

Spheria Emerging Companies Limited (ASX:SEC)

FY23 Results & Portfolio Update

31 August 2023

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Note: Past performance is not a reliable indicator of future performance.

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Agenda

1. SEC Company update
2. Portfolio update
3. Questions



SEC Company Update

FY2023 Highlights

FY23 Profit	Company Performance ¹	Dividends ²	Yield	Yield (including franking)
\$9.6m	+9.6%	9.3c	4.9%³	7.0%⁴

- FY23 net profit after tax of \$9.6m
- Company Performance of +9.6%, +1.2% compared to benchmark⁵ of +8.4% (+2.6% p.a. to benchmark since inception)
- Total quarterly dividends declared for the year of 9.3 cents per share (fully franked)²
- Includes increased quarterly dividend target of 1.25% of post-tax NTA for June 2023 equivalent to 2.8 cents per share (fully franked)
- Trailing dividend yield equal to 4.9%³ (7.0%⁴ including franking)
- On-market share buy-back commenced in June 2023

Source: Spheria Emerging Companies

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 22 quarter dividend of 2.1 cents (paid 3 November 2022), December 22 quarter dividend of 2.2 cents (paid 6 February 2023), March 23 quarter dividend of 2.2 cents (paid 8 May 2023), and June 23 quarter dividend of 2.8 cents (paid 7 August 2023).

³ Trailing dividend yield based on total quarterly dividends of 9.3 cents, calculated on share price as at 30 June 2023 of \$1.90.

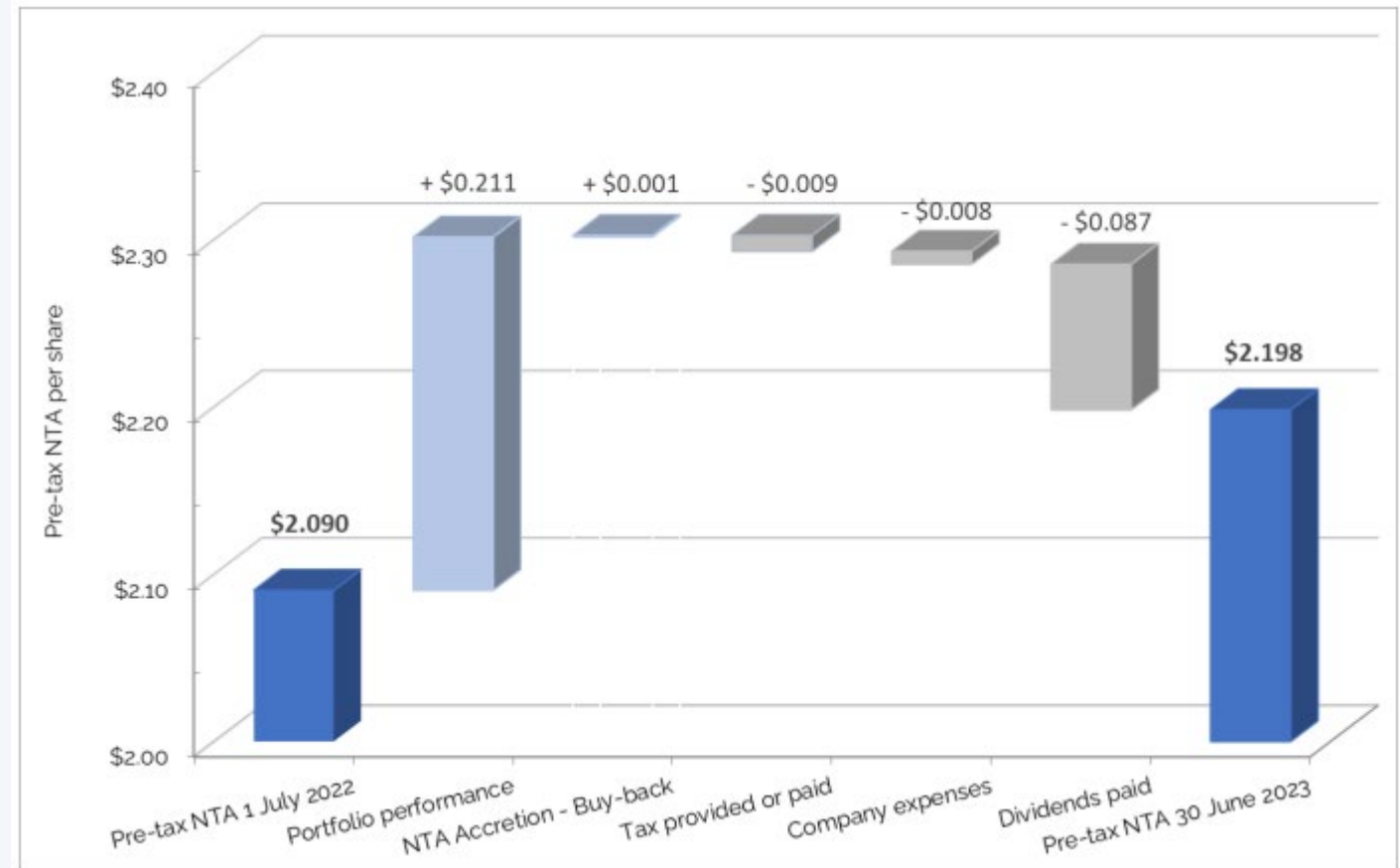
⁴ Trailing dividend yield including franking credits based on total quarterly dividends of 9.3 cents, calculated on share price as at 30 June 2023 of \$1.90, using 30% tax rate.

