

# SPECIALIST SMALL COMPANIES INVESTMENT MANAGER

December 2015



GLENNON CAPITAL

# IMPORTANT INFORMATION

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# AGENDA

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1. ABOUT GLENNON CAPITAL
2. GLENNON SMALL COMPANIES LIMITED (ASX:GC1)
3. HOW TO EXERCISE YOUR OPTIONS
4. TRENDS IN THE MARKET
5. INVESTMENT PORTFOLIO
6. PERFORMANCE
7. STAY IN TOUCH
8. QUESTIONS

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# ABOUT GLENNON CAPITAL

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# ABOUT GLENNON CAPITAL

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- Established in 2008 as a specialist small companies investment manager
- Focused on finding value in small listed companies
- Undertake our own research
- Extensive experience investing in small companies, along with extensive industry contacts
- Only invest in quality businesses. Investing is as much about avoiding the disasters as picking the winners. We have avoided most of the major issues to impact small caps
- We back our own investment decisions and have our own funds invested alongside our client's funds

# INVESTMENT PHILOSOPHY

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- 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 price tends to better reflect publicly available information
- Smaller companies are not subject to the same structural information flows, providing greater opportunities to find value
- 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 that we are buying businesses and that we are an owner of the business

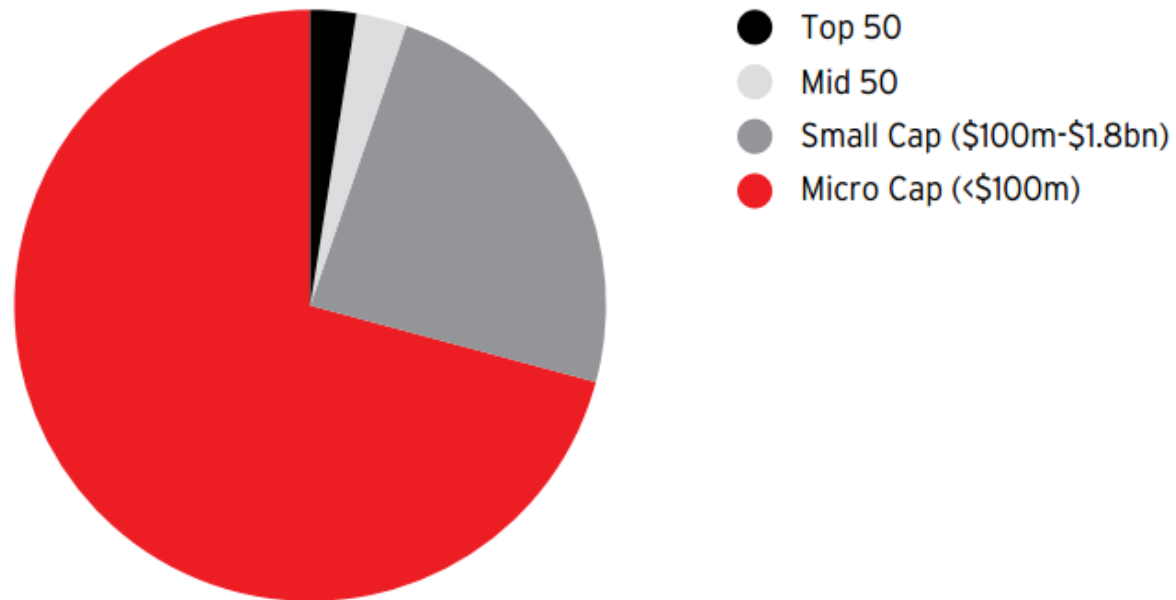
# MARKET CHARACTERISTICS

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## Number of Listed Companies on the ASX

