

GLENNON SMALL COMPANIES LIMITED (ASX:GC1)
ANNUAL GENERAL MEETING 2016

27 October 2016



Disclaimer

The information provided in this presentation has been prepared by Glennon Capital (ABN 84 137 219 866, AFSL 338567). The information herein is provided for information purposes and should not be construed as an offer for sale.

Whilst Glennon Capital has taken all reasonable care in producing this information, subsequent changes in circumstances may occur at any time and may impact on the accuracy of the information. Glennon Capital Pty Ltd believes that any information herein is accurate and reliable, but no warranties of accuracy, reliability or completeness are given (except insofar as liability under any statute cannot be excluded). No responsibility for any errors or omissions or any negligence is accepted by Glennon Capital Pty Ltd, its related bodies corporate or any of their respective directors, employees or agents.

This presentation has been prepared without taking into account the investment objectives, financial situation or needs of any particular investor. This presentation should not be relied on as the sole basis for investment in a portfolio managed by Glennon Capital.

Formal Business

Proxy results

	Proxy Votes			
Resolution	For	Against	Discretion	Abstain
Resolution 1 Adopt the Remuneration Report for period ended 30 June 2016	1,066,135	92,005	150,626	0
Resolution 2 Re-election of John Larsen as a director	1,118,140	30,000	150,626	10,000
Resolution 3 Appointment of Auditor	1,128,140	30,000	150,626	0
Resolution 4 Ratification of Prior Issue of Ordinary Shares under Placement	1,040,337	107,803	150,626	10,000

Agenda

- 1) About Glennon Capital
- 2) Market overview
- 3) Investment Case Studies
- 4) Performance and portfolio
- 5) Investor Communication
- 6) Questions

About Glennon Capital



Our values

**We want to add
absolute value**

**We want to
be aligned
with our clients**

**We want our
investment to grow
with our clients
investments**

**We want to communicate
with our clients so they have
confidence in our capability,
and to reassure them when
markets are volatile**

**We want to
think creatively
and outside
the box**

**We want to
be long term
and look through
the noise**

Investment philosophy

We believe the market shows varying degrees of inefficiency

We add value by concentrating our research efforts in areas where inefficiencies exist

We have found that larger companies tend to have better information flows, and as a result their prices tends to better reflect publicly available information

There are more opportunities in smaller companies because they are far greater in number and there are structural inefficiencies in terms of the information readily available to investors

We take the view the we are buying businesses and that we are an owner of the business

Investment team



Michael Glennon
MD & Portfolio Manager

- 20+ years' experience in financial markets
- 17+ years' as a specialist small cap manager
- Portfolio Manager at
 - Souls Funds Management (now Celeste)
 - Paradise Investment Management
 - Adam Smith Asset Management
- Strong network of contacts in broking and in corporates



Alex Shevelev
Portfolio Manager

- 10 years' experience in financial markets
- 10 years' focused on small cap companies
- Analyst and portfolio manager roles at leading boutiques
- Previous roles at:
 - Cadence Capital
 - Eight Investment Partners/Atom Funds
 - Sky Funds Management

GC1 Directors

John Larsen

Director GC1

FMR – Head of Equities ING





FMR – Head of Deutsche Bank

-  Head of Equities
Mercantile Mutual (now
ING)
-  Head of investment
bank Bain & Co, then
Deutsche Bank
-  Head of desk County
Natwest

Garry Crole

Director GC1

MD - InterPrac

-  Founder of DKN financial
services (now part of
IOOF)
-  Founder of InterPrac and
current MD
-  Director of Diversa
(DVA.ASX)
-  Senior manager Colonial

Support team

Cheng Ge **Analyst**

- 🦁 Compiles financial research summaries
- 🦁 Preliminary company research
- 🦁 Background research
- 🦁 B.Comm/LL.B, CFA Level 2

Amy Adamson **Financial controller** **Part-time**

- 🦁 Qualified Chartered Accountant
- 🦁 15 years' experience with small, medium & large businesses
- 🦁 Commercial accounting and financial services experience (Goldman Sachs)

Sherwin A **Research Assistant** **Part-time (Philippines)**

- 🦁 Files all daily research
- 🦁 Updates electronic database
- 🦁 Does ad-hoc research