⁵ S&P/ASX Small Ordinaries Accumulation Index.

NTA breakdown for FY23

Portfolio performance less dividends paid leads to an increase in NTA per share

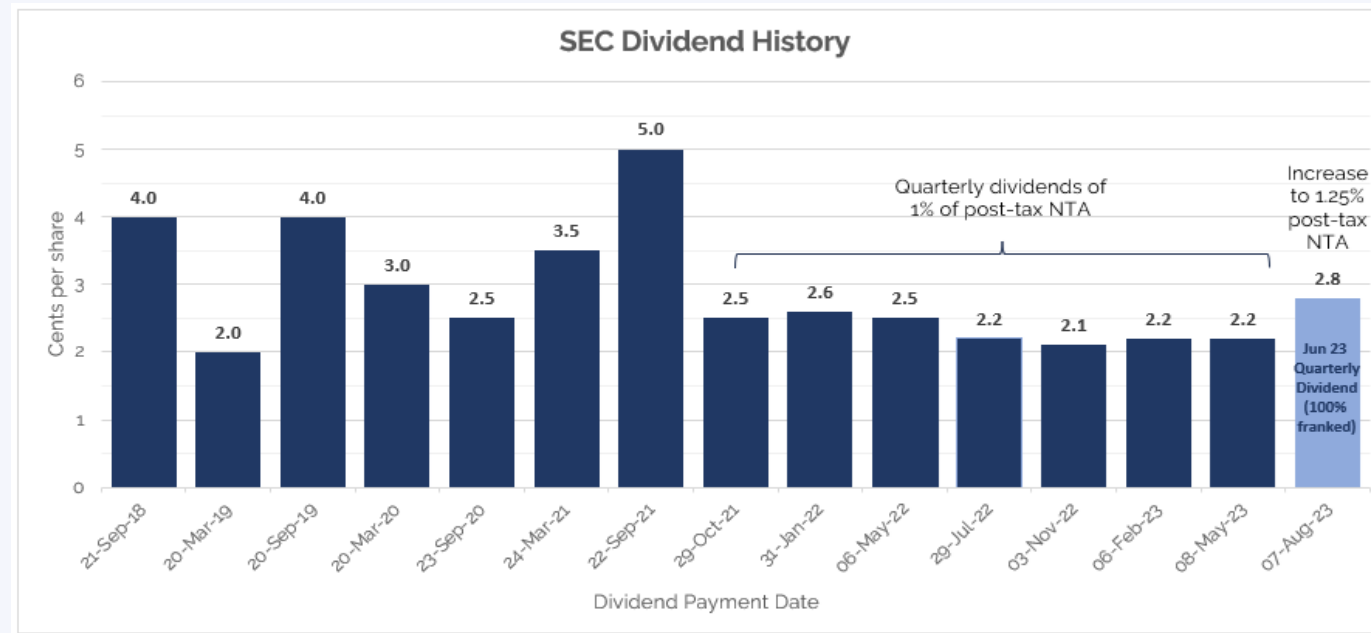
- Pre-tax NTA increased by \$0.108 from \$2.090 at 1 July 2022 to \$2.198 at 30 June 2023
- Post-tax NTA as at 30 June 2023 was \$2.225 per share, which was \$0.027 higher than pre-tax NTA, representing the value of tax on unrealised investment portfolio losses at period end, at the Company tax rate of 30%