Number of Listed Companies on the ASX

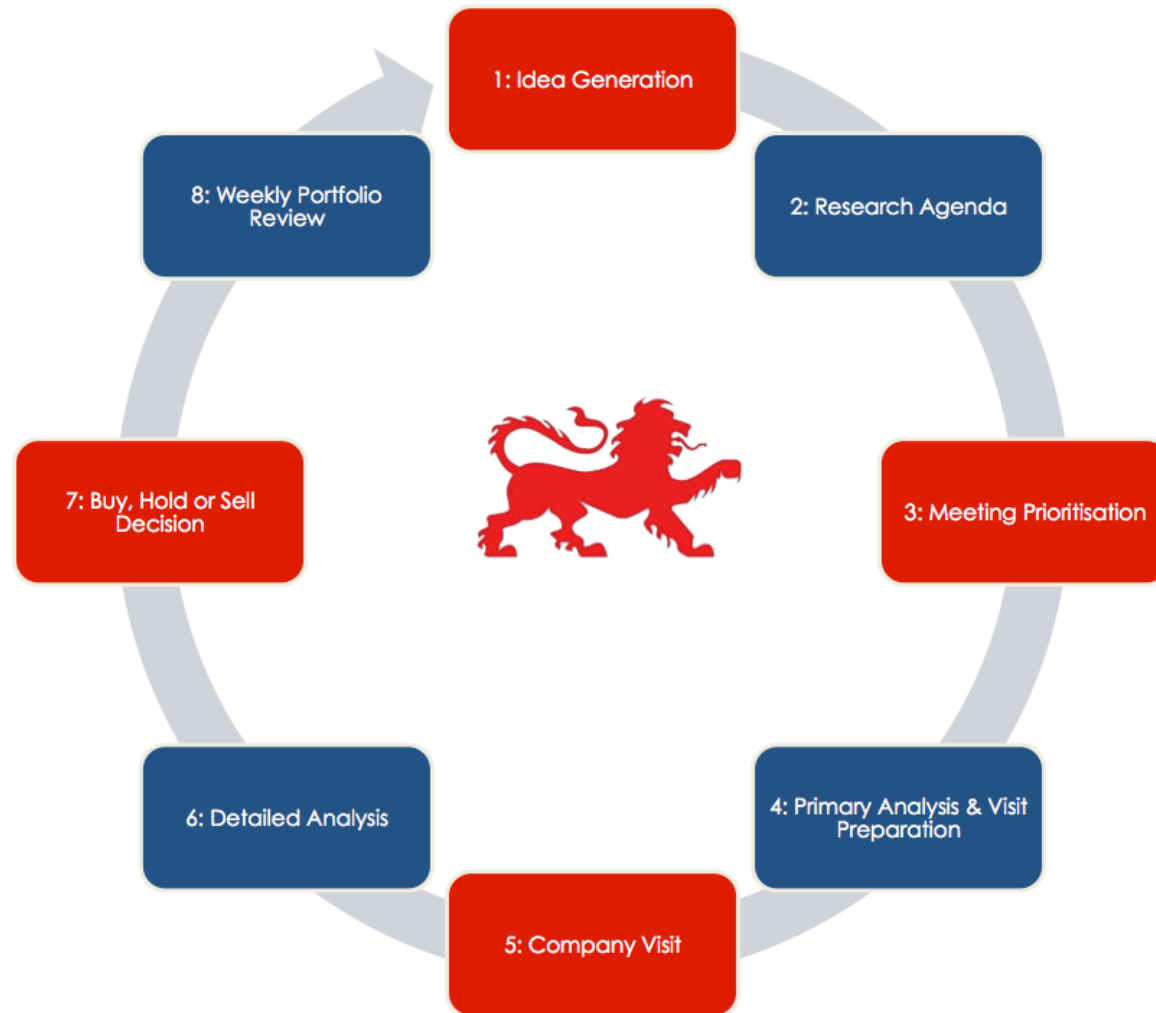
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Source: IRESS 8 May 2015

# INVESTMENT PROCESS

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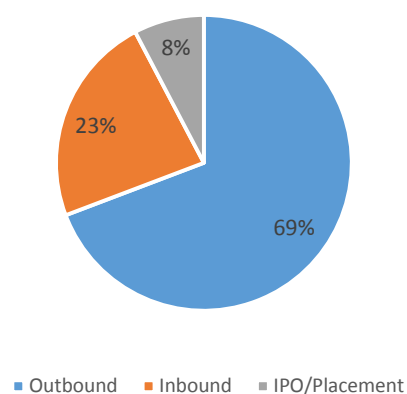




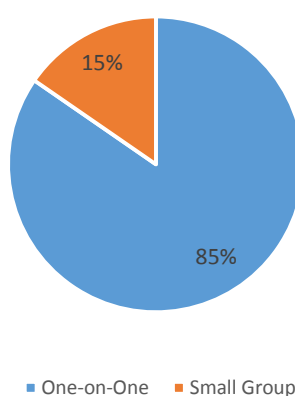
# COMPANY VISITS

- We have met with 39 companies in the last month

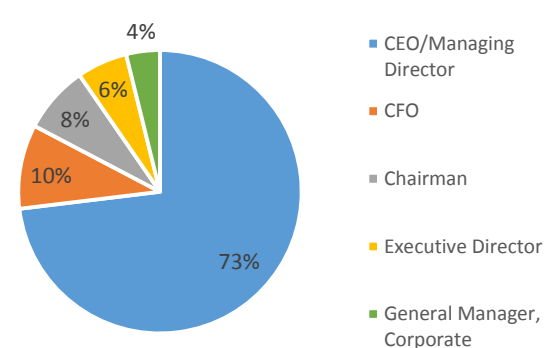
**Proactively organising...**



**...one-on-one meetings...**



**...with senior management**



- Examples of some of the companies we have seen

Capilano Honey	CZZ
1300 Smiles	ONT
Senex Energy	SXY
Lynas Corporation	LYC
Watpac	WTP

