

12 November 2024

UWC Investment Portfolio Performance - November 2024

Underwood Capital Limited¹ (ASX: UWC) ("UWC" or the "Company") is an Australian-listed specialist investment company which concentrates on producing capital growth for shareholders over the medium term from investments in listed and unlisted equities and debt securities.

UWC Investment Portfolio Performance

UWC is pleased to provide the portfolio performance for November 2024 which includes the disclosure pursuant to Listing Rule 4.12.

Investor and Media Enquiries

Announcement authorised for release to ASX by:
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¹ UWC Shareholders at the Annual General Meeting on 22 November 2024 approved a change in the company's name, from Hygrovest Limited to Underwood Capital Limited ("UWC"). The ASX will apply the new company name and change the ASX code from "HGV" to "UWC" as at 13 December 2024.

About UWC

Underwood Capital Limited (ASX:UWC) ("UWC") ABN 91 601 236 417 is an Australian-listed specialist investment company which concentrates on producing capital growth for shareholders over the medium term from investments in listed and unlisted equities and debt securities.

Important Notice

This announcement contains reference to certain intentions, expectations, future plans, strategy and prospects of UWC. Those intentions, expectations, future plans, strategy and prospects may or may not be achieved. They are based on certain assumptions, which may not be met or on which views may differ and may be affected by known and unknown risks. The performance and operations of UWC may be influenced by a number of factors, many of which are outside the control of UWC. No representation or warranty, express or implied, is made by UWC, or any of its directors, officers, employees, advisers or agents that any intentions, expectations or plans will be achieved either totally or partially or that any particular rate of return will be achieved. Given the risks and uncertainties that may cause UWC's actual future results, performance or achievements to be materially different from those expected, planned or intended, recipients should not place undue reliance on these intentions, expectations, future plans, strategy and prospects. UWC does not warrant or represent that the actual results, performance or achievements will be as expected, planned or intended. Nothing in this material should be construed as either an offer to sell or a solicitation of an offer to buy or sell securities. It does not include all available information and should not be used in isolation as a basis to invest in UWC. This document does not constitute any part of any offer to sell, or the solicitation of an offer to buy, any securities in the United States or to, or for the account or benefit of any "US person" as defined in Regulation S under the US Securities Act of 1993 ("Securities Act"). UWC's shares have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to any US person without being so registered or pursuant to an exemption from registration including an exemption for qualified institutional buyers.



Investment Portfolio Report

November 2024

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About Underwood Capital

Underwood Capital Limited¹ ("Underwood Capital", "UWC" or the "Company") (ASX: UWC) is an Australian-listed, specialist investment company that has traded on the ASX since 2015.

UWC's investment manager is HD Capital Partners Pty Ltd (ACN 664 583 537) ("HD"). HD was appointed to that role for a term of five years commencing 1 July 2023.

HD is a value-oriented, fundamental bottom-up stock picker focussing on opportunities in listed small cap equities markets including:

- a) undervalued, well-managed growth companies, often founder-led, that are off the radar of the broader investment community;
- b) undervalued securities where HD seeks to realise value; and
- c) situations that are dependent on a specific corporate action, such as mergers, liquidations, tender offers and divestments.

UWC Investment Performance^{2 3}

UWC Historical Performance - period ended					30-Nov-24
	1 month	3 months	Financial year to date	12 months	Since inception
Pre tax return	(5)%	(7)%	(1)%	3%	(15)%

For Underwood's latest investor presentations and news, please visit www.hygrovest.com.au

General Investor Queries

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Performance Update

Net Tangible Asset Value Per Share Before Tax⁴ as at 30 November 2024

\$0.1023

Key Metrics as at	30-Nov-24	31-Oct-24
Net Asset Value - pre tax	\$m 21	22
Investee Portfolio (ex cash)	\$m 17	17
Cash and cash equivalents	\$m 4	6
Net Tangible Asset per share - pre-tax (issued pursuant to LR 4.12)	\$ 0.1023	0.1075
Net Tangible Asset per share - post tax (issued pursuant to LR 4.12)	\$ 0.0903	0.0960
Net Asset Value per share	\$ 0.0907	0.0963
UWC share price (ASX)	\$ 0.051	0.054
Market capitalisation	\$m 11	11
ASX Investment Type	Listed Investment Company	
Initial Public Offering Date (inception date)	22-Jan-15	
No. of ordinary shares on issue	m 210	

¹ UWC Shareholders at the Annual General Meeting on 22 November 2024 approved a change in the company's name, from Hygrovest Limited to Underwood Capital Limited ("UWC"). The ASX code will also change from HGV to UWC as at 13 December 2024.

