



## SEC Results 1HFY24

1HFY24 Profit	Company Performance <sup>1</sup>	Dividends <sup>2</sup>	Yield	Yield (including franking)
\$8.6m	9.2%	5.6c	5.4% <sup>3</sup>	7.6% <sup>4</sup>

- **1HFY24 net profit after tax of \$8.6m**
- **Company Performance of 9.2%, +2.8% compared to benchmark<sup>5</sup> of 6.4% (also +2.8% p.a. to benchmark since inception)**
- **Total quarterly dividends declared for the half-year of 5.6 cents per share (fully franked)<sup>2</sup>**
- **Trailing dividend yield equal to 5.4%<sup>3</sup> (7.6%<sup>4</sup> 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 \$8.6m for the half-year ended 31 December 2023 (**1HFY24**). This compared to a profit of \$4.3m in the prior half-year. This in large part related to strengthening asset values, particularly in December where corporate activity boosted the Company's investment portfolio.

During the year Company Performance, which comprises investment portfolio performance after deducting investment management fees and Company administration expenses (excluding taxes), was 9.2%. This was 2.8% higher than the benchmark performance of 6.4% for the half-year.

Pleasingly, the Company also continues to exceed its benchmark since inception, with Company performance of 7.0% p.a. compared to benchmark performance of 4.2% p.a.

### Quarterly dividends

The Company continued to declare quarterly dividends during 1HFY24 at its increased targeted rate of 1.25% of post-tax NTA, which has applied since the June 2023 quarter dividend.

The Company declared a total of 5.6 cents per share in fully franked dividends for 1HFY24<sup>2</sup>, which when combined with dividends from 2HFY23 of 5.0 cents per share, represents a trailing dividend yield of 5.4%<sup>3</sup> based on the 31 December 2023 share price of \$1.98, and a gross yield (including franking credits) of 7.6%<sup>4</sup>.

<sup>1</sup> Calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, after Company expenses.

<sup>2</sup> Comprising September 23 quarter dividend of 2.7 cents (paid 6 November 2023) and December 23 quarter dividend of 2.9 cents (paid 6 February 2024).

<sup>3</sup> Trailing dividend yield based on total quarterly dividends declared for calendar year 2023 of 10.6 cents, calculated on share price as at 31 December 2023 of \$1.98.

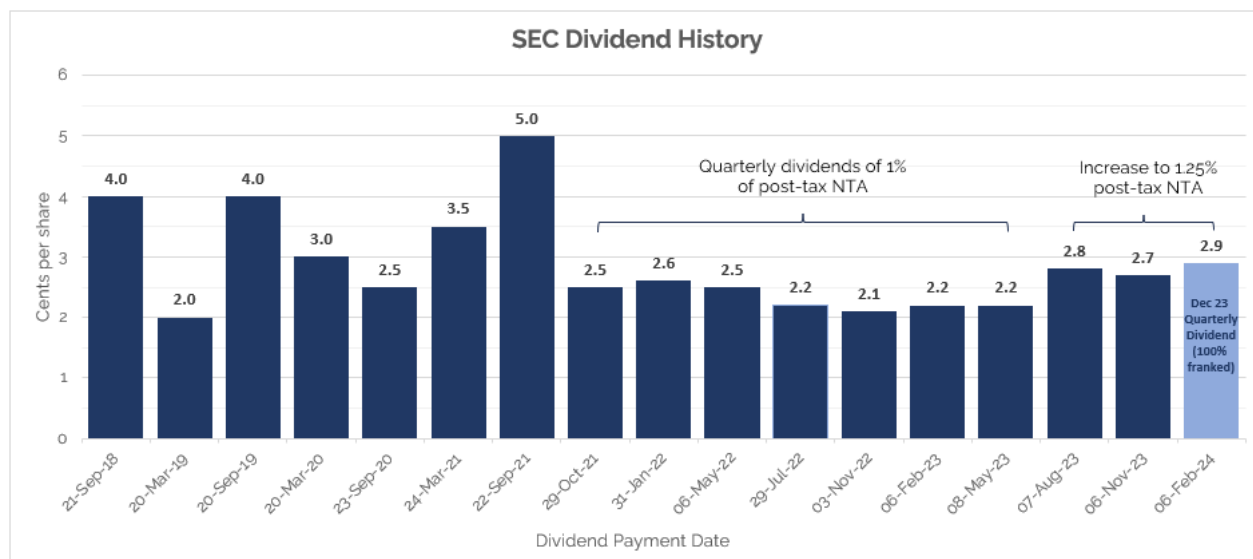
<sup>4</sup> Trailing dividend yield including franking credits based on total quarterly dividends declared for calendar year 2023 of 10.6 cents, calculated on share price as at 31 December 2023 of \$1.98, using 30% tax rate.