The Reject Shop	TRS
OTOC	OTC
Metals X	MLX
HFA Holdings	HFS
Austal	ASB

# INVESTMENT TEAM

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## **Michael Glennon**

### **MD & Portfolio Manager**



- 17+ years experience in financial markets
- 15+ years as a specialist small cap manager
- IMCA/Money Management Fund Manager of the Year Award
- Managed a Listed Investment Company as well as portfolios for public superannuation funds, family offices, financial planner clients, insurance companies, charities and other professional investors
- Demonstrated ability to add alpha

## **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, Atom Funds, Eight Investment Partners and Sky Funds Management
- Demonstrated ability to add alpha



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# GLENNON SMALL COMPANIES LIMITED (ASX:GC1)

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# GLENNON SMALL COMPANIES LIMITED

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## ASX:GC1 & ASX:GC10

- Invests in 20 to 60 Australian small listed companies
- Michael Glennon is the second largest investor
- 785 shareholders at 31 August 2015
- Platform availability: Netwealth, HUB24, Macquarie Wrap, Asgard, & FirstWrap (pending approval)
- High conviction approach, with specialist knowledge and extensive small companies network
- “Recommended” by Independent Investment Research
- Directors: Michael Glennon, Garry Crole, John Larsen
- Auditors: Pitcher Partners



Source: Independent Investment Research (IIR)

# GLENNON SMALL COMPANIES LIMITED

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NTA pre tax (31/10/15)	<b>101.56c</b>
Deferred tax liability (31/10/15)	(1.42)c
NTA after tax (31/10/15)	<b>100.14c</b>
Shares ASX Code	<b>GC1</b>
Share Price (7/12/15)	<b>98c</b>
Discount to NTA (pre-tax)	<b>3.5%</b>
Shares on issue	<b>21,687,114</b>
Market Capitalisation	<b>\$21.3m</b>
Options ASX Code	<b>GC1O</b>
Options on issue	<b>21,687,114</b>
Option Expiry	<b>18<sup>th</sup> August 2016</b>

# GC1 PORTFOLIO CHARACTERISTICS

## Characteristics at 31-Oct-15

Number of Equity Holdings	<b>33</b>
Cash Balance	<b>35.8%</b>
Median Market Capitalisation	<b>\$387</b>