Dividends

Delivering on the dividend target and increased quarterly dividend target to 5.% p.a. NTA dividend yield

- The Company continued to declare quarterly dividends during FY23, initially at a rate of 1.0% of the Company's post-tax NTA at the end of each calendar quarter until March 2023, and then at its increased targeted rate of 1.25% of post-tax NTA for the June 2023 quarter dividend
- The total of 9.3 cents per share in fully franked dividends for FY23¹ represents a trailing dividend yield of 4.9%² based on the 30 June 2023 share price of \$1.90, and a gross yield (including franking credits) of 7.0%.³
- Total dividends since IPO of 43.1 cents per share (21.5% of the \$2.00 IPO price)



Source: Spheria Emerging Companies

¹Comprising September 22 quarter dividend of 2.1 cents (paid 3 November 2022), December 22 quarter dividend of 2.2 cents (paid 6 February 2023), March 23 quarter dividend of 2.2 cents (paid 8 May 2023), and June 23 quarter dividend of 2.8 cents (paid 7 August 2023).

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Performance History

Since inception Company outperformance of 2.6% p.a.

SEC Company performance

SEC Limited Company Performance as at 30 June 2023								
Period	1 month	3 month	1 year	3 year (pa)	5 year (pa)	Since Inception (pa)	Inception Date	
SEC Ltd.	-0.6%	0.5%	9.6%	13.5%	5.2%	6.0%	30/11/2017	
S&P/ASX Small Ordinaries Accumulation Index	0.0%	-0.5%	8.4%	5.2%	2.3%	3.4%		
Difference	-0.6%	1.0%	1.2%	8.3%	2.9%	2.6%		

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Company's performance is calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, and after company expenses

