SEC Results FY24

FY24 Profit	Company Performance[1]	Dividends[2]	Yield	Yield (including franking)
$7.6m	6.9%	12.0c	5.4%[3]	7.7%[4]

- **FY24 net profit after tax of $7.6m**
- **Company Performance of 6.9%, -2.4% compared to benchmark[5] of 9.3% (+1.9% p.a. to benchmark since inception)**
- **Total quarterly dividends declared for the year of 12.0 cents per share (fully franked)[2]**
- **Includes increased quarterly dividend target of 1.5% of post-tax NTA for the June 2024 quarter, equivalent to 3.4 cents per share (fully franked)**
- **Trailing dividend yield equal to 5.4%[3] (7.7%[4] including franking)**
- **Conditional proposal to exchange shares in SEC for units in Spheria Australian Smaller Companies Fund announced**
- **Shareholder webinar on results and portfolio**

Performance

We are pleased to announce that Spheria Emerging Companies Limited (ASX:SEC) (**Company**) recorded a profit of $7.6m for the year ended 30 June 2024 (**FY24**). This compared to a profit of $9.6m in the prior year. Markets continued to improve as inflation eased from its post-COVID highs, reflected by the S&P/ASX Small Ordinaries Accumulation Index benchmark increasing 9.3% over the period.

During the year Company Performance, which comprises investment portfolio performance after deducting investment management fees and Company administration expenses (excluding taxes), was 6.9%. This was 2.4% lower than the benchmark performance. Despite the lower performance this year, the Company continues to exceed its benchmark since inception by 1.9% p.a, with Company performance of 6.2% p.a. compared to benchmark performance of 4.3% p.a.

Quarterly dividends

The Company continued to declare quarterly dividends during FY24, initially at a rate of 1.25% of the Company's post-tax NTA at the end of each quarter until March 2024, and then at its increased targeted rate of 1.5% of post-tax NTA for the June 2024 quarter dividend.

The Company declared a total of 12.0 cents per share in fully franked dividends for FY24[2], which represents a trailing dividend yield of 5.4%[3] based on the 30 June 2024 share price of $2.22, and a gross yield (including franking credits) of 7.7%[4].

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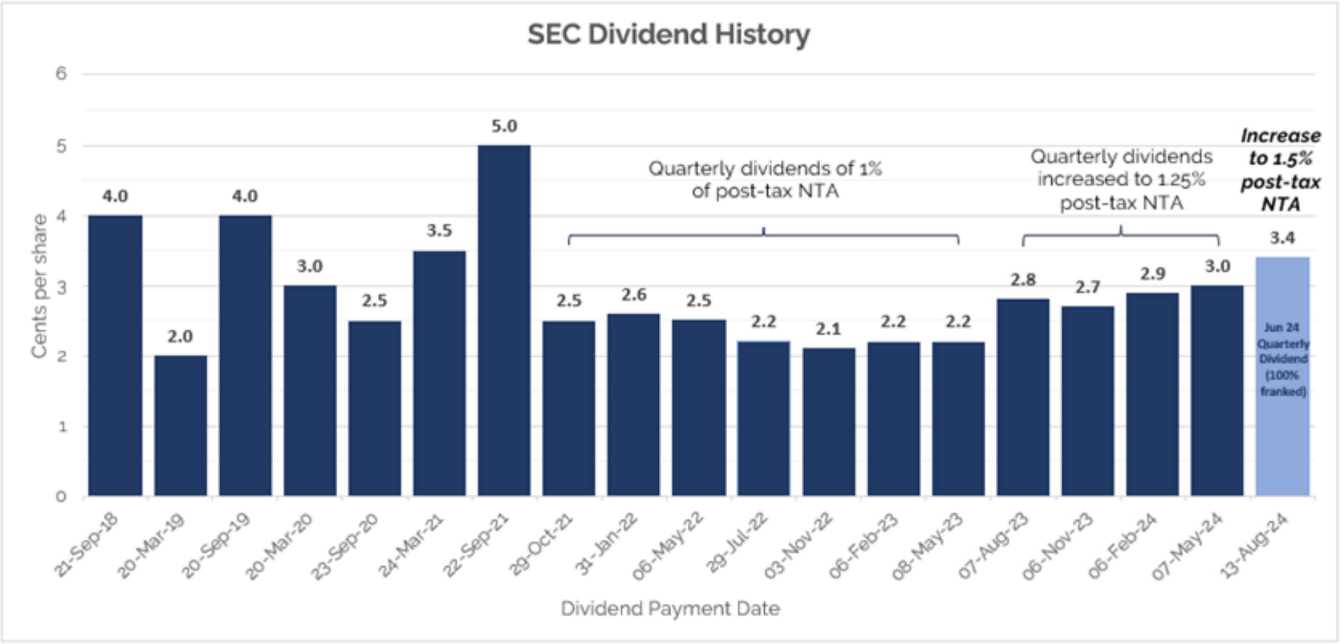
[1] Calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, after Company expenses.
[2] Comprising September 23 quarter dividend of 2.7 cents (paid 6 November 2023), December 23 quarter dividend of 2.9 cents (paid 6 February 2024), March 2024 quarter dividend of 3.0 cents (paid 7 May 2024) and June 2024 quarter dividend of 3.4 cents (paid 13 August 2024).
[3] Trailing dividend yield based on total quarterly dividends declared for financial year 2024 of 12.0 cents, calculated on share price as at 30 June 2024 of $2.22.
[4] Trailing dividend yield including franking credits based on total quarterly dividends declared for financial year 2024 of 12.0 cents, calculated on share price as at 30 June 2024 of $2.22, using 30% tax rate.
[5] S&P/ASX Small Ordinaries Accumulation Index.

