

Investment Report & NTA Update

10 NOVEMBER 2023

Net Tangible Asset Value per share as at 31 October 2023

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings
\$0.778	\$0.810	\$0.864	\$0.52	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[#]	-6.05%	-12.04%	-24.71%	-17.22%	-	-6.46%	-14.98%
ASX Small Ordinaries Accumulation Index[*]	-5.45%	-10.45%	-5.10%	-8.14%	-	-6.94%	-16.03%
Difference	-0.60%	-1.59%	-19.61%	-9.08%	-	0.48%	1.05%

[#] 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 October 2023			
#	Company Name	Price Chg. (%) (Absolute)	Weighted Avg. Price Chg (%)
1	BikeExchange Ltd (BEX)	+16.7%	+0.3%
2	Felix Group Holdings Ltd (FLX)	+10.5%	+0.2%
3	Acrow Formwork and Construction Srvcs Ltd (ACF)	+1.2%	+0.1%

Key Detractors for October 2023			
#	Company Name	Price Chg. (%) (Absolute)	Weighted Avg. Price Chg (%)
1	Close the Loop Ltd (CLG)	-20.3%	-0.9%
2	MedAdvisor Ltd (MDR)	-17.4%	-0.8%
3	Bigtincan Holdings Ltd (BTH)	-24.7%	-0.8%

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 greater than 90%.
- 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 31/10/2023) 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 9.0x

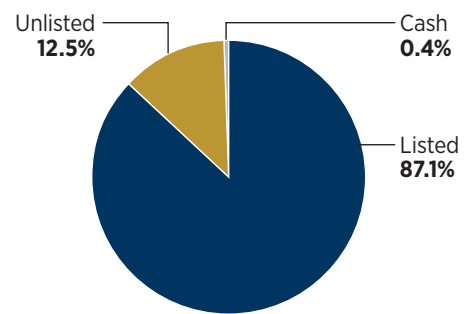
Metrics of the Portfolio*

	FY23A	FY24F	FY25F
Key Ratios			
EV / Revenue (x)	2.2x	1.4x	1.1x
EV / EBITDA (x)	7.8x	7.0x	5.3x
EV / EBIT (x)	7.4x	8.0x	8.1x
P / E (x)	8.7x	9.8x	8.1x
Portfolio Financials			
Revenue Growth (%)	25%	16%	15%
EBITDA Margin (%)	12%	18%	20%
EBIT Margin (%)	5%	10%	13%
NPAT Margin (%)	-1%	6%	9%

* All metrics reflect weighted averages of the combined portfolio based on SB2 forecasts, as at 31/10/2023, adjusted for abnormalities

Portfolio Composition

- The SB2 Portfolio has 23 Listed holdings (87.1% of the total value), five Unlisted holdings (12.5% of the total value) and 0.4% cash.
- The weighted average market capitalisation of the stocks in the listed portfolio is ~\$133m.
- The investment strategy was compliant with the emerging companies' investment requirements of the Australian Significant Investor Visa regime for the period ending 31 October 2023.
- A key requirement of the Australian Significant Investor Visa regime is that the Fund invests in companies with a market capitalisation of less than \$500M. As such the Fund has a microcap bias and the Fund performance is driven by the performance of this sector of the market.



October 2023 Monthly Update

The ASX microcap sector in which SB2 invests, continued to underperform the broader market. The relative underperformance of the microcap sector is at 20 year lows and in the view of the Manager this underperformance is not matched by fundamentals of the underlying companies. Whilst this is frustrating for current investors the relative valuations and potential upside of the microcap sector is as attractive as it has been for a long time and it is expected patient medium term investors will be rewarded for sticking with the maligned sector.

To highlight the microcap performance over the last 12 months the sub \$500M component of the All Ordinaries Index is down 35%¹ over the last 12 months and was down 8.7% in the month of October 2023.

October 2023, saw the majority of the portfolio companies produce their Q1 quarterly results. The fundamental earnings and cash flow performance of the portfolio companies were in line with or better than expectations in the vast majority of cases. Despite this, the negative sentiment towards microcap stocks and a softer macroeconomic and geopolitical environment saw the fund deliver negative performance for the month.

It was another tough month for the ASX with the ASX Small Ordinaries Accumulation Index falling -5.45% over the period. The fund fell -6.05%, broadly in line with the broader small cap index. The Fund continues to outperform the microcap sector in which it invests which is represented by the sub \$500M component of the All Ordinaries Index.