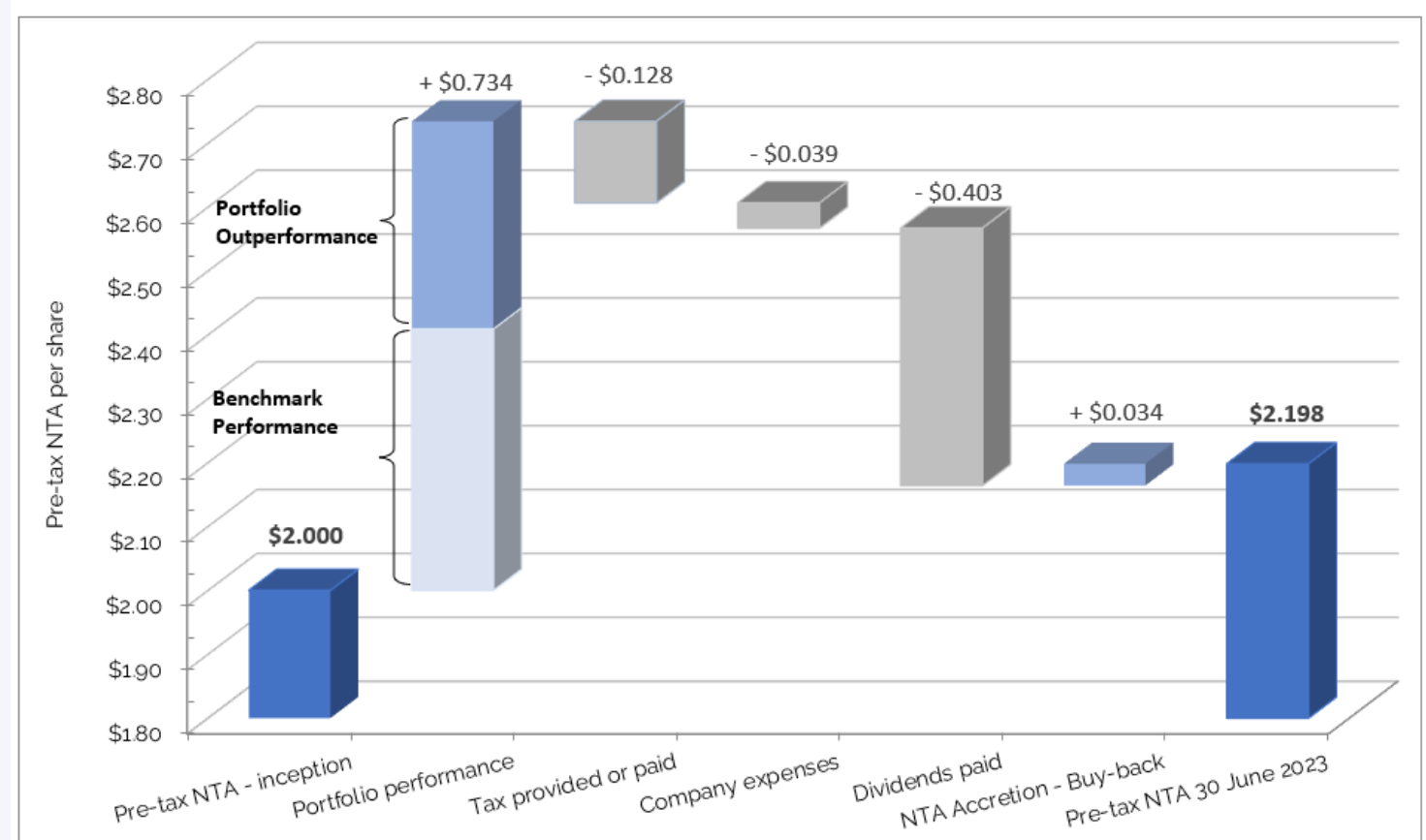
Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

All p.a. returns are annualised

NTA breakdown since IPO

Portfolio outperformance and dividends are a meaningful driver of shareholder returns since IPO

- Pre-tax NTA increased by \$0.198 from \$2.00 at 5 December 2017 to \$2.198 at 30 June 2023
- Portfolio performance from a combination of market (benchmark) performance and portfolio outperformance has contributed \$0.734 (36.7%)
- Dividends paid of \$0.403 (excludes June 2023 quarter dividend which was paid in August)