² Inception is 30 June 2018 being the date on which Underwood commenced accounting for investments as an investment entity.

³ The quoted returns for 1 and 3 months and financial year to date are absolute, i.e., not annualised. The quoted returns for 12 months and since inception are annualised.

⁴ Excludes tax on unrealised gains on the investment portfolio and company tax accrued for the current financial year. The financial information within this report is unaudited.

UNDERWOOD CAPITAL NEWS

UWC Financial Results for November 2024

During November 2024, UWC's Net Asset Value (before provision for tax) decreased by 5% which was primarily due to a 11% decrease in the Enterprise Value to Net Revenue Multiple (EV/NRM) used by UWC when valuing its investment in Weed Me Inc ("Weed Me"). This multiple is derived from the end of month market valuations of various listed Canadian companies, each of which UWC considers to be broadly comparable to Weed Me.

Shareholders should always, including but not limited to this month, be mindful that UWC's reported month-end NTA is a point-in-time assessment only and that UWC's NTA is constantly fluid. UWC also applies a 15% discount to the derived valuation multiple applied to its Weed Me holding to account for the fact that Weed Me is unlisted.

UWC Board further reduces directors' fees

In 2023, each member of UWC's board voluntarily reduced their director's fees by 10%. Effective from 1 November 2024, each member of UWC's board has further voluntarily reduced their director's fees by \$10,000 per annum. UWC's chair Warwick Sauer said: "This further voluntary fee reduction by all of UWC's directors reflects the board's ongoing focus on minimising the company's cost base."

2024 UWC Annual General Meeting (AGM)

UWC's 2024 AGM was held on 22 November 2024. UWC shareholders passed all resolutions considered at that meeting. The results of the voting were released to the ASX and are available at <https://hygrovest.com.au/investors/asx-announcements/>.

HD Capital Partners, UWC's investment manager, provided a presentation focussing on HD's investment strategy for UWC and the combined efforts of HD and the UWC Board to reduce operating costs, realise legacy investments and deploy cash into the new investment strategy. A copy of the presentation may be viewed at <https://hygrovest.com.au/investors/asx-announcements/>.

Change in Company Name and ASX Ticker

Following shareholder approval at the Company's Annual General Meeting held on 22 November 2024, the Company's name has now been changed from Hygrovest Limited to Underwood Capital Limited. The ASX code will also change from HGV to UWC as at 13 December 2024.

UWC will also shortly change its email and web addresses, and will advise of those changes once they have occurred.

Investment Manager Update⁵

In November HD Capital Partners on behalf of UWC invested \$1.9m in Cuscal Ltd (ASX:CCL) and has outlined its thesis for that investment below⁶.

Cuscal is a payments infrastructure company founded in 1966 providing B2B payment processing services to banks, credit unions, fintechs and corporates.

According to the Cuscal prospectus, outside of the Big 4 banks, Cuscal is the only payments provider with the technology, balance sheet and requisite licenses to directly connect and process payments across all key payment types in one organisation. This is both a significant moat and competitive advantage.

Cuscal generates most of its revenue from the below services (sourced from Cuscal's prospectus):

- 1. Issuing:** 65% of revenue; enables its clients' end customers to make payments using their cards. Connects to the card rails (Visa, MasterCard, eftpos, AMEX).
- 2. Payments:** 17% of revenue; enables its clients' end customers to make payments using BECS, BPAY, RTGS or NPP. Connects to the non-card rails.
- 3. Acquiring:** 11% of revenue; allows its customers to accept payments when a cardholder wishes to purchase goods or services from a merchant.

The primary driver of Cuscal's revenue is *transaction volume* rather than transaction value. There are several tailwinds that have driven the growth of the business, and should do for many years to come, outlined below:

1. Increasing use of card payments, currently at approximately 75% of transactions;
2. Increased adoption of pay-as-you-go/subscription revenue models, vs upfront purchases, as well as Buy Now Pay Later (e.g. 1 transaction becomes 4);
3. Fintechs and Neobanks have begun to increasingly take market share off the banks, particularly since the introduction of Open Banking in Australia. Cuscal is their back-end connection layer into Australia's payments system;
4. Increased adoption of real time payments through the New Payments Platform (NPP) which will continue to grow as batch payments (BECS) are phased out, currently scheduled for 2030. Cuscal was the first mover in NPP and has dominant market share ex the Big 4.