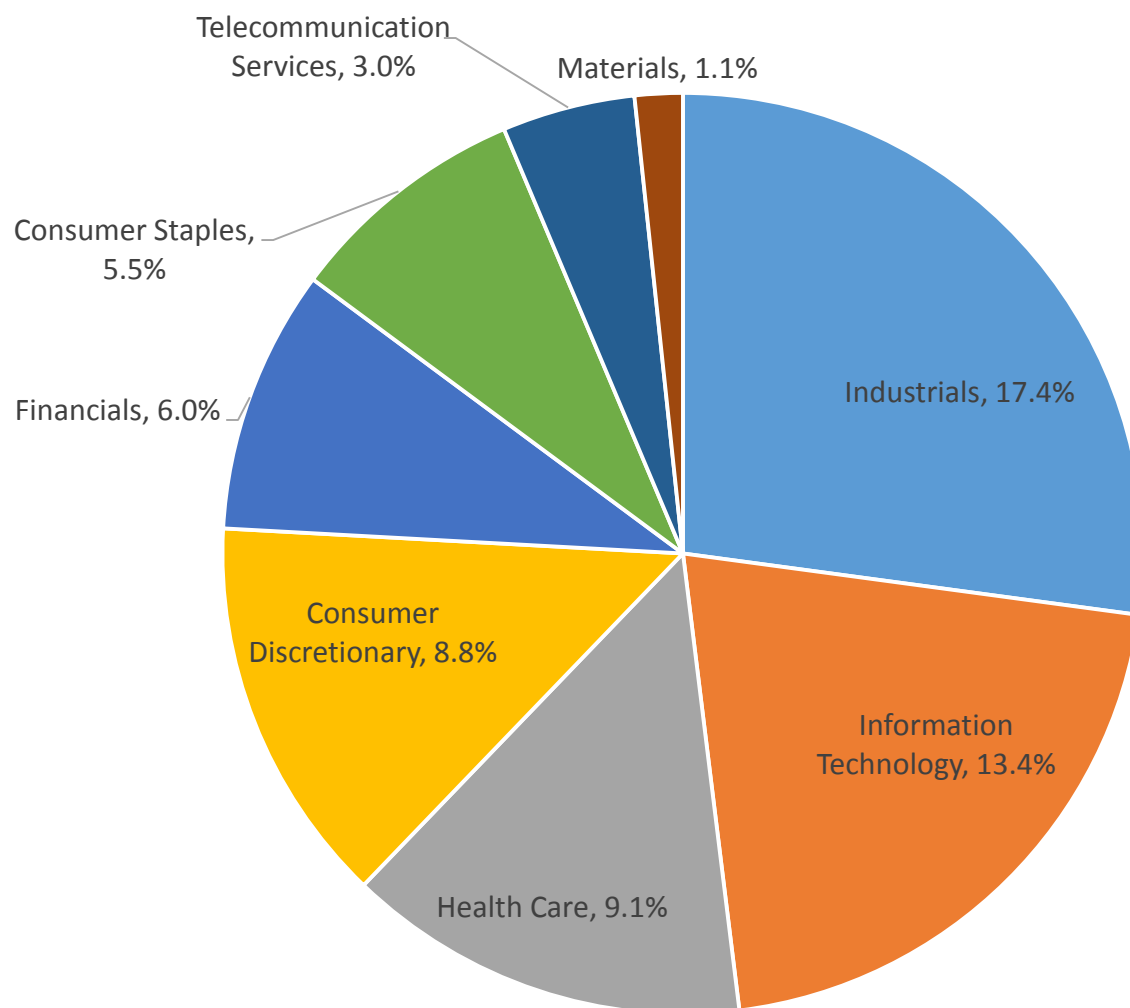
## Top Five Holdings at 31-Oct-15

SIV	Silver Chef	<b>4.92%</b>
SRX	Sirtex Medical	<b>4.20%</b>
APO	APN Outdoor	<b>3.53%</b>
IPH	IPH Limited	<b>3.50%</b>
SHV	Select Harvest	<b>3.41%</b>



# GC1 PORTFOLIO CHARACTERISTICS

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# BEST 5 PERFORMING STOCKS

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Company	Mkt Cap \$m	Return
Coffey	106	185.9%
IPH Group	1467	55.6%
BWX Limited	254	51.5%
APN Outdoor	900	49.2%
Capilano Honey	188	38.8%



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# HOW TO EXERCISE YOUR OPTIONS

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# EXERCISING YOUR OPTIONS

## NOTICE OF EXERCISE OF OPTION

To: Glennon Small Companies Limited, C/- Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001

I/We

Name of Option holder/s (Please use block letters)

Registered address of Option holder/s (Please use block letters)

hereby exercise my options to apply for .....  
(number in words) (in figures)

fully paid ordinary shares in the capital of Glennon Small Companies Limited and I/we enclose my/our cheque for \$.....  
in payment of such shares at \$1.00 per option subscription. I/we request that you allot me/us on the share register the number of  
shares to which I am/we are entitled and I/we agree to accept such shares subject to the Company's Constitution.

### PLEASE SIGN HERE:

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director & Sole Company Secretary

Director

Director / Company Secretary

Business Telephone No. ( ) Date

## Terms of Options Glennon Small Companies Limited

### Entitlement

Each Option entitles the Option holder to subscribe for one Share.

### Certificate

The Company must give each Option holder a certificate or holding statement stating:

- the number of Options issued to the Option holder;
- the exercise price of the Options; and
- the date of issue of the Options.

### Issue price

No amount is payable on issue of the options.

### Exercise price

The exercise price of each option is AS\$1.00.

### ASX Quotation

The Company will apply to ASX for official quotation of the Options and the Shares issued on exercise of Options.

### Transfer/transmission

An Option may be transferred or transmitted in any manner approved by ASX.

### Exercise

An Option may be exercised by delivery to the Company of a duly completed exercise notice, signed by the registered holder of the Option, together with payment to the Company of \$1.00 per Option being exercised and the relevant option certificate. An optionholder may only exercise options in multiples of 1,000 unless the optionholder exercises all options held by the optionholder.

### Exercise period

Each option may be exercised at any time before 5pm on the one year anniversary of the date of issue of the Options (End Date). An option not exercised, automatically expires at 5pm on the End Date.