Investment process



What we look for

Superior management

- ✓ track record of success
- ✓ skin in the game

Growth prospects

- ✓ industry or market share
- ✓ revenue or margins



Sustainable businesses

- ✓ without excessive debt
- ✓ a history of profitability

Industry with barriers to entry

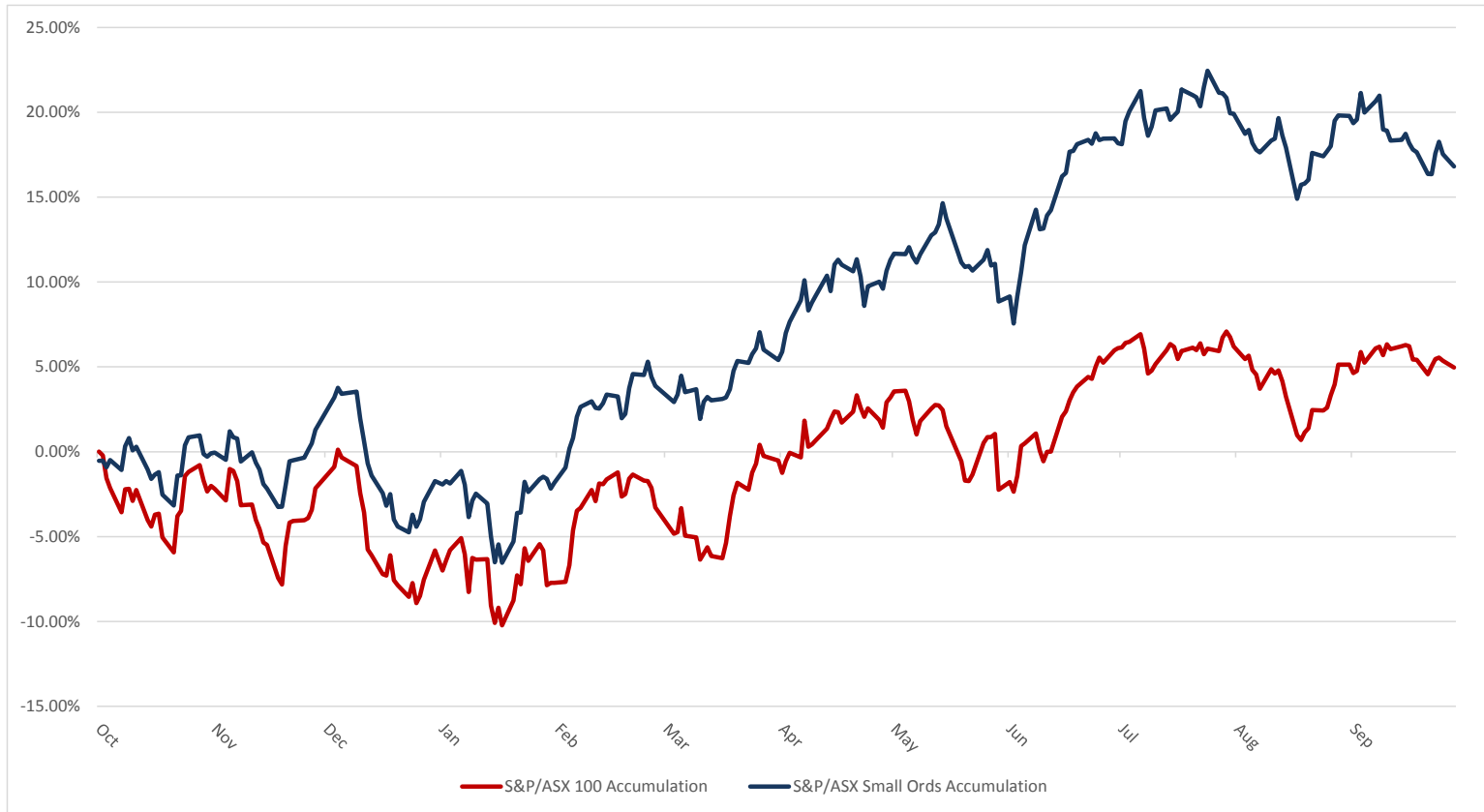
- ✓ reduces competition potential
- ✓ provides increased confidence