The quarterly dividends declared for FY24, fully franked at a 30% tax rate, were as follows:

Quarter ended	Value per share	Date paid
30 September 2023	2.7 cents	6 November 2023
31 December 2023	2.9 cents	6 February 2024
31 March 2024	3.0 cents	7 May 2024
30 June 2024	3.4 cents	13 August 2024

Including these quarterly dividends, the Company has now declared 55.1 cents per share total dividends since its ASX listing in December 2017, equivalent to 27.6% of the IPO price of $2.00.



The Company intends to continue the payment of quarterly dividends at a level equivalent to 1.5% of the post-tax NTA of the Company, subject to available profits, cash flow and franking credits.

At 30 June 2024, the value of the Company's franking account was $5.6m[6] ($0.093 per share). This is equivalent to $0.217 per share in fully-franked dividends at the Company tax rate of 30% and the Company presently has a very healthy profits reserve which is more than sufficient for this value of dividends.

Discount to NTA

The discount between the Company's pre-tax NTA per share and its share price stood at 0.5% on 30 June 2024[7]. This is a significant reduction from the discount at 30 June 2023 of 13.6%[8].

The Board remains committed to addressing the discount, and during January 2024 announced a conditional proposal agreed with the manager of the Company's investment portfolio, Spheria Asset Management Pty Limited, to pursue an exchange of shares in the Company for units in Spheria Australian Smaller Companies Fund should the average discount of the Company's share price to pre-tax NTA during the period 1 October 2024 to 31 December 2024 exceed 5%.

[6] After adjusting for franking debits that will arise from the refund of current tax assets.
[7] Calculated on 30 June 2024 pre-tax NTA per share of $2.231 and share price of $2.22.
[8] Calculated on 30 June 2023 pre-tax NTA per share of $2.198 and share price of $1.90.

The proposal provides a period of time for the market to determine if shareholders' investment in the Company remains in a listed investment company (LIC) or is converted to an interest in an active ETF or managed fund.

The discount has reduced from 8.7%[9] prior to the conditional proposal being announced to 0.5% at 30 June 2024. For further details of the announcement, please refer to the following link here.