<sup>5</sup> S&P/ASX Small Ordinaries Accumulation Index.

The quarterly dividends declared for 1HFY24, 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

Including these quarterly dividends, the Company has now declared 48.7 cents per share total dividends since its ASX listing in Dec 2017, equivalent to 24.4% of the IPO price of \$2.00.



The Company intends to continue the payment of quarterly dividends at a level equivalent to 1.25% of the post-tax NTA of the Company, subject to available profits, cash flow and franking credits.

At 31 December 2023, the value of the Company's franking account was \$5.7m<sup>6</sup> (\$0.095 per share). This is equivalent to \$0.221 per share in fully-franked dividends at the Company tax rate of 30% and the Company presently maintains sufficient profit reserves 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 15.4% on 31 December 2023<sup>7</sup>.

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%.

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.

Since the conditional proposal was announced the discount to NTA has reduced, so that as at 20 February 2024 the discount was 6.0%<sup>8</sup>. For further details of the announcement, please refer to the following link [here](#).

<sup>6</sup> After adjusting for franking debits that will arise from the refund of current tax assets.

<sup>7</sup> Calculated on 31 December 2023 pre-tax NTA per share of \$2.340 and share price of \$1.98.

<sup>8</sup> Calculated on 20 February 2024 daily estimated pre-tax NTA per share of \$2.320 and share price of \$2.18.

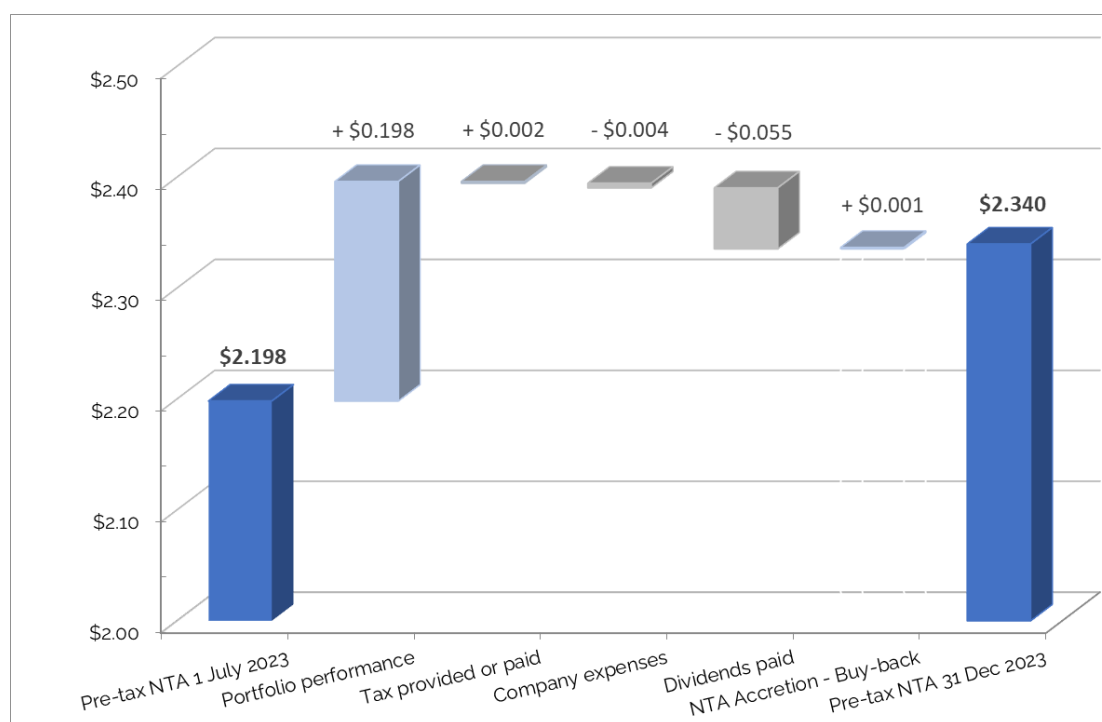
## On-Market Share Buy-back

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 half-year 161,786 shares were purchased for total consideration of \$298,000. Since period end no further shares have been purchased under the buy-back, leaving 5,059,426 shares able to be bought back under this limit.