SEC Portfolio Update

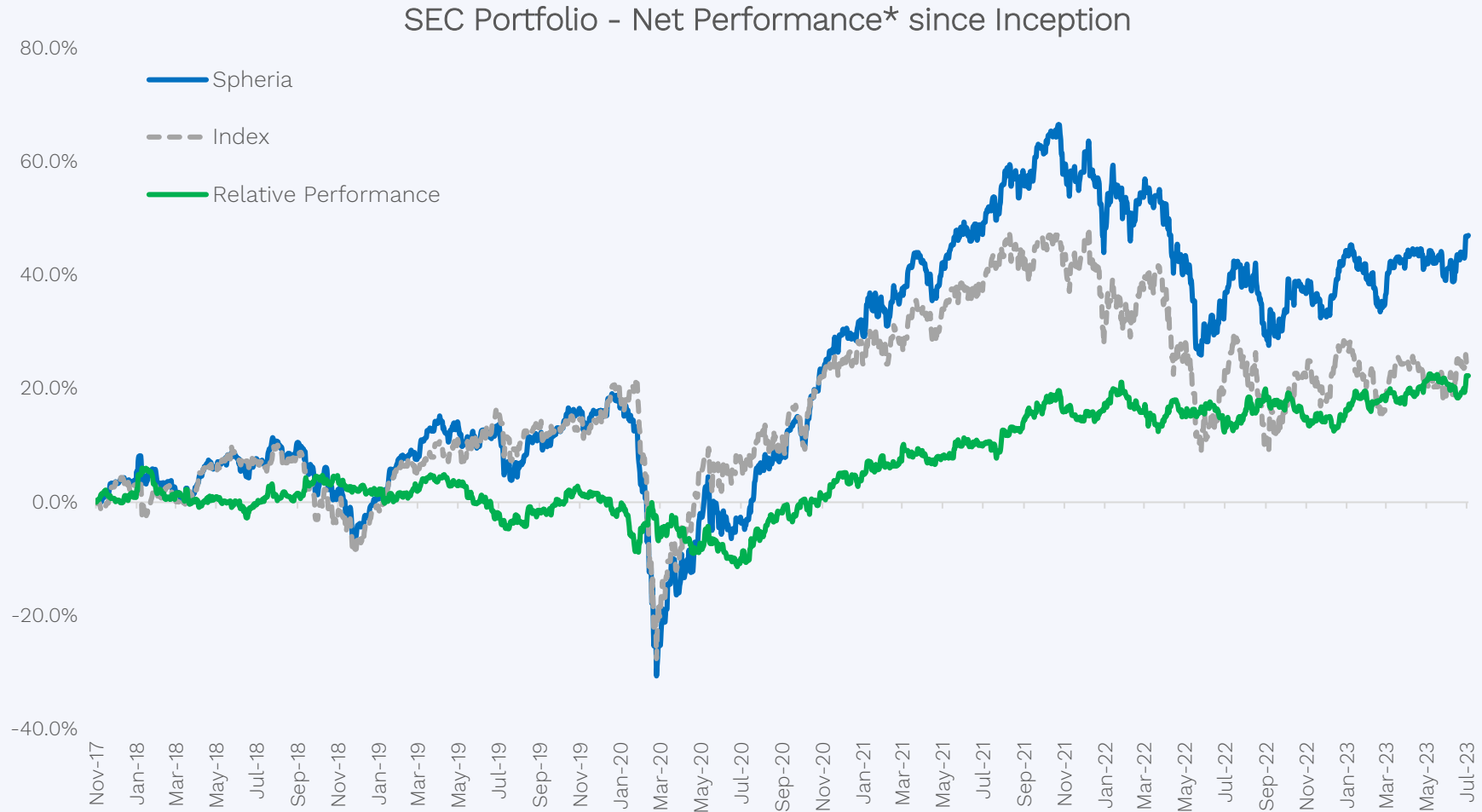
Spheria Asset Management Investment Process

How our investment process is different

- 1. Focus on quality businesses with risk control overlay**
 - Sustainable free cash flow generation through the cycle
- 2. Fundamental investment focus**
 - Free cash flow valuation model
 - Lowly geared balance sheets (ideally)
 - Discount to valuation
- 3. Keep an open mind (facts change)**
 - Inflection points, changes in management/strategy, shifts in industry structure
- 4. Market under researched and inefficient outside of larger companies**