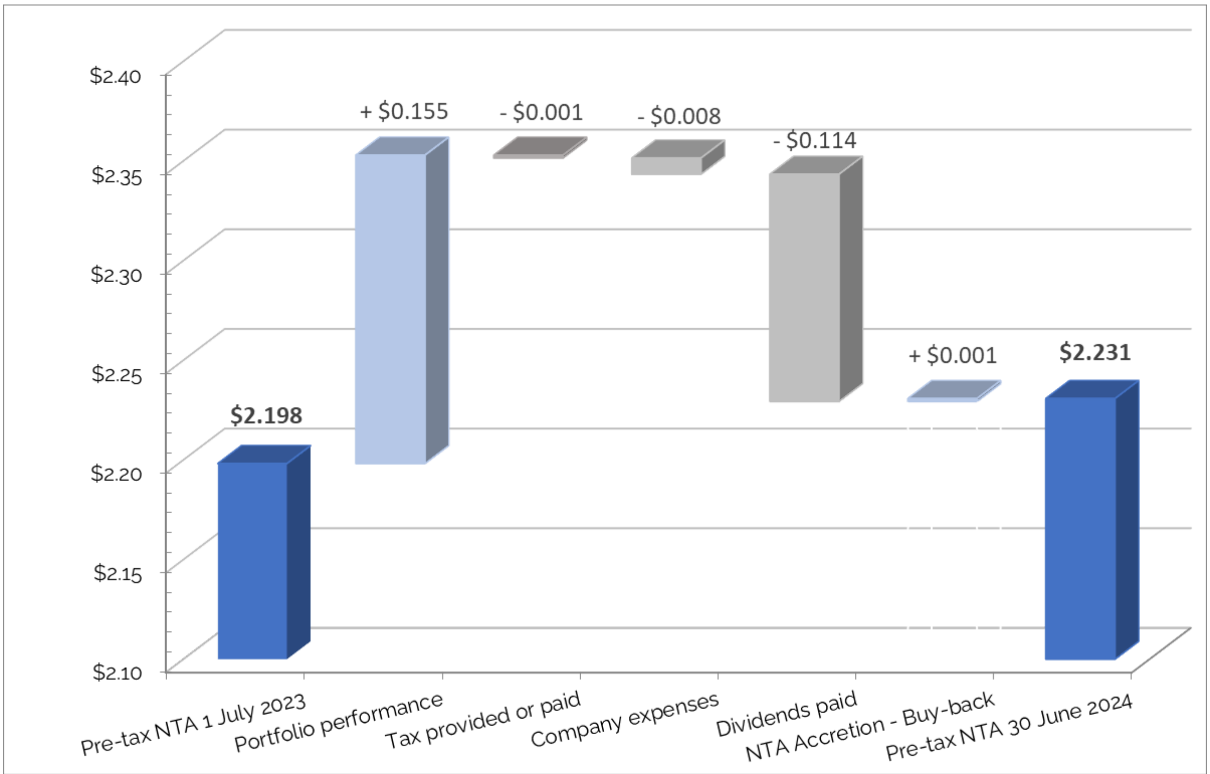
On-Market Share Buy-back

On 14 June 2023 the Company commenced an on-market share buy-back for the purchase of up to 5,413,557 shares through to 13 June 2024.

During the year 161,786 shares were purchased for total consideration of $298,000. The buy-back ceased on 13 June 2024. During the full term of operation of the buy-back a total of 354,131 shares were purchased for total consideration of $653,000.

NTA performance breakdown for FY24

During FY24 the pre-tax NTA increased by $0.033, from $2.198 at 30 June 2023 to $2.231 at 30 June 2024. The increase in NTA is after the effect of taxes, company expenses and dividends during the year, which totalled $0.123.



The post-tax NTA of the Company as at 30 June 2024 was $2.239 per share, which was $0.008 higher than pre-tax NTA, representing the value of tax on unrealised investment portfolio losses at year end, at the Company's tax rate of 30%. This difference between pre-tax and post-tax NTA fluctuates as unrealised gains and losses are made on SEC's investments.