### Dividend entitlement

Options do not carry any dividend entitlement (only the Shares to be issued on exercise of the Options carry a dividend entitlement). Shares issued on exercise of Options rank equally with other issued Shares from their date of issue.

### Participating rights

For determining entitlements to the issue, an Option holder may only participate in new issues of securities to holders of Shares if the Option has been exercised and Shares allotted in respect of the Option before the record date.

If the Company makes a pro rata issue of Shares (except a bonus issue) to existing shareholders (except an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Share has been issued in respect of the option before the record date for determining entitlements to the issue, the exercise price of each option is reduced in accordance with the ASX Listing Rules. Currently the Listing Rules provide that the exercise price of Options on issue will be reduced in respect of each rights issue according to the following formula:

$$NE = OE - \frac{EP(S + D)}{(N + 1)}$$

where:

NE = is the new exercise price of the Option;

OE = is the old exercise price of the Option;

E = is the number of underlying Shares into which one Option is exercisable;

P = is the volume weighted average market price per security of the underlying securities, calculated over the

S trading days ending on the day before the ex-rights date or ex entitlements date;

S = is the subscription price for a Share under the rights issue;

D = is the dividend due but not yet paid on each Share at the relevant time; and

N = is the number of Shares that must be held to entitle holders to receive a new Share in the rights issue.

### Bonus issue

If the Company makes a bonus issue of Shares or other securities to shareholders (except an issue in lieu of dividends or by way of dividend reinvestment) and no Share has been issued in respect of the Option before the record date for determining entitlements to the issue, then the number of underlying Shares over which the option is exercisable is increased by the number of Shares which the Option holder would have received if the Option holder had exercised the Option before the record date for determining entitlements to the issue. If there is a reorganisation (including consolidation, sub-division, reduction or return) of the Share capital of the Company, then the rights of the Option holder (including the number of Options to which each Option holder is entitled to and the exercise price) is changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

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To: Glennon Small Companies Limited, C/- Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001

I/We

Name of Option holder/s (Please use block letters)

Registered address of Option holder/s (Please use block letters)

hereby exercise my options to apply for .....  
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fully paid ordinary shares in the capital of Glennon Small Companies Limited and I/we enclose my/our cheque for \$.....  
in payment of such shares at \$1.00 per option subscription. I/we request that you allot me/us on the share register the number of  
shares to which I am/we are entitled and I/we agree to accept such shares subject to the Company's Constitution.

### PLEASE SIGN HERE:

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director & Sole Company Secretary

Director

Director / Company Secretary

Business Telephone No. ( ) Date



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# TRENDS IN THE MARKET

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# DOMESTIC GROWTH IS SLOW

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- Depressed commodity prices. Resources companies are looking to sell assets and put marginal producing mines on care and maintenance.
- Eastern seaboard industrial companies were already slow and in the short term reduced interest rates have not had the stimulatory effect that was expected. Low rates are stimulatory but there is a lagged impact. Australia reduced rates a long time after the US and as such will return to higher growth levels after the impact of low rates filters through the economy.
- Interest rates will stay low for the medium term. This environment will be very positive for growth in the long term.
- Banks and other top 100 stocks will struggle gaining extra market share and this may result in dividend pressure in absolute terms.
- The tide is not rising. It's a stockpicker's market.

# DISRUPTION IS A GROWING THREAT

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- Disruption is changing the way that companies do business.
- Happening across all industries, especially:
  - Telcos (WhatsApp, WeChat)
  - Media (IPP, Carsales, Realestate.com.au)
  - Retail (Surfstich, The Iconic, Ebay, Alibaba)
  - Travel (Webjet, BYOjet, Flight Centre)
  - Professional services (Xero, MYOB, Reckon)
  - Food (Dominos, HelloFresh)
  - Insurance (iSelect, Comparethemarket)
- It is more of a challenge for the incumbent companies to take the initiative than to wait and lose market share. Means that Boards need to be better at understanding disruption in their market and more accepting of new technology, or be forced to acquire it. This has massive implications for valuations.
- HOWEVER, not all self proclaimed disruptive companies will succeed, or ever make a profit. This looks slightly like 1999. The new paradigm is EV/Sales. THIS CONCERNS US!!!