SEC Portfolio Performance

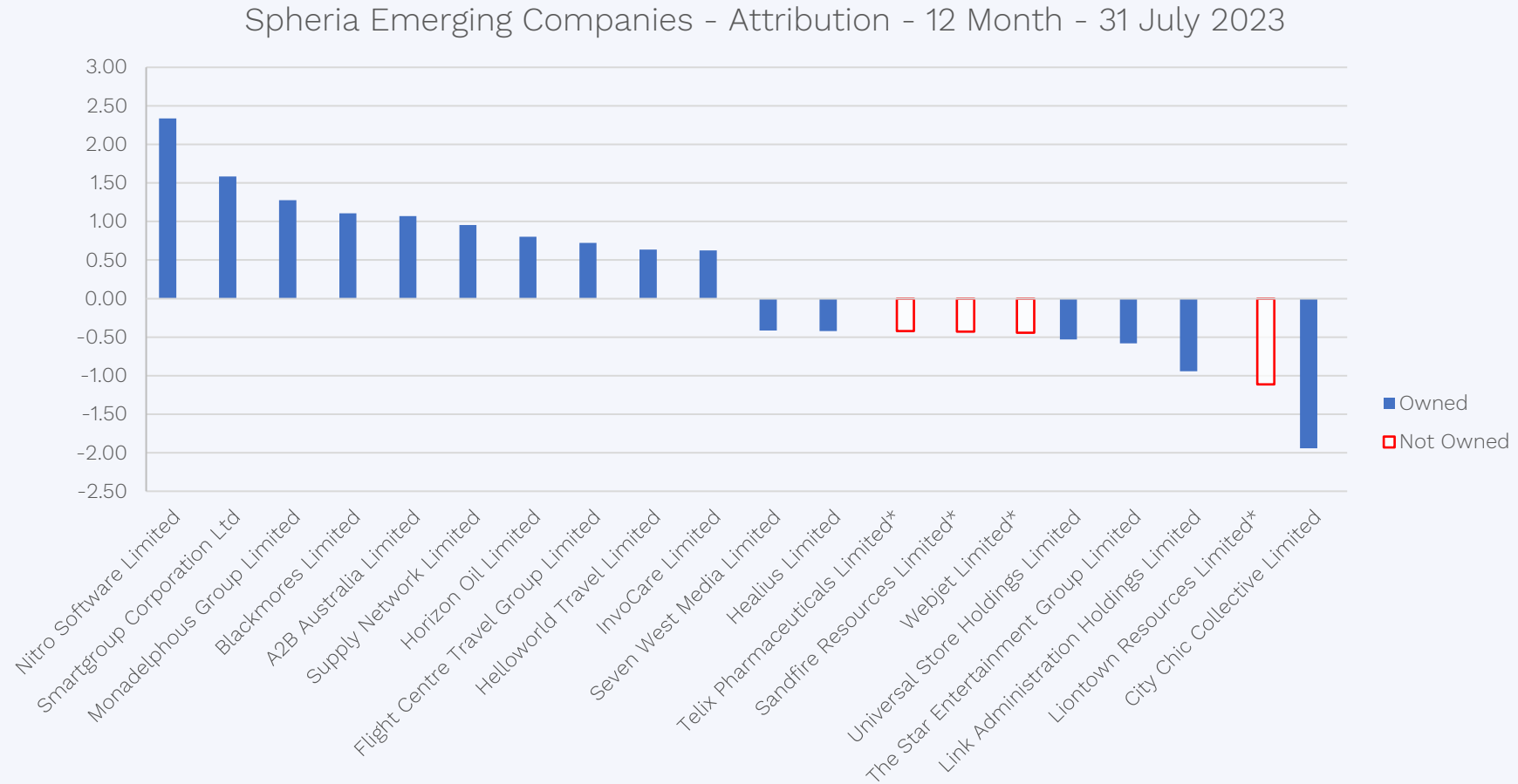
Strong relative performance in the last two years



* Net Portfolio performance = investment performance of mandate after investment management fees but before taxes.