Undervalued

- ✓ flexible use of valuation metrics

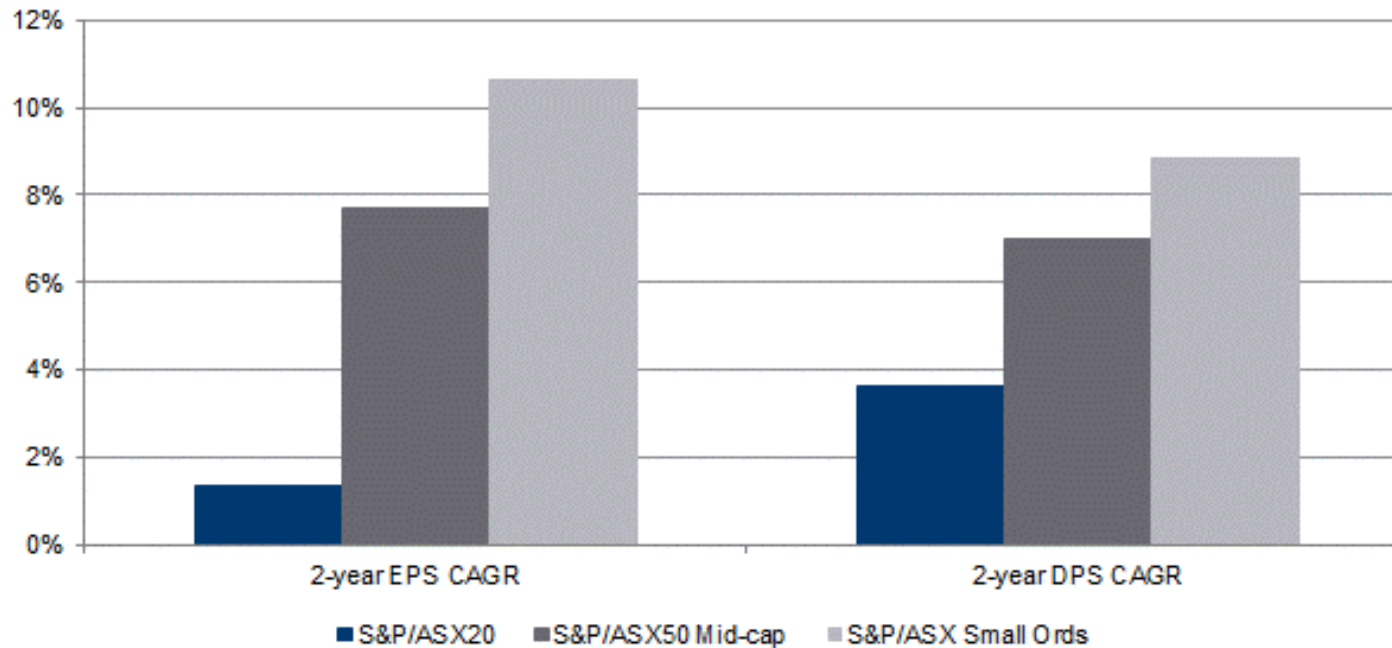
Market overview

Small caps vs large caps



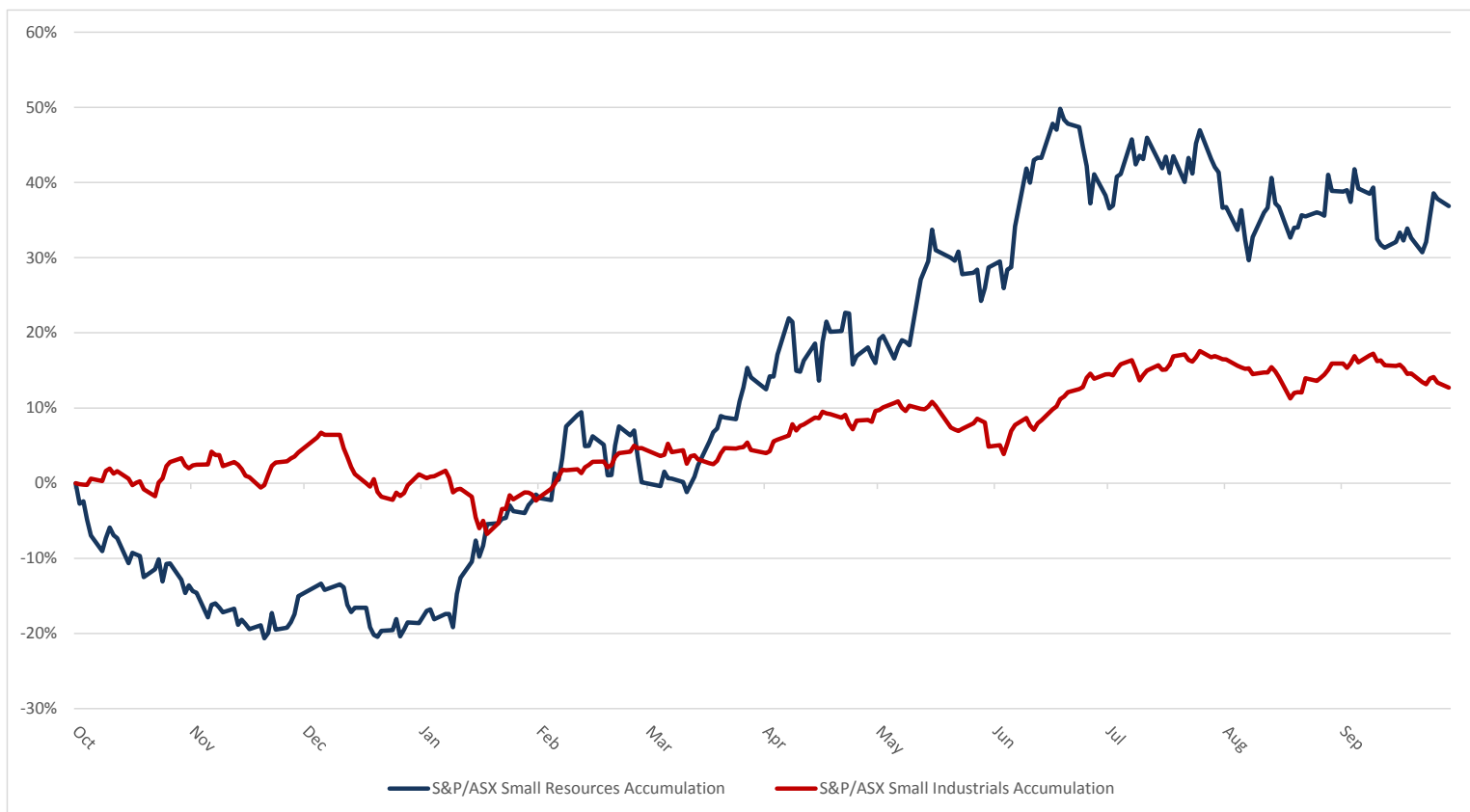
Small caps have outperformed large caps by 12% in the past year