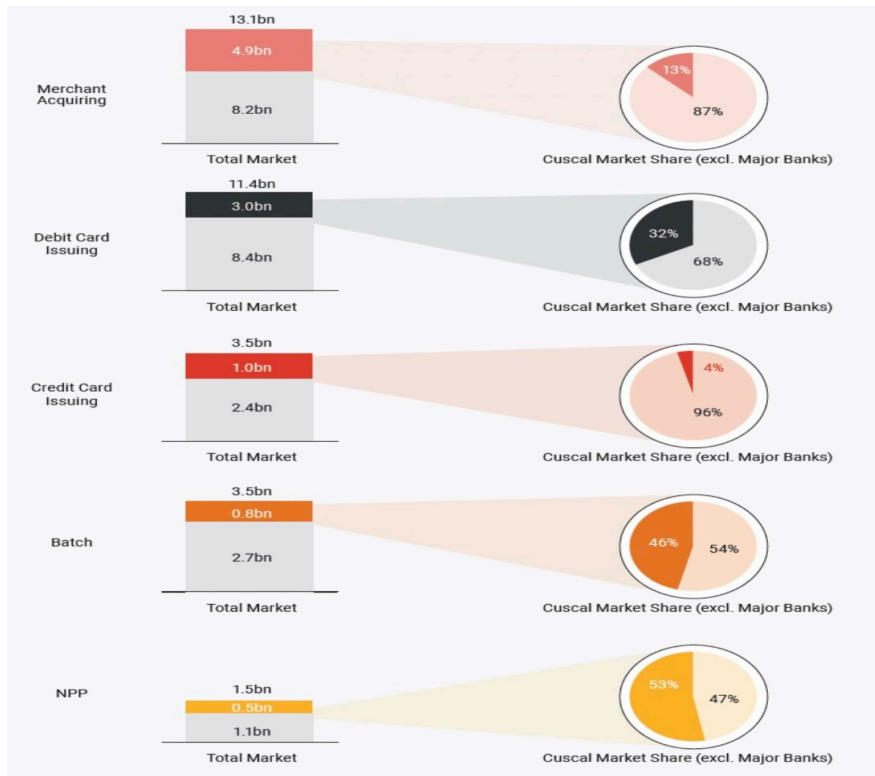
According to Cuscal's FY24 annual report, Cuscal services 92 customers in total. The company disclosed that 4 of their top 5 clients are contracted for >3 years. Contracts are typically 5 years and never less than 3. According to management presentations, in the 16 years the current CEO has been at the helm, Cuscal has never lost a major client.



⁵ The Investment Manager Update details the views of UWC's investment manager, HD Capital Partners

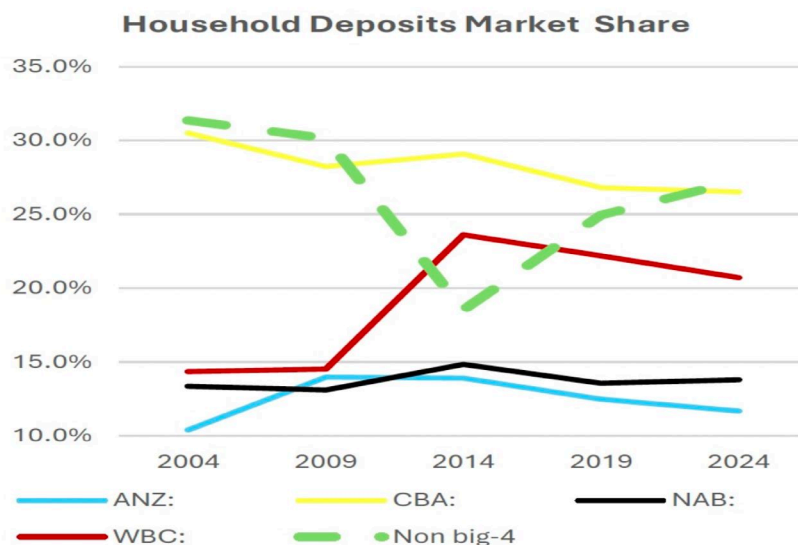
⁶ The information has been sourced from CCL's 2024 annual report and 2024 prospectus

The Cuscal Prospectus provides interesting market share data. The Big 4 unsurprisingly hold the majority of market share ranging from 50-75% across issuing, acquiring and payments. However, the majors keep their systems internal, and it is outside the Big 4 where Cuscal is dominant with 32% share in debit card issuing, 12% in acquiring, 46% in batch payments and 53% of real time payments via the New Payment Platform (NPP).