# CHINA DIVERSIFYING

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- While China's rate of growth has slowed, it is still considerably bigger than it was last year, and the year before that. While the US is still the largest economy in terms of GDP, China is the largest in terms of incremental growth contribution.
- There are more consumers in China earning higher wages, moving beyond subsistence living and spending more on lifestyle and health. China was the second largest export destination for Australian food, accounting for 10% of the total Australian food export by value.
  - Blackmores
  - BWX / Sukin
  - Bellamy's
- Demand for high quality and value-added Australian food, such as red meats, infant formula milk, seafood, wine, dairy products is and will be strong in the future.
- We are seeing more Chinese activity in the domestic market as the Chinese look to diversify their assets beyond their domestic economy. Property has been a big beneficiary.
- We have also seen increased interest from Chinese companies wanting to buy Australian agricultural assets:
  - S Kidman & Co
  - Van Diemen's Land Company

# TAKEOVER ACTIVITY INCREASING

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- There will be increased takeover activity in the small end of the market. As larger companies struggle to grow in their existing markets they will look for acquisitions that provide them with access to new markets, or provide them with greater market share in their existing market.
- The lower \$AUD makes Australian companies more appealing to offshore companies, especially if the Australian company has offshore earnings.
- In the short term we expect there to be more M&A activity in the small and micro cap segment
  - Equity Trustees / Diversa
  - Ilnet / TPG
  - M2 / Vocus
  - Coffey / Tetra Tech
  - Broadspectrum (Transfield) / Ferrovial
  - IPP / Realesate.com.au
  - Veda / Equifax
  - HUB24 / IOOF

# FLOOD OF IPOs & CAPITAL RAISINGS

Company	Proposed ASX code *	Proposed listing date/time
<a href="#">Absolute Equity Performance Fund Limited</a>	AEG	16 December 2015 #
<a href="#">Abundant Produce Limited</a>	ABT	10 December 2015 #
<a href="#">AFT Pharmaceuticals Limited</a>	AFP	22 December 2015 #
<a href="#">Alphatise Limited</a>	APT	14 January 2016 #
<a href="#">ALT Resources Limited</a>	ARS	TBA
<a href="#">Apiam Animal Health Limited</a>	AHX	17 December 2015 #
<a href="#">ApplyDirect Limited</a>	AD1	22 December 2015 #
<a href="#">Bitcoin Group Limited</a>	BCG	20 January 2016 #
<a href="#">BuildingIQ Inc</a>	BIQ	17 December 2015 #
<a href="#">China Dairy Corporation Limited</a>	CDC	15 January 2016 #
<a href="#">Class Limited</a>	CL1	16 December 2015
<a href="#">Dipomatic Group Limited</a>	DMC	16 December 2015 #
<a href="#">Ding Sheng Xin Finance Co. Limited</a>	DXF	TBA
<a href="#">Global Fortune Investment Limited</a>	GFI	TBA
<a href="#">Golden Eagle Mining Ltd</a>	GEE	TBA
<a href="#">Henry Morgan Limited</a>	HML	24 December 2015 #
<a href="#">iCandy Interactive Limited</a>	ICI	TBA
<a href="#">I/F Group Limited</a>	IGL	16 December 2015 #
<a href="#">Jayex Healthcare Limited</a>	JHL	11 December 2015 #
<a href="#">JC International Group Limited</a>	JCI	14 December 2015 #
<a href="#">Kingsland Global Ltd</a>	KLO	11 December 2015
<a href="#">Koolsee New Media Group Limited</a>	KMA	21 December 2015
<a href="#">McGrath Limited</a>	MEA	7 December 2015 12:00 PM EDT #
<a href="#">Megaport Limited</a>	MP1	17 December 2015 #
<a href="#">Mikro-X Limited</a>	MX1	22 December 2015 #
<a href="#">Novatti Group Limited</a>	NOV	12 January 2016 #
<a href="#">PSC Insurance Group Limited</a>	PSI	15 December 2015 #
<a href="#">Real Estate Investor Group Limited</a>	REV	15 December 2015
<a href="#">Recce Limited</a>	RCE	TBA
<a href="#">River Rock Energy Limited</a>	RRR	14 January 2016 #
<a href="#">Soon Mining Limited</a>	SMG	TBA
<a href="#">Temple &amp; Webster Group Ltd</a>	TPW	10 December 2015 #
<a href="#">Tesserent Limited</a>	TNT	19 February 2016 #
<a href="#">TopBeta Holdings Limited</a>	TBH	11 December 2015 #
<a href="#">Total Face Group Limited</a>	TFG	7 December 2015 #
<a href="#">Updater Inc.</a>	UPD	7 December 2015 11:00 AM EDT #
<a href="#">Vectus Biosystems Limited</a>	VBS	22 December 2015 #
<a href="#">Wellard Limited</a>	WLD	10 December 2015 #
<a href="#">Wonhe Multimedia Commerce Ltd</a>	WMC	TBA



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# INVESTMENT PORTFOLIO

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# THE REAR VIEW MIRROR – WHAT WE GOT RIGHT

