies' investment requirements of the Australian Significant Investor Visa regime for the period ending 29 September 2023.



September 2023 Monthly Update

SB2 is a dedicated small cap listed investment company that invests in companies with a market capitalisation of less than \$500m. The performance of this sector of the market has suffered considerably over the last 12 month period and this dynamic continued in the month of September. To highlight the underperformance of this sector of the market the 12 month returns were down over 20%¹ and down over 5%¹ in the month of September, compared to the ASX Small Ordinaries Accumulation Index which was +6.85% and -4.04% for the same periods. The drivers of the negative performance of the sub \$500m sector are mixed but are driven by:

- a low risk tolerance of the investment community in the current macroeconomic environment;
- low trading liquidity driving large volatility; and
- the retreat of retail investors as discretionary spending tightens across the economy.

These drivers are cyclical and history suggests that the market will revert to normalised conditions over time. This creates an attractive risk versus reward proposition to disciplined and medium term focused investors in the sector. SB2 continues to focus on the medium term investment fundamentals of the companies in our investment universe and retain our conviction that the portfolio is well positioned for the performance reversion of our sector of the market.

September 2023, was another busy period for the Manager following the reporting period in August. The Manager met with all the management teams of the existing portfolio companies as well as the management teams of new investment opportunities. Following these conversations with the management teams of the companies, the Manager is of the view that the portfolio is strategically positioned to take advantage of the attractive risk vs reward proposition present. The portfolio reported a -4.52% return in the past month outperforming the index by -0.48% which returned -4.04% over the same period.

During the month, the top three positive contributors to the portfolio were EVZ Ltd (**EVZ**), Ansarada Group Ltd (**AND**), and Ai-Media Technologies Ltd (**AIM**). The top three key detractors were VEEM Ltd (**VEE**), Close the Loop Ltd (**CLG**), and BikeExchange Ltd (**BEX**).

The EVZ Ltd (**EVZ**) share price moves in both August and September were driven by relatively low volumes. That being said, throughout September the market was able to digest the FY23 results released by EVZ late in August. These results contained a 65% increase in revenue translating to a 62% increase in NPAT over the same period. EVZ is strong operationally with a positive operating cashflow that will support further growth through new contract wins and complimentary acquisitions. Net assets of \$30.4m, no debt and cash balance of \$9.3m at financial year close.

Ansarada Group Ltd (**AND**) FY23 results were positive, reporting significant ARR growth of 42% reaching \$11.4m at 30 June, despite the softer capital markets environment. With customer retention remaining strong at 89%, and AND resumed their positive free cash flow in 2Q23 and continued to operate at a positive free cash flow level for the remaining quarters of FY23, indicating steady financial health into FY24. The management team has shown they can grow the business in poor economic conditions for deal flow and with this dynamic slowly changing for the better, there is plenty of potential upside to be achieved.

Ai-Media Technologies Ltd (**AIM**) also released their FY23 results in the last few days of August, with September allowing for the market to process the new data points released. The results announced to the market were within our expectations, with gross margin accretion of 500 bps converting to 200% EBITDA growth in FY23 while also generating \$3.5m in operating cashflow creating a strong cash balance at 30 June of \$17.0m.

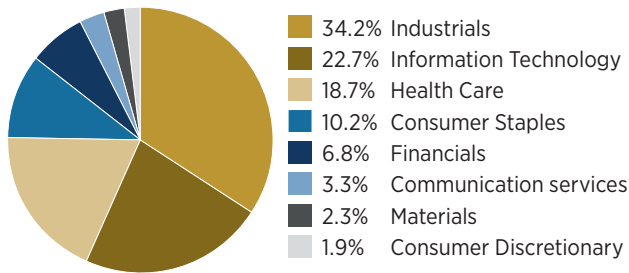
The key detractor for the month of September was VEEM Limited (**VEE**) despite producing a good set of results for FY23 while also signing an exclusive deal with Strategic Marine. EBITDA and NPAT both increased by 64% and 226% respectively over the 12 month period. Further to this they have recently signed another exclusive agreement with Sharrow Engineering, this involves a partnership between VEEM and Sharrow to design and then for VEEM to exclusively manufacture and sell Sharrow designed propellers worldwide for inboard powered vessels. The share price has since responded to this news flow positively, reversing the falls in September.

Despite a positive set of FY23 numbers and traction being made through the ISP Tek acquisition, Close the Loop Ltd (**CLG**) saw share price weakness throughout September. This weakness is difficult to rationalise on a fundamentals basis, with no material news released through the period. CLG has since produced a market update, stating the business performance to date has been tracking well, reaffirming guidance of forecast FY24 \$43.0m EBITDA.

In September, BikeExchange Ltd (**BEX**) raised \$1.85m through a private placement, which the Manager participated in to assist with working capital needs and ongoing operations of the business. The FY23 results released in the last week of August were in line with the Manager's expectations, the scalability of the BEX platform is evident with net revenue marking a 26% increase, culminating to \$8.3m. BEX undertook a 55% headcount reduction, translating to a \$1.6m underlying EBITDA improvement on pcp. Off the back of these improvements the company has made, BEX fell victim to the low volumes and high volatility in the microcap universe resulting in the share price trading down off the back of an improved FY23 result release.

1. Source: IRESS, S&P Global for ASX All Ordinaries Constituent List and the Manager's estimates for constituent weights.

Listed Portfolio Sector Weights



Top 5 Holdings

1. Top Shelf International Holdings Ltd (ASX:**TSI**)

2. Acrow Formwork and Construction Srvs Ltd (ASX:**ACF**)

3. Veem Ltd (ASX:**VEE**)

4. Probiotec Ltd (ASX:**PBP**)

5. OFX Group Ltd (ASX:**OFX**)

Investment Team



Gregg Taylor

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



Advait Joshi

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



Francis Crossle

Analyst
1+ years' experience

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Authorised for release by the Board of SB2.

Important information

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