[9] Calculated on 15 January 2024 (day prior to announcement) pre-tax NTA per share of $2.301 and share price of $2.10.

Shareholder webinar on results and portfolio

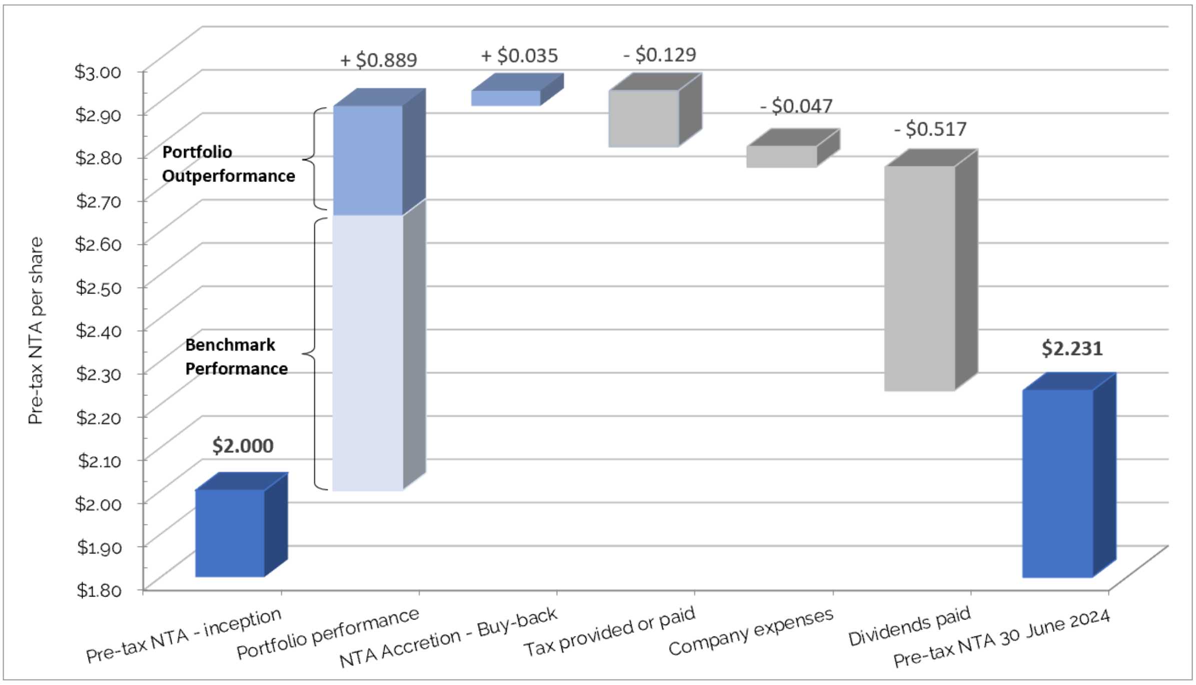
The Board invites you to the upcoming shareholder webinar on Friday, 30 August 2024 at 10.00am (AEST). The webinar will provide an update on the Company's financials and investments from the Company's director and Spheria Asset Management's Portfolio Manager, Matthew Booker.

Shareholders are invited to register at the following link: SEC FY2024 Results Presentation

The Board of Spheria Emerging Companies Limited has authorised this announcement to be released to the ASX.

Additional shareholder information

NTA Performance since inception



Manager's commentary

Portfolio performance

The investment portfolio increased 7.3%[10] for the year ended 30 June 2024, underperforming the Benchmark by 2.0%.

It was a challenging year for the portfolio. Unfortunately, for every win there seemed to be a corresponding loss.

As an example, we acquired a reasonable sized holding in technology company Bravura (BVS.ASX) in November 2022 when the share price collapsed below $1, where the valuation and balance sheet appeared supportive. A few months later, we and a couple of other major shareholders had to recapitalise the group at $0.40 (a steep discount at the time) due to a technical breach of a lending covenant despite the company possessing a relatively healthy net cash balance sheet. Management and Board issues then came to the fore and we were heavily involved in remediating this situation with the appointments of a new Chairperson and CEO, who crafted a relatively simple plan to reduce costs and complexity. The company then had a Lazarus-type recovery to be our best performing position in the portfolio over the financial year with the share price peaking at over $1.50 in March 2024, just 12 months after being recapitalised at $0.40.