## FSA GROUP LIMITED (ASX:FSA)

<b>Overview</b>	<ul style="list-style-type: none"> <li>▪ Provider of debt solutions and direct lending services to individuals and businesses in Australia.</li> <li>▪ FSA has three business divisions, namely Services, Home Loans and Small Business.</li> </ul>
<b>Then</b>	<ul style="list-style-type: none"> <li>▪ Trading on a PER of 8x</li> <li>▪ Share Price \$0.37</li> <li>▪ MktCap \$46m</li> </ul>
<b>Thesis</b>	<ul style="list-style-type: none"> <li>✓ The company was initially hamstrung post GFC because it was unable to secure finance as it fell into the subprime category.</li> <li>✓ However we felt comfortable with management and the risks and saw upside when credit markets re-opened.</li> </ul>
<b>Now</b>	<ul style="list-style-type: none"> <li>▪ Trading on a FY16 PER of 9x</li> <li>▪ Share price \$1.09</li> <li>▪ MktCap \$136m</li> </ul>



# THE REAR VIEW MIRROR – WHAT WE GOT RIGHT

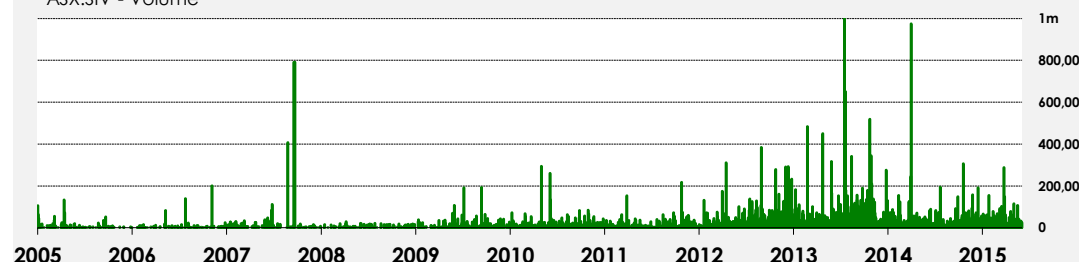
## SILVER CHEF LIMITED (ASX:SIV)

<b>Overview</b>	<ul style="list-style-type: none"> <li>Provides equipment funding to small to medium sized businesses in different sectors.</li> <li>The Company operates two segments namely Hospitality and GoGetta.</li> <li>Both divisions offer an equipment funding solution through the Rent-Try-Buy and Rent-Grow-Own solutions</li> </ul>
<b>Then</b>	<ul style="list-style-type: none"> <li>Trading on a PER of 10x</li> <li>Share Price \$3.80</li> <li>M.Cap \$77m</li> </ul>
<b>Thesis</b>	<ul style="list-style-type: none"> <li>✓ Good management team</li> <li>✓ The company was able to take advantage of the exit from Australia of the large finance companies like GE finance and at the same time the withdrawal by the bank owned finance companies.</li> <li>✓ The company has capitalised on this opportunity and been successful in adding new products.</li> </ul>
<b>Now</b>	<ul style="list-style-type: none"> <li>Trading on a FY16 PER of 15.3x</li> <li>Share Price \$8.88</li> <li>M.Cap \$280m</li> </ul>

ASX:SIV - Share Price



ASX:SIV - Volume



# THE WINDSHIELD LOOKING FORWARD – WHAT WE LIKE

## IPH LIMITED (ASX:IPH)

<b>Overview</b>	<ul style="list-style-type: none"> <li>An intellectual property services firm.</li> <li>IPH offers a wide range of services for the protection, commercialisation, enforcement, and management of intellectual property.</li> <li>It provides patent and design, trademarks and legal services across Australia, New Zealand, the Pacific Islands and Asia.</li> </ul>
<b>Then</b>	<ul style="list-style-type: none"> <li>Listed on in Nov 2014</li> <li>Trading on a PER of 12.6x</li> <li>Share Price \$2.10</li> <li>M.Cap \$330m</li> </ul>
<b>Thesis</b>	<ul style="list-style-type: none"> <li>✓ Initially we liked this company because of strong management and high barriers to entry.</li> <li>✓ Over a short timeframe the market is recognising this.</li> <li>✓ The company has the ability to consolidate the sector which is appealing.</li> </ul>
<b>Now</b>	<ul style="list-style-type: none"> <li>Trading on a FY16 PER of 28.2x</li> <li>Share price \$8.46</li> <li>M.Cap \$1.45b</li> </ul>