During the month, the top three positive contributors to the portfolio were BikeExchange Ltd (**BEX**), Felix Group Holdings Ltd (**FLX**), and Acrow Formwork and Construction Services Ltd (**ACF**). The top three key detractors were Close the Loop Ltd (**CLG**), MedAdvisor Ltd (**MDR**) and Bigtincan Holdings Ltd (**BTH**).

BikeExchange Ltd (**BEX**) released its 1Q24 quarterly report with key positive highlights being a 60% increase in net revenue of continuing operations vs pcp, 31% uplift in e-commerce TTV vs pcp and reducing their EBITDA loss by 63%. Overall, an improved quarter was produced by BEX with their new CFO also starting in November and the successful launch of their new marketplace platform in its largest market Germany, with the new platform already resulting in significant uplift in site performance metrics (pagespeed, core web vitals usability) & user metrics (time on page, average pages per session). Quarter on quarter BEX has proven out its commitment to its pathway to profitability with cost cutting initiatives flowing through the business, while still being able to grow the continuing business at the top line.

Felix Group Holdings Ltd (**FLX**) produced one of its best quarterly reports to date in October. Recording a record new contractor ARR

in Q1 FY24 of \$800k, representing a 32% increase on the prior quarterly record. FLX reported \$4.8m contractor ARR in 1Q24, increasing 69% on pcp, with demand for FLX's platform being driven by industry need for greater supply chain transparency, and growing ESG, legislative and productivity requirements. Three expansion deals were won including leading tier 1 contractors Downer and NRW Holdings as well as record contractor NRR (Net Revenue Retention) of 127%. Total Group ARR of \$6.9m in 1Q24, increasing 47% on pcp, consisting of contractor ARR of \$4.8m and vendor ARR of \$2.1m. FLX also produced a reduction of cash outflows of approximately \$1.0m vs pcp demonstrating progress toward cashflow breakeven.

Acrow Formwork and Construction Services Ltd (**ACF**) saw share price accretion over the month of October off the back of no material news but has recently announced an accretive acquisition, entering a share purchase agreement with MI Scaffold Pty Ltd, a leading provider of scaffolding, rigging and access solutions throughout the North and Central Queensland market. MI Scaffold has a highly recurring, long standing, blue-chip client base, predictable revenues and has a strong focus on infrastructure, resources, industrial and marine sectors. Acquisition to be funded by a newly expanded Westpac debt facility and equity raising via institutional placement which The Manager participated in. As a result of the acquisition ACF has upgraded both its revenue and EBITDA guidance to 31% and 38% respectively.

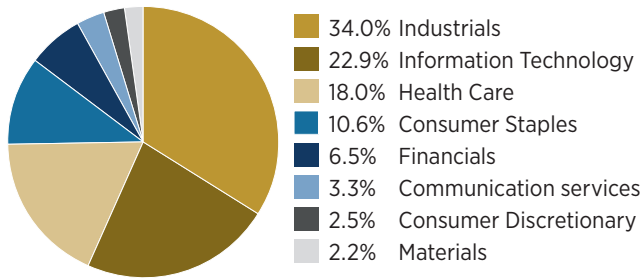
The key detractor for the month of October was Close the Loop Ltd (**CLG**) which continued to be sold down despite a market update that has reaffirmed EBITDA guidance of \$43.0m. During this period The Manager has been in regular contact with key management personnel of CLG who have reiterated that the business is operationally sound which again made the weakness difficult to rationalise on a fundamentals basis. The Manager has since used this opportunity to add onto the position in CLG.

MedAdvisor Ltd (**MDR**) produced a quarterly report in October that is line with the Managers expectation. 1Q24 highlights included operating revenue up 27% vs pcp with gross margin expansion as gross profit increased 31% as well as US projected revenue contracted for FY24 as at September 30 being at 79% vs pcp at 64%.

In October, Bigtincan Holdings Ltd (**BTH**) did not release any material operational news but previously released a market update in September which highlighted cost reduction initiatives being taken in the USA side of the business, reducing operational expenditure by 10% with a focus on non-customer facing roles. The update also verified the progression of the integration of Modus Engagement Inc adding Multi-Hub opportunities for 1H24 as well as 2023 Gartner Market Guide recognising Bigtincan as a leader in Sales Enablement. The negative share price performance was most likely driven by the drawn out process around the indicative acquisition proposal for BTH.

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 Srvc Ltd (ASX:**ACF**)

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

4. Ansarada Group Ltd (ASX:**AND**)

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

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**).

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