Small caps vs large caps



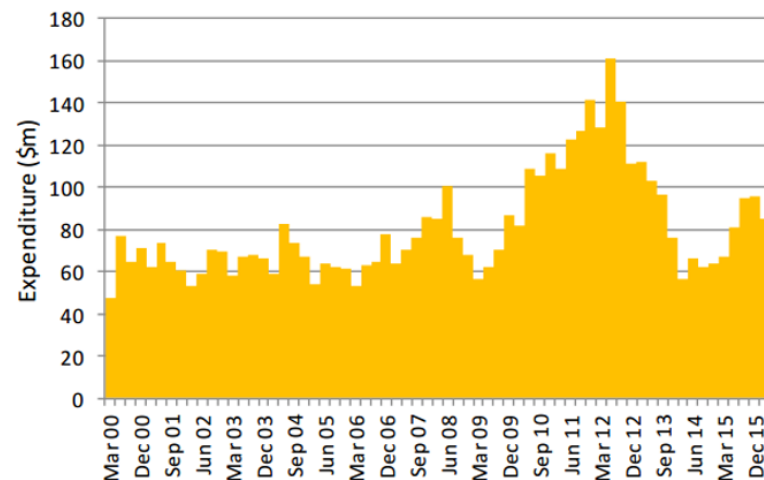
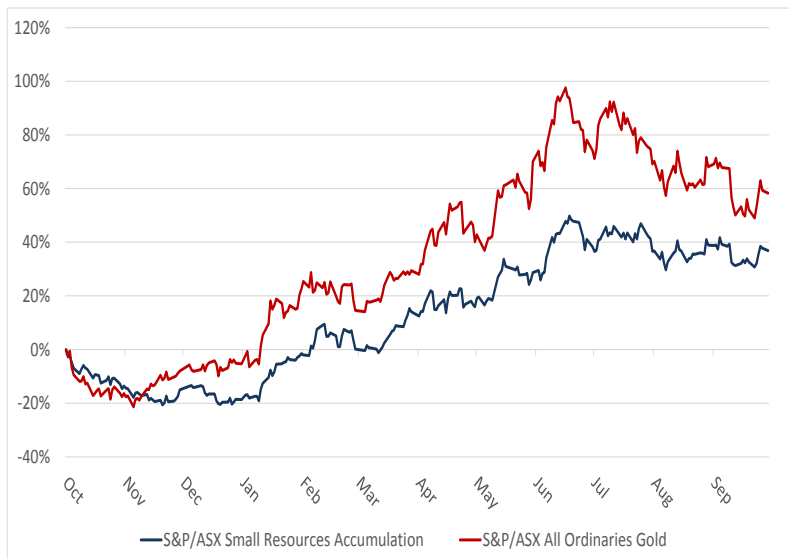
Earnings growth is substantially faster for small caps

Resources vs industrials



Small resources have outperformed small industrials by 25% in the past year

Resources recovery driven by gold



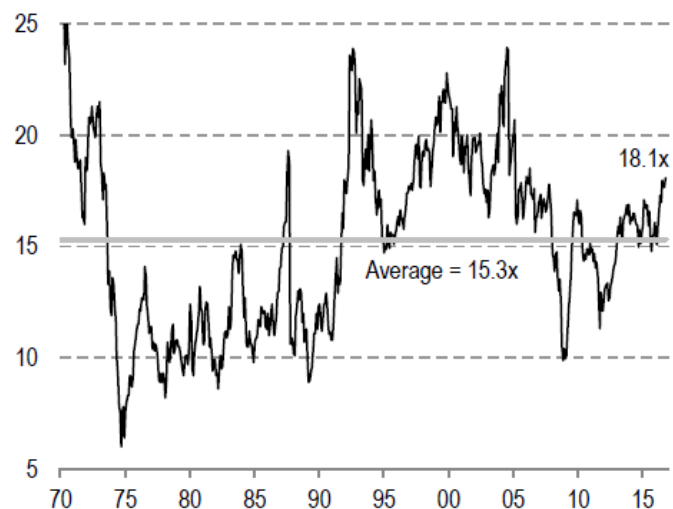
Source: Argonaut and ABS

Gold equities have driven resources performance...