Source: Cuscal Prospectus

Importantly, despite the dominance of the Big 4, the addressable market of Cuscal has grown over time with the non Big-4 market share of household deposits growing from 18% to 27% over the last decade. Market share of household deposits is a rough proxy for payments market share.



Source: HD Capital Partners

As one example of the significance of Cuscal's moat, the NPP requires participants to build their own connection layer. The NPP is the most significant change to Australia's payments infrastructure in 50 years, supporting real time payments, and will see it replace the BECS (batch) system in around 2030.

It was reported that a Big 4 bank spent over \$400m building this infrastructure and was late to deliver it, while two member banks instead chose to just use Cuscal instead.

We have spoken to customers of Cuscal that noted several (competing) fintechs were pitching for their business, but that these fintechs still needed to plug into Cuscal's infrastructure (connecting layer to the NPP) to do so.

Cuscal's pricing is a significant competitive advantage, not just against the fintechs but even against the Big 4. Our feedback implied some examples of Cuscal being roughly half the price of what a Big 4 quoted for payments processing. This pricing advantage should continue to widen over time, as Cuscal's increased scale provides operational efficiencies that it can pass on to clients, creating a difficult to surmount advantage over competitors.

In an industry where scale is critical, it seems to make a lot more sense to partner with Cuscal, rather than build it yourself. Another of Cuscal's clients recently made the decision to roll out Cuscal's technology system wide, rather than try to build some of it themselves. We would expect this to be a trend in future years.

Further, Cuscal is heavily regulated with \$200m of regulatory capital on its balance sheet. This depresses the face value return on equity but provides a formidable barrier to entry. One should instead look at the returns on incremental capital, which approach 20% when measured over the last 8 years.

And despite its institutional origins, Cuscal has a history of innovating in payments. It was the first company to roll out an ATM in Australia; it was the first to issue a scheme debit card in the 1980s; it was the first to bring contactless payments to market with Visa Paywave and, as mentioned, it was the first to go live with NPP in 2018.

HD's Valuation of CCL

At the current price of \$2.50⁷, Cuscal's market capitalisation is \$479m, it has excess cash (above regulatory requirements) of \$60m and the company forecast in its Prospectus FY25 NPAT of \$36.6m, up from \$31.4m in FY24 (+16%).

In our view, that puts the stock on a 12.5x PE, and EV/EBITDA of about 7x. This is attractive given the quality of the business, its long-term growth prospects, and in comparison to peers like Fiserv and Jack Henry (20x and 32x PE, respectively).

Our view is that it is worth looking deeper. Cuscal is building an emerging Data business, as the Open Banking regulations in Australia begin to expand to cover other sectors like telco and energy, in a mirror of the UK payments system (the most comparable payments system globally).

This business is early stage, with \$5m of revenue forecast for FY25 and \$12-\$13m of costs, for a negative NPAT contribution of -\$7m. We expect that if the Data business is not profitable in the medium term, Cuscal management will look to divest it. There is optionality around the upside of the Data business should it work.

For this reason, we view it as reasonable to consider the current valuation as offering 10.5x PE for the core business, with the data business 'option' thrown on top.

HD Capital Partners

⁷ As at 10 December 2024

Appendix One

1. The year-to-date performance of Underwood is detailed below:

Table One

UWC Historical Performance - financial year to date						
		30-Jun-23	30-Jun-24	30-Sep-24	31-Oct-24	30-Nov-24
Share price \$	AUD	0.042	0.046	0.054	0.054	0.051
Net Asset Value	AUD	0.0922	0.0933	0.0951	0.0963	0.0907
NTA Post Tax \$	AUD	0.0918	0.0929	0.0947	0.0960	0.0903
NTA Pre Tax \$	AUD	0.1028	0.1037	0.1055	0.1075	0.1023