In a similar vein, we bought into a service provider to the technology sector, Appen (APX.ASX), at an average entry price of around $2 at the time which was a fraction of the all-time high of nearly $44 set in late 2020. Again, the valuation and balance sheet seemed supportive (the latter especially so after a capital raising), however, a tightening of budgets for their main customers and an explosion of interest in Artificial Intelligence (AI) eroded core revenues at a faster rate than management was able to remove costs, with the final nail in the coffin being the loss of its second largest customer. We exited the position at a significant loss given the heightened risk of losing their remaining large customer which would almost certainly have

10 After investment management fees. After deducting Company administration expenses (excluding taxes), Company performance was 6.9%.

led to a collapse of the business. In hindsight, we made an error as a new iteration of management was able to maintain the remaining large contract and extract additional costs such that the business now appears to be on a more stable footing and could benefit from the original pivot to AI model evaluation, which appears to be gaining traction.

The situation illustrates how risky it is to invest in smaller companies in particular where there is significant customer concentration. Interestingly, BVS and APX shared that trait and whilst BVS managed to maintain its major contracts (whether by good management or good luck we will never know), unfortunately APX was not so lucky. The trials and tribulations of being a small-cap investor, sometimes it can be one step forward then one step back.

The week before Christmas 2023, we were fortunate to have several companies taken over at healthy premiums. Link Administration (LNK.ASX) was acquired by Mitsubishi UFJ (a Japanese financial services company) at a 33% premium to the last undisturbed price, Adbri (ABC.ASX) by CRH (a global building materials company based in Ireland) at a 40% premium and A2B Australia (A2B.ASX) at a skinnier 12% premium by ComfortDelgro (a Singaporean transport company) as the stock price had moved up strongly in the weeks prior to the bid being announced. The common theme being the acquirers were offshore companies probably taking advantage of a weak AUD and attractive valuations on offer due to a significant disconnect between valuations for smaller versus larger companies, which we think reflects several factors including a flight to safety thematic given higher interest rates, large superannuation funds eschewing small-caps and the rise of passive funds which have favoured large cap investments. This has created significant opportunity at the smaller end of the market which provides optimism that we can continue to generate strong absolute returns in the medium to long term.

Market Outlook

Last fiscal year was a year when large-cap / expensive growth outperformed anything small with valuation support. We believe investors have shifted capital to larger liquid names and out of any smaller companies with actual or perceived earnings risk. When selling shares "at any price" is de rigueur, fundamental investors like us get excited.

The debates around whether inflation is "sticky" or not have become farcical in our opinion. Inflation resolutely remained in the 2-3% range for 20 plus years and spiked up to 8% on the back of some incredibly unusual events globally around the Covid period. Our sense is that the Australian economy is struggling and a rise in unemployment should see headline CPI return to this range allowing Central Bankers to lower rates. The rate lowering cycle has already begun in earnest in many similar countries including the UK, Canada and Switzerland and also the Eurozone. As rates start to reduce, we believe the more cyclical parts and thus the smaller end of the market is likely to see resumed interest. With many names trading on mid-single digit EV/EBIT multiples we believe the opportunities have rarely been this attractive.

We thank our shareholders for their interest in and support of the Company and would welcome your questions and participation in our results and conference calls.

About Spheria Asset Management Pty Limited (Manager)

Spheria Asset Management Pty Limited 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, which has 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.

Find out More about the Company and Manager

To find out more information about the Company, please visit the SEC Website
To find out more information about the Manager, please visit the Spheria website

Contact Us

If you have any questions for the Company, please reach us on 1300 010 311
If you have any questions regarding your shareholding, please call Automic, the Company's share registry on 1300 902 587