Source: Spheria Asset Management to 31st July 2023

SEC Portfolio - stock attribution

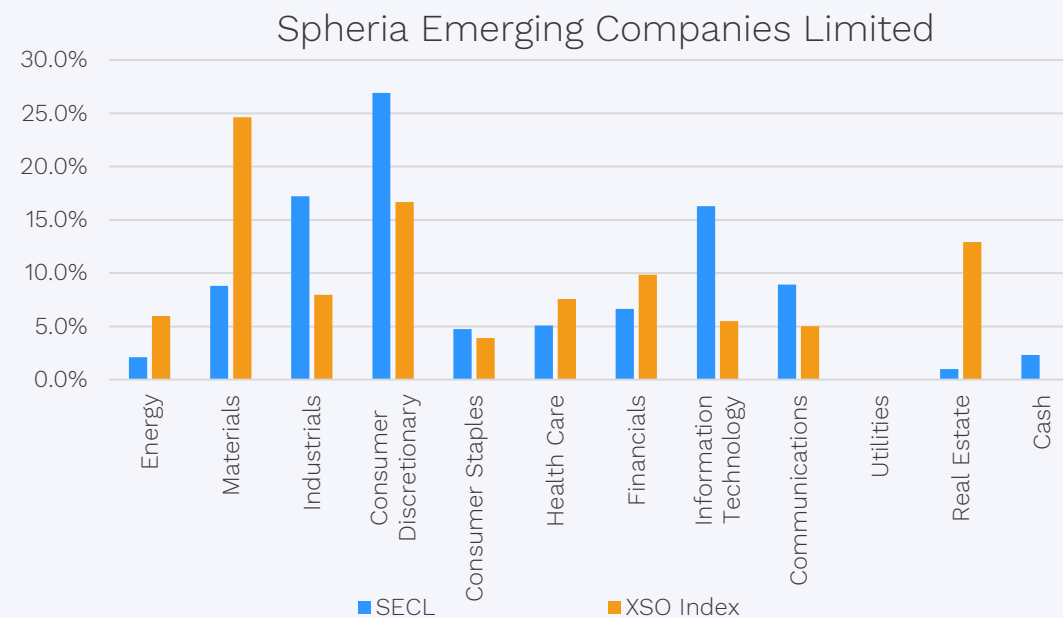


* Red Outline – companies we did not hold during the period

Source : Bloomberg Data as at 31st July 2023

Top 10 Company Holdings and Sector Exposure

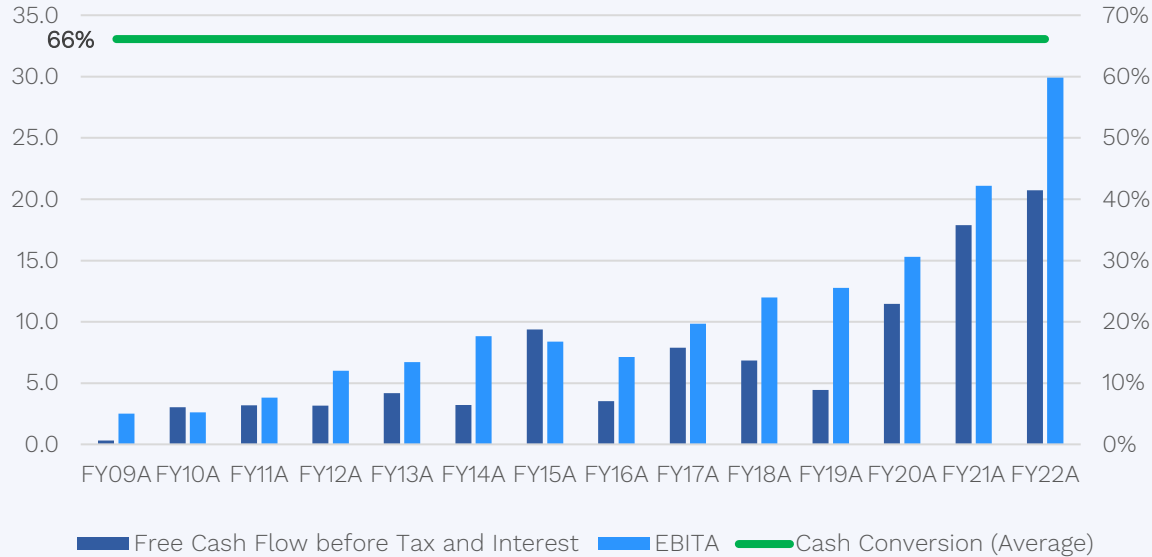
Spheria Emerging Companies Limited		
Ticker	Company Name	% Portfolio
IRE	IRESS Limited	4.7
ABC	Adbri Limited	4.1
VGL	Vista Group Int Ltd	4.1
BGA	Bega Cheese Ltd	4.1
IVC	InvoCare Limited	3.8
IFL	Insignia Financial	3.5
SNL	Supply Network	3.4
BRG	Breville Group Ltd	3.3
DRR	Deterra	3.1
A2B	A2B Australia Ltd	3.0
Top 10		37.0