...while the exploration outlook has improved

Market valuation

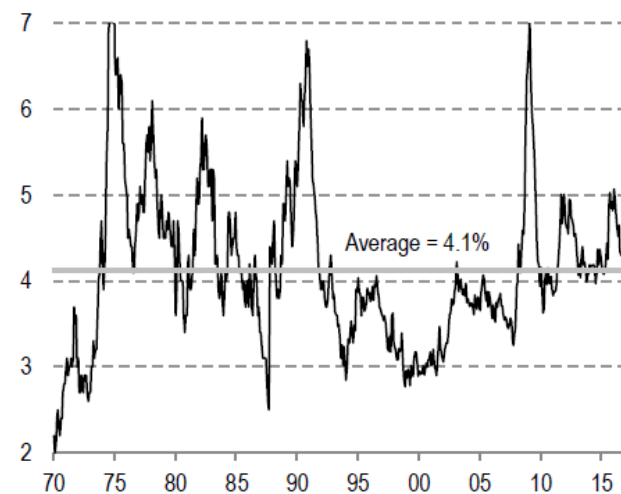
ASX 200 12 month trailing PE ratio



Source: Company data, Credit Suisse estimates

Market earnings multiples are elevated...

ASX 200 12 month trailing dividend yield (%)

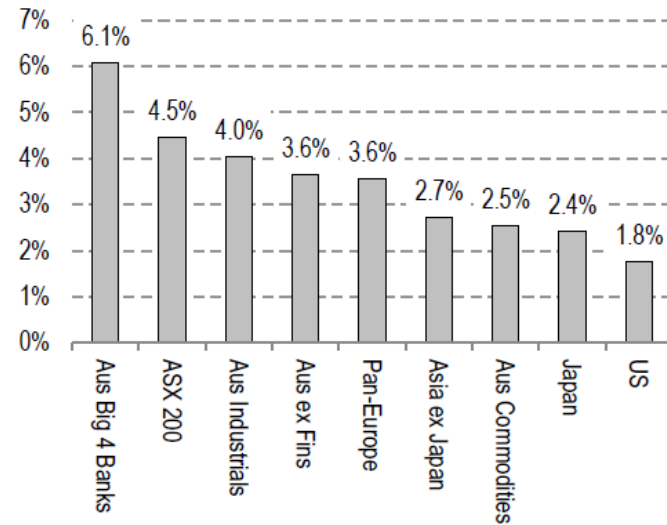


Source: Company data, Credit Suisse estimates

...while dividend yield is in line with historical average

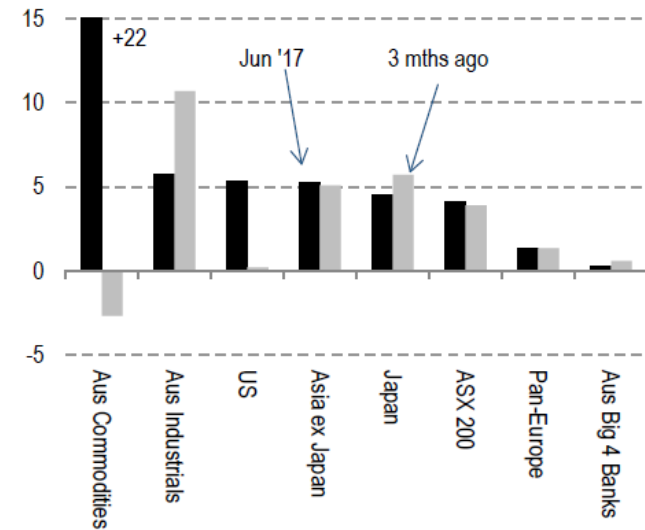
Seeking yield

June 2017 dividend yield



Source: Company data, Credit Suisse estimates

June 2017 DPS growth (now vs 3 months ago)