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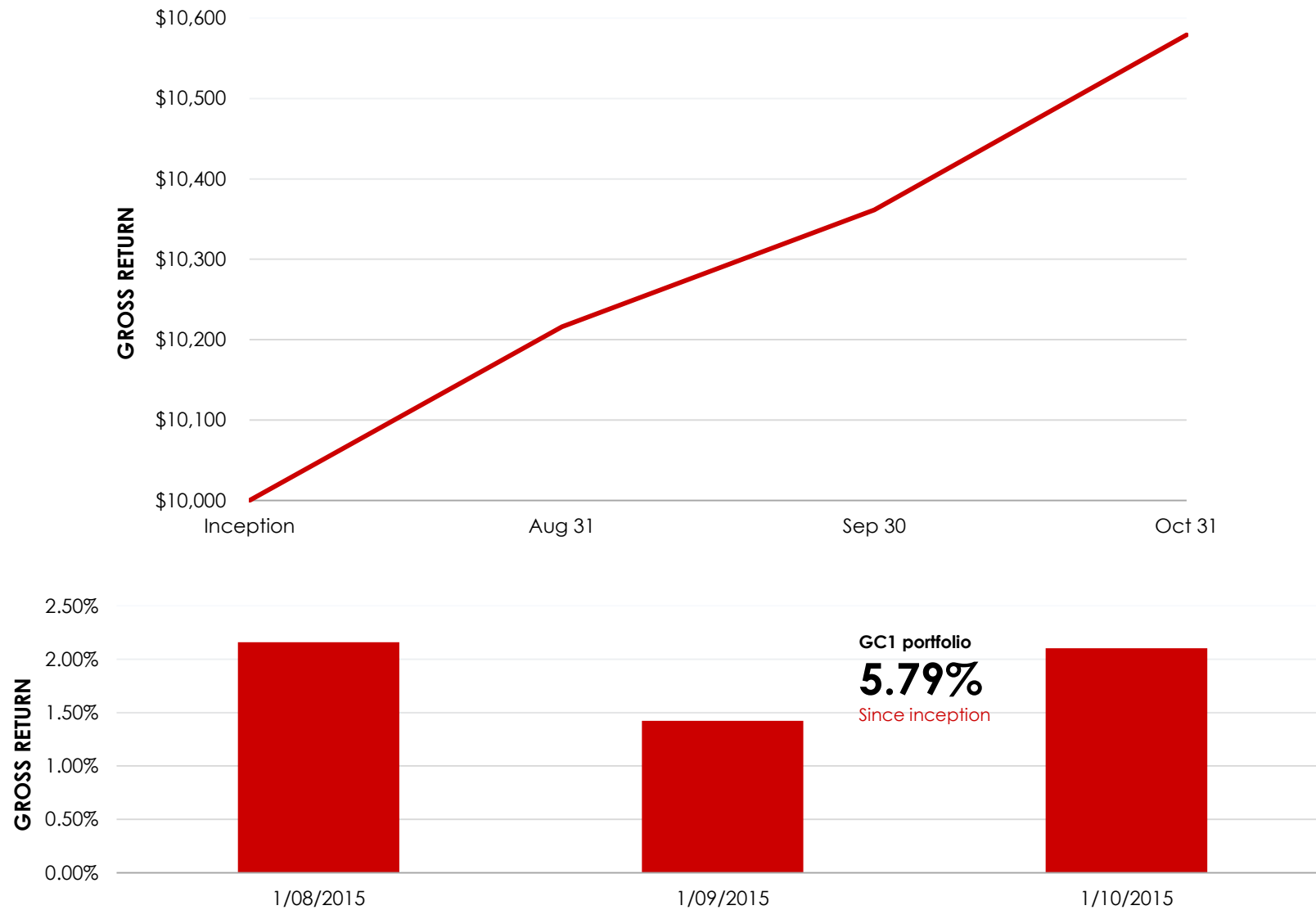
# PERFORMANCE

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# PERFORMANCE



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# STAY IN TOUCH

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# WHERE WE ARE

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## Social Media



[www.youtube.com/user/GlennonCap](http://www.youtube.com/user/GlennonCap)



<http://www.linkedin.com/company/glennon-capital>



[www.glennon.com.au](http://www.glennon.com.au)



[www.facebook.com/glennoncapital](http://www.facebook.com/glennoncapital)



[www.glennon.com.au](http://www.glennon.com.au)



[www.twitter.com/misterglennon](http://www.twitter.com/misterglennon)

## Independent Coverage

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## Australian Securities Exchange



[www.glennon.com.au](http://www.glennon.com.au)



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# CONTACT INFORMATION

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Chairman & MD

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Portfolio Manager

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## QUESTIONS

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