## NTA performance breakdown for 1HFY24

During 1HFY24 the pre-tax NTA increased by \$0.142, from \$2.198 at 30 June 2023 to \$2.340 at 31 December 2023. The increase in NTA is after the effect of taxes, company expenses and dividends during the half-year, which totalled \$0.057.



The post-tax NTA of the Company as at 31 December was \$2.305 per share, which was \$0.035 lower than pre-tax NTA, representing the value of tax on unrealised investment portfolio gains 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.

## Shareholder webinar on results and portfolio

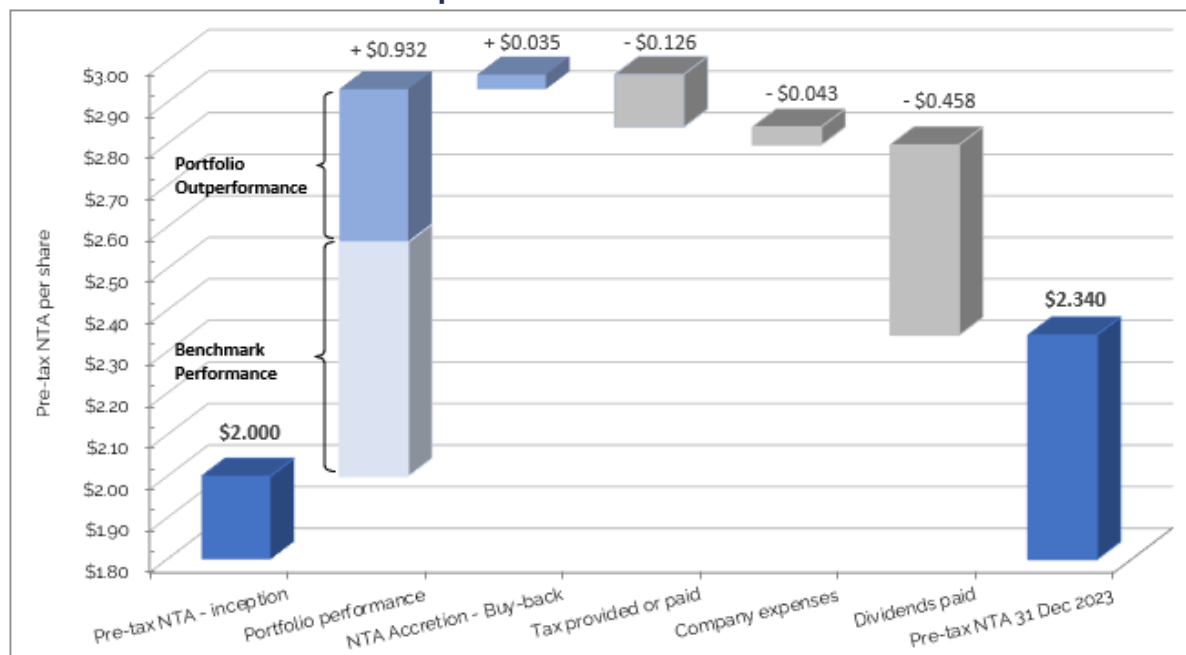
The Board invites you to the upcoming shareholder webinar on 5 March 2024 at 10.00am (Sydney time AEDT). The webinar will provide an update on the Company's financials and investments from the Company's director and Spheria Asset Management's Portfolio Manager, Matthew Booker.

Shareholders are invited to register at the following link: [SEC 1HFY2024 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 9.4%<sup>9</sup> for the six-month period ending 31 December 2023, outperforming the Benchmark by 3.0%.

Looking back over the six months, it was a wild ride with large sell-offs in some of our key portfolio holdings during the reporting season carrying over to the months of September and October. In some cases, the sell-off was justified by weaker than expected profit results, however, many of the steep declines seemed overdone and we suspect reflected mandates being transitioned in the small cap market with the ongoing theme of large industry funds exiting small caps or insourcing, causing significant volatility in a segment of the market where liquidity can be hard to come by at the best of times. There is no judgement from us and given the sheer size of many of these industry funds you can rationalise this behaviour. To be frank without this dynamic it would be difficult for us to generate long term out-performance as valuation inefficiency is a critical part of our investment equation.

Interestingly, after the sell-off months of August through to October, there was a broad and sharp rebound in share markets over November and December. We significantly outpaced the benchmark with corporate activity in key holdings being a significant factor. It started with Seven West Media (SWM) raiding the ARN Media (A1N) register at a +30% premium in early November and was followed the Monday before Christmas by a private equity group raiding the register of Pacific Smiles (PSQ) at +50% premium to our average entry