2. Underwood's investment portfolio is detailed in Table Two:

Table Two

Investment	Cannabis investments 30-Nov-24 AUDm	Non-Cannabis investments 30-Nov-24 AUDm	Total Portfolio Book Value (unaudited) 30-Nov-24 AUDm	Weight	Total Portfolio Book Value (unaudited) 30-Jun-24 AUDm	Weight
Listed investments:						
Delivra Health Brands Inc.	0.0	0.0	0.00	0%	2.1	10%
Portfolio of listed small caps	0.0	7.8	7.76	36%	3.8	17%
Total Listed Investments	0.0	7.8	7.76	36%	5.9	27%
Unlisted investments:						
Weed Me	9.4	0.0	9.36	44%	9.2	42%
Emerging Therapeutics	0.0	0.0	0.00	0%	4.0	18%
Portfolio of unlisted debt securities	0.0	0.3	0.25	1%	0.8	3%
Total Unlisted Investments	9.4	0.3	9.61	45%	13.9	64%
	9.4	8.0	17.37	81%	19.8	91%
Cash	0.0	1.7	1.72	8%	0.3	2%
Receivables from investment divestments	0.5	0.0	0.50	2%	0.8	4%
AAA ETF	0.0	1.9	1.86	9%	0.9	4%
	0.5	3.6	4.08	19%	2.1	9%
Total Portfolio	9.9	11.6	21.45	100%	21.9	100%

Note:

The reference to AAA ETF refers to the investment in higher yielding cash on call deposits via an investment in ASX:AAA.

UWC's investment in Weed Me comprises 4.24m shares representing approximately 13% of Weed Me's issued capital (as at month end, UWC had ascribed to these shares a valuation of CAD2.01 per share).

UWC's investment in Emerging Therapeutics was sold in September 2024

UWC's investment in Delivra was sold in October 2024

3. Valuation of Assets

UWC values its investments by applying the following principles:

- Listed securities – the book value is based on the closing share prices for public companies at period end converted into Australian dollars at the relevant prevailing foreign exchange rates at month-end.
- Unlisted equity securities – Generally, UWC's preference is to value its unlisted investments by applying an Enterprise Value to Net⁸ Revenue Multiple (EV/NRM) provided these valuations are materially consistent with any recent capital raises by the given investee. The Canadian multiple of 1.73 (prior month of 1.95) is derived from the end of month market valuations of various listed Canadian companies, each of which UWC considers to be broadly comparable to Weed Me. The applied multiple represents the average of these multiples which range between 1 and 3.2. UWC also applies a liquidity discount of 15% to the EV/NRM valuation, to account for these investments' unlisted status. In the

⁸ Gross sales less government excise taxes and sales discounts

absence of material historical revenue, the book value is generally based on the most recent material funding round share prices for private companies (converted into Australian dollars at the relevant prevailing foreign exchange rates as necessary). In the absence of a recent capital raise or arm's length transaction, or if intervening events or information suggest that applying one of those valuation metrics is inappropriate, management considers all available information, including benchmarking of instruments to market movements indicated by relevant indices. UWC also considers the recommendations of its investment manager.

The Net Asset Value or NAV is calculated after deducting a provision for company tax on any net unrealised gains that may arise on such theoretical disposal. UWC does not hedge the carrying value of existing investments denominated in non-AUD currencies. UWC's financial statements are subject to statutory audit or review by our independent auditor at 31 December and 30 June each year.

Note:

- a) All information within this release is unaudited unless stated otherwise.
- b) The book value includes shares, convertible notes, options, loans, warrants and accrued interest.

4. Dividend Policy

On 7 June 2019, UWC announced its intention to distribute 20% of its annual profit after tax, after excluding unrealised gains and losses on investments (Annual Profit). The policy was first applied in respect of the Annual Profit for the year ended 30 June 2020. The dividend would be payable within three months of each half year after the completion of the half year and annual financial statements. It is UWC's intention that any dividend would benefit from any available franking credits held by UWC. Currently, UWC does not have a material franking credit balance.

Glossary

ABBREVIATION	Definition
AUD	<i>means Australian dollars.</i>
ASX	<i>means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.</i>
ASX Listing Rules	<i>means the Listing Rules of ASX.</i>
CAD	<i>means Canadian dollars.</i>
Company or UWC	<i>means Underwood Capital Limited (ACN 601 236 417).</i>
EBITDA	<i>means Earnings before Interest, Tax, Depreciation and Amortisation.</i>
IPO	<i>Initial public offering of securities on a recognised securities exchange.</i>
NAV	<i>means net asset value.</i>
Option	<i>means an option to acquire a Share usually at predetermined price.</i>
Share	<i>means a fully paid ordinary share in the capital of a company.</i>
Shareholder	<i>means a registered holder of a Share.</i>
USD	<i>means United States dollars.</i>