

## SEC Results FY20

### Summary

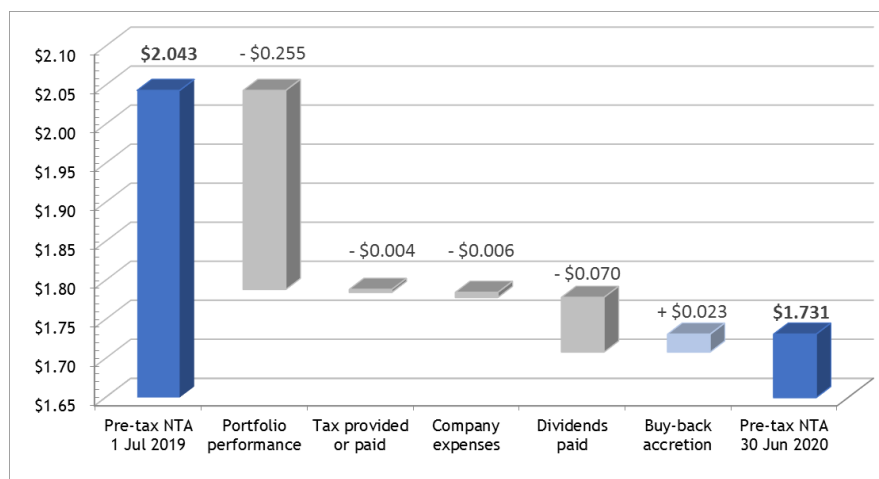
FY20 loss	Company Performance <sup>1</sup>	Final dividend	Yield
<b>(\$10.8m)</b>	<b>-12.0%</b>	<b>2.5c</b>	<b>4.3%<sup>2</sup></b>

- **FY20 net loss after tax of \$10.8m**
- **Final dividend of 2.5 cents per share (fully franked). Annual dividend yield equal to 4.3%<sup>2</sup> (6.1% including franking)**
- **Company Performance of -12.0%**
- **On-market share buy-back of \$7.5m completed adding 2.3c NTA per share**
- **Strong Company performance since 1 July 2020 with NTA per share up 11.2%<sup>3</sup>**

Spheria Emerging Companies Limited (**ASX:SEC** or the **Company**) recorded an operating loss of \$10.8m for the year ended 30 June 2020 (**FY20**). While the Company's investment process is well positioned to endure the current market volatility resulting from the COVID-19 pandemic, the economic consequences of the pandemic have impacted the Company's profitability this financial year.

Company Performance, which includes the impact of tax on realised gains and other earnings of the portfolio, was -12.0% for the year when adjusted for dividends paid. The Company's investment portfolio performance was -12.3%, which was 5.7% below benchmark.

### NTA performance breakdown for FY20



<sup>1</sup> Calculated as movement in Company's pre-tax net tangible assets (NTA), which includes tax on realised gains/losses and other earnings, but excludes any provision for tax on unrealised gains/losses, adjusted for dividends paid by the Company.

<sup>2</sup> Annualised dividend yield when combined with FY20 interim dividend of 3.0 cents per share, calculated on share price as at 30 June 2020 of \$1.29.

<sup>3</sup> Based on estimated NTA at 27 August 2020 (last published) of \$1.925.

## Final dividend

The Board has resolved to pay a fully franked final dividend of 2.5 cents per share. The dividend will be paid to SEC shareholders on 23 September 2020 with a record date of 9 September 2020. When combined with the interim FY20 dividend of 3.0 cents per share paid in March 2020, this equates to an annualised dividend yield of 4.3%<sup>2</sup> or a grossed-up yield including franking of 6.1%<sup>2</sup> based on the share price at 30 June 2020. The Company's intention is to pay a dividend to shareholders at least annually, subject to available profits, cash flow and franking credits.

Dividend ex-date	Record date	Payment date
8 September 2020	9 September 2020	23 September 2020

## Discount to NTA

At 27 August 2020<sup>4</sup>, SEC shares were trading at a 21.6%<sup>5</sup> discount to estimated pre-tax NTA (\$1.925 per share). The Board acknowledges this unsatisfactory position and remains committed to addressing the discount to NTA. It is noted however, that SEC is not in a unique position and the majority of Australian small-cap equity LICs on the ASX are currently trading at similar discounts to SEC.

During the year the Company commenced reporting estimated pre-tax NTA on a daily basis and included monthly disclosure on the Company's top ten holdings, in order to improve shareholder transparency on the Company's investment portfolio.

As announced on 31 March 2020, the Company also committed to expand the on-market share buy-back as its primary discount control mechanism. In that same announcement, in anticipation of sector consolidation of sub-scale small-cap LICs, the Board undertook a project to assess the opportunities for the Company to acquire other small-cap equity LICs in order to achieve additional scale. Following that assessment, the Board has determined that any such acquisitions are either not feasible or not in the best interests of SEC shareholders. In addition, the Board has determined that achieving greater scale by raising capital is also not in the best interests of SEC shareholders at the moment given the current share price discount to NTA.

The Board is continuing to explore the full range of possible solutions to improve the discount to NTA to ensure the future success of the Company. Having considered but rejected for the time being the opportunities mentioned above to achieve greater scale, the Board is now focused on:

1. A further expansion of the on-market share buy-back as noted below
2. Active review of any emerging best practice initiatives implemented to address share prices trading at discounts to NTA including those used in overseas listed investment company markets.

The Board will update shareholders in due course in relation to the above.

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<sup>4</sup> Date of last published NTA backing

<sup>5</sup> Share price close at 27 August 2020 of \$1.51

### **On-market share buy-back**

On 24 June 2019, the Company announced an on-market share buy-back to purchase up to \$5 million worth of shares during the 12-month period commencing 1 July 2019. On 31 March the Company increased the \$5 million limit to \$7.5 million worth of shares.