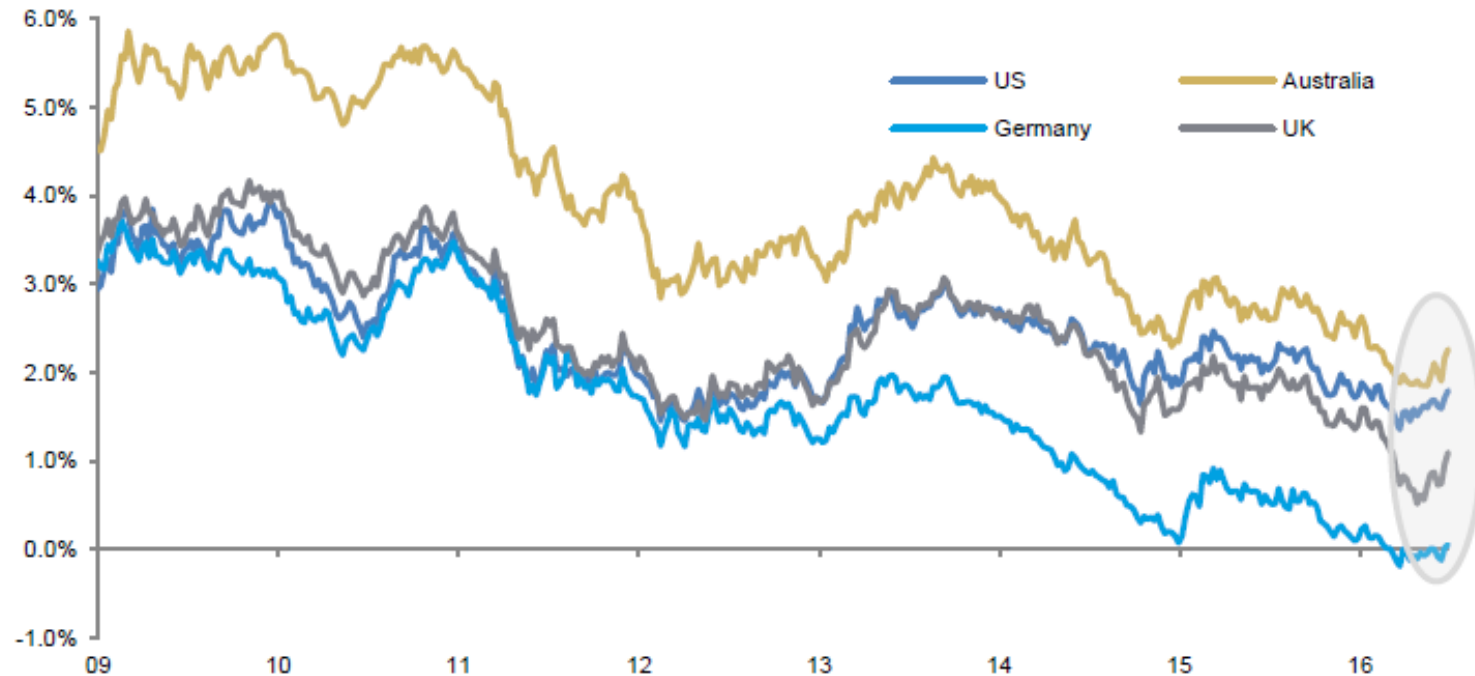


Source: Company data, Credit Suisse estimates

Australian yield remains high...

...but growth has slowed

The big threat to yield stocks



Source: Bloomberg, MSWM Research. 10Yr government bond yields.