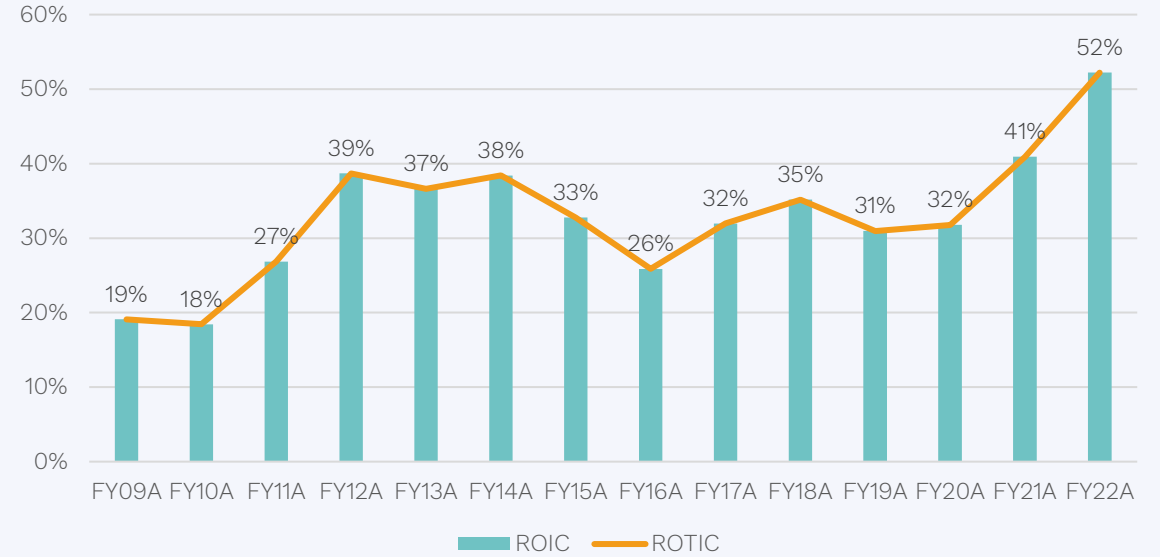
Source: IRESS, as at 31st July 2023

Under the radar

Cash Flow Conversion (EBITA)



Return Metrics



- Truck and bus aftermarket spare parts distributor under Multispares brand in AU/NZ
- No. 2 player in the market with 24 branches (19 in Australia, 5 in NZ)
- Strong history of cash generation and re-investment at high ROIC
- Revenue 13% and EBITA 18% CAGR over past 10 years (all organic)
- Trading on PE 23x FY24F with net cash balance sheet (never raised capital)

Outlook

- Significant share price volatility during this reporting season – in some cases overreaction
- Market repeating past cycles of crowding into the "growth" complex for perceived safety
- The valuation dispersion providing a significant opportunity for long term investors
- Commodity prices have retraced; however, speculation still ripe particularly in Lithium exposures
- Inflation appears to be stabilising but at higher levels due to structural issues including higher energy costs and tightness in the labour market
- We are well positioned in a diverse range of companies covering value to growth (at a reasonable price)
- Catalyst for convergence in valuations will only be known in hindsight.

Questions