During the period ended 30 June 2020, 4,379,150 shares had been purchased under the buy-back for total consideration of \$6,718,000. A further 576,830 shares have been purchased since period end bringing the total shares purchased under the buy-back to 4,995,980 for total consideration of \$7,500,000.

The Board has decided to further expand the on-market share buy-back and, under their current buy-back authority, intend to purchase up to a further 1,576,945 shares to take the total buy-back to 10% of the shares on issue.

### **Investment by the Manager**

As at 30 June 2020, the aggregate holding in SEC of the Manager and executives of the Manager (who are not acting in concert with each other) was in excess of 775,000 shares. The Manager is committed to being a long term investor in the Company.

### **Shareholder webinar on results and portfolio**

The Board invites you to the upcoming shareholder webinar on 7<sup>th</sup> September 2020 at 10.30am (Sydney time AEDT). The webinar will provide an update on the Company by Jonathan Trollip, Chairman of the Company and on the investment portfolio by Matthew Booker and Marcus Burns, the portfolio managers of Spheria Asset Management Pty Ltd.

Shareholders are invited to register at the following link:

[https://pinnacleinvestment.zoom.us/webinar/register/WN\\_ynoJNiv1Q328qcUL-5CxNQ](https://pinnacleinvestment.zoom.us/webinar/register/WN_ynoJNiv1Q328qcUL-5CxNQ)

### **Authorised by:**

Calvin Kwok  
Company Secretary  
31 August 2020

## Additional shareholder information

### Performance as at 30 June 2020

	Since 1 July 2019	Since inception p.a.
<b>Company*</b>	<b>-12.0%</b>	<b>-2.9%</b>
<b>Portfolio**</b>	<b>-12.3%</b>	<b>-1.9%</b>
<b>Benchmark***</b>	<b>-5.7%</b>	<b>+1.4%</b>
<b>Portfolio Outperformance</b>	<b>-6.6%</b>	<b>-3.3%</b>

\*Calculated as movement in Company's pre-tax NTA, which includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses, adjusted for dividends paid by the Company.

\*\*Shows how the portfolio, for which the Manager is responsible, has performed after deducting management fees, costs and taxes and performance fees (if applicable).

\*\*\* S&P/ASX Small Ordinaries Accumulation Index.

## Manager's commentary

### Portfolio performance

The investment portfolio decreased 12.3% for the twelve-month period ending 30 June 2020, underperforming the S&P/ASX Small Ordinaries Accumulation Index by 6.6%. The past twelve months have been dominated by the impact and reaction to COVID-19 and the subsequent actions of many Central Banks globally. Governments and Central Banks have acted to protect economies and preserve jobs whilst seeking to protect their citizens from the worst impacts of COVID-19. This has entailed substantial government stimulus in Australia and further rate cuts coupled with so-called unconventional monetary policy (the purchasing of Australian Government Bonds by the Reserve Bank of Australia).

The fallout from the COVID-19 lockdowns has been felt unevenly across the economy with the Tourism and Leisure and property sectors experiencing the most negative effects. Consumer spending has received a temporary boost from Job keeper, early access to Superannuation savings and a substitution away from banned services like travel. On the business level too the effects here have varied with some businesses qualifying for Job Keeper gaining a reduction in costs whilst others have failed to qualify for this benefit. In short the impacts have created a lot of "noise" in the numbers and investors should be careful about over-capitalising these shorter term trends when we expect a degree of normalising to occur once semi-normal societal movement recommences.

We continue to hold steadfastly to the view that cash flows determine the underlying value of a business and thus the underlying company share prices. Nevertheless in the shorter term other investment mantras appear to have held sway with an abundance of liquidity and a cut in rates spurring momentum and high growth stocks to even loftier heights. Whilst our intention has always been to remain open to so called growth and value stocks we try to adhere to a philosophy underpinned by valuation which hasn't found favour in the shorter term.

The three largest contributors to portfolio performance during the year were City Chic (CCX), Breville Group (BRG) and Pandal Group (PDL) while the three largest detractors that we owned were Seven West Media (SWM), A2B Australia (A2B), and Monadelphous (MND).

## Market outlook

Markets have been dominated by the actions of Central banks and Government macro economic policies to alleviate the worst economic impacts of COVID-19. Whilst markets have recovered from the low point in late March, many sectors have lagged the recovery and continue to offer reasonable long term opportunities in our view. These include travel related shares, tourism and leisure stocks and the more cyclical areas of the economy. In addition, the relative absence of corporate activity has left many smaller market cap shares behind in the rally. Many of these are trading on incredibly depressed cash flow multiples and are likely to be the beneficiary of corporate activity if the market continues to ignore their prospects.

## About Spheria Asset Management Pty Ltd (Manager)

Spheria Asset Management Pty Ltd is a fundamental-based investment management firm with a bottom-up focus, specialising in small- and micro-cap companies, which can provide higher returns in the long term than their larger peers.

The Manager is majority owned by its team with nearly 100 years of combined investment experience. The Manager's performance culture is underpinned by sensible incentives, a focused offering and the outsourcing of non-investment functions to minority partner Pinnacle Investment Management Limited.

## COVID-19 Impact

The Manager has a well-defined business continuity plan (BCP) and policies consistent with the BCP were utilised from Mid-March when the COVID-19 pandemic looked to be potentially placing staff and business operations at risk. The team had the choice of working remotely for over 6 weeks with daily calls between team members to continue communication. Our systems have been enabled to move to the cloud and the use of MS Teams and Zoom calls enabled continued analytical coverage of the Company's investments. Spheria is and remains a well-capitalised business and even at the market depths in late March team morale remained solid.

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