A rise in yields globally could threaten yield stocks

Stock selection in small caps

**BEST 10 STOCKS FROM
SMALL ORDINARIES**

+228%

**WORST 10 STOCKS FROM
SMALL ORDINARIES**

-53%

**SMALL ORDINARIES
INDEX RETURN**

17.1%

**BEST 10 STOCKS
FROM ASX 100**

+68%

**WORST 10 STOCKS
FROM ASX 100**

-23%

**ASX 100
INDEX RETURN**

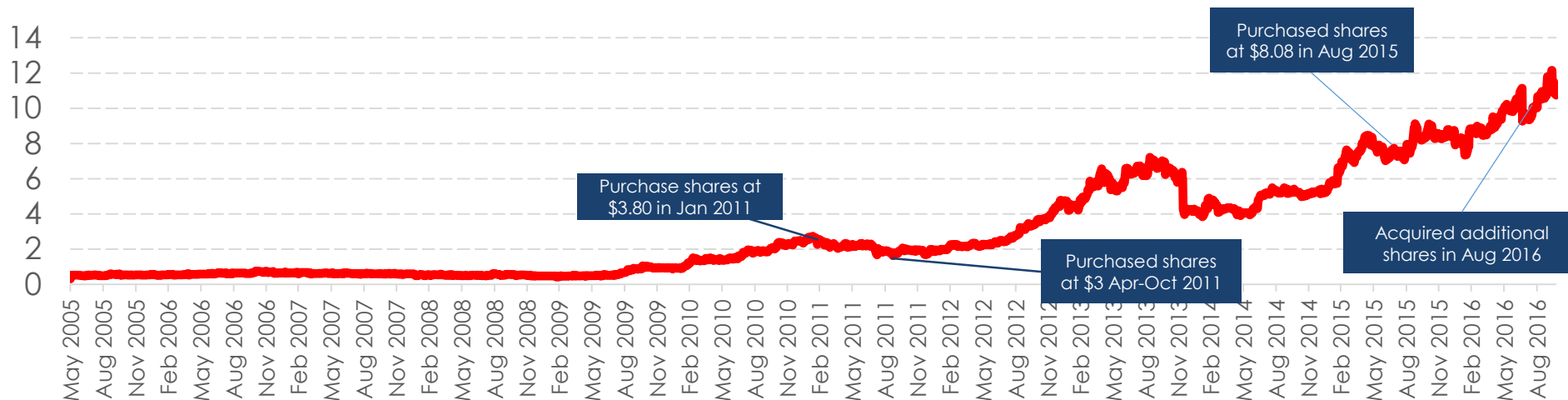
4.9%

Small caps offer more opportunities to outperform

Investment Case Studies

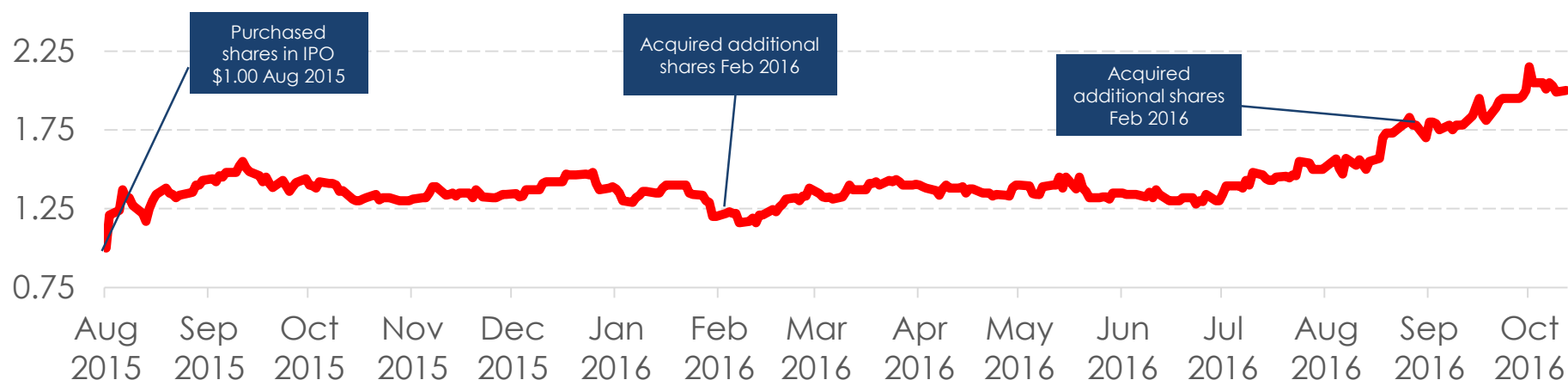
Silver Chef Limited (ASX:SIV)

Overview	Provider of finance to small and medium businesses. The business historically provided asset financing to the food industry for stainless steel kitchen fittings. The company has now expanded into other finance offerings, predominantly for capital items. They have also expanded internationally into both NZ and Canada.	
Background	Listed in 2005 Listing PER of 8x Revenue \$8m	Profit \$1.4m Mkt Cap \$11.1m
Thesis	Since 1988 large finance companies have been withdrawing from the Australian market. The traditional leasing companies have moved their product offerings into significantly higher value clients and have moved out of the SME sector. The Australian market is similar to Canada, however the market in Canada is not as advanced as Australia so there is opportunity for growth.	
Now	FY16 Revenue \$221m FY16 Profit \$22m	Mkt Cap \$390m Trading on a FY17 PER of 14.5x



National Veterinary Care Limited (ASX:NVL)

Overview	Operator of vet clinics across most states in Australia. Currently has 32 clinics. Attractive industry characteristic where the largest competitor only has 5.6% market share. Management are both ex-Greencross. The business has an acquisition model supplemented by a margin improvement process led by corporate initiatives.	
Background	Listed on in August 2015 Listing on 8x PER	Revenue \$52.0m Mkt Cap \$30.0m
Thesis	Glennon Capital were an early investor in Greencross. We like the business model, the industry, the management and opportunity available for the company to expand. The business replicates the early Greencross model which appealed to us. The industry characteristics are favourable and barriers to entry are high. Management are both experienced and driven to succeed. Presently multiples for acquiring practices are reasonable and competition for practice acquisition is low.	
Now	FY16 Revenue \$44.2m FY16 Profit \$4.3m	Mkt Cap \$105m Trading on a FY17 PER of 16x



BigAir Limited (ASX:BGL)

Overview

Provider of network infrastructure, cloud services and community broadband solutions. The business provides connectivity via a fixed wireless network and offers solutions in the cloud and managed services space.

Background

- Listed in April 2006
- Mkt Cap \$24m

Thesis

Strategic asset with very high incremental margin contribution. Incremental capital expenditure requirements are low. Earnings growth set to continue through both the infrastructure and cloud and managed services businesses.

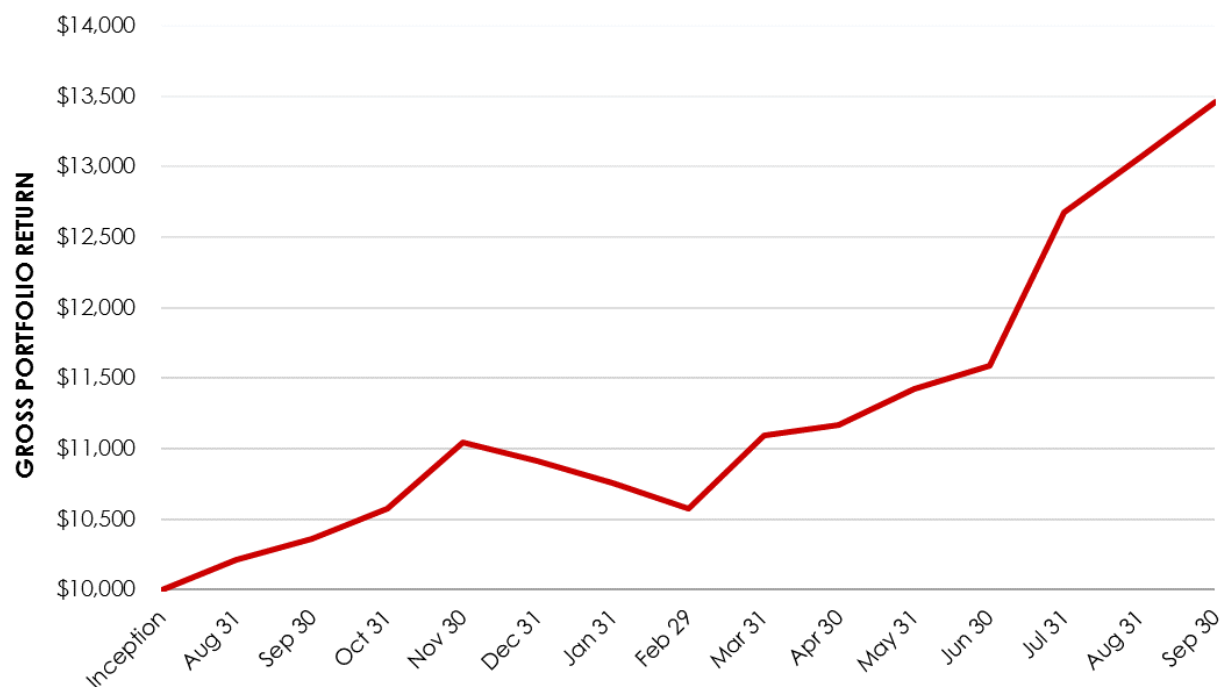
Now

To be acquired by Superloop for a total scrip consideration of \$1.13 per share (\$200m)



Performance and portfolio

GC1 performance



Performance at 30 Sep 2016	1 Month	3 Months	6 Months	1 Year	Since Inception
Glennon Small Companies	3.03%	16.19%	21.30%	29.92%	34.62%

Performance is shown on a gross basis, before expenses and taxes. Past performance is not a reliable indicator of future performance. Inception date is 21 August 2015.

Portfolio characteristics

Top Five Holdings at 30 Sep 2016

RCR	RCR Tomlinson	4.4%
MYX	Mayne Pharma	4.3%
ALU	Altium	4.0%
RFG	Retail Food Group	3.9%
SIV	Silver Chef	3.6%

Characteristics at 30 Sep 2016

Number of Equity Holdings	35
Cash Balance	37%
Median Market Capitalisation	\$278

Dividends

2016 Interim

0.75 cents

2016 Full Year

3 cents

Gross Yield

5.4%

Dividend Policy

The Board is committed to paying a growing stream of fully franked dividends to shareholders over the long term, provided the Company has sufficient profit reserves and franking credits, it is within prudent business practices, and it is in line with capital growth objectives.

Investor Communication

Investor Communication

Weekly newsletter



March 05, 2016

National Veterinary Care Limited

- We met with management of National Veterinary Care Limited last week, following the release of their 2015 financial results.
- Glennon Capital were early investors in National Veterinary Care Limited and it would be interesting to have a look at how they have emulated some of the success of other companies in the sector.
- Watch our video to find out more.



February 20, 2016

Insight | Paragon Care (ASX:PGC)

February 19, 2016 | By Glennon Capital

- Paragon is a distributor of consumable medical products into the Australian healthcare market, acquisitions and consolidating a very fragmented market.
- To watch our video on Paragon, click on the link below.

[Watch now](#)



January 30, 2016

Insight | Silver Chef Limited (ASX:SIV)

January 29, 2016 | By Glennon Capital



- Silver Chef Limited (ASX:SIV) is a small company that operates an equipment financing business predominantly for the food industry. The business is 30 years old and has been listed since 2005. In the past few years the company has expanded offshore and is starting to get good growth in Canada and New Zealand.
- The offering has also been expanded outside the food industry through the 'GoGetta' brand, which offers small loans to businesses, predominantly for equipment. The main benefit for Silver Chef clients is that financing allows them to avoid the need to make large up-front investments.

[Watch our video to learn more](#)



Stay in touch



GlennonCap



/glennon-capital



/glennoncapital



glennon.com.au



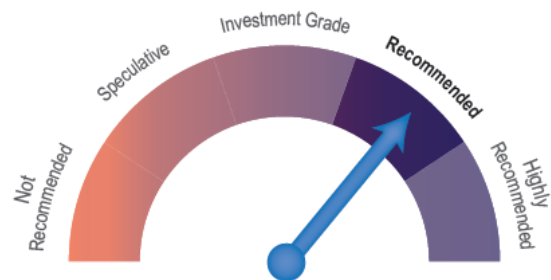
glennon.com.au

Research

- Ord Minnett
- Baillieu Holst
- Wilson HTM
- Independent Investment Research



Rating



Contact us

Level 11, 179 Elizabeth Street
Sydney, NSW, 2000

E info@glennon.com.au

T 02 8060 9519

W www.glennon.com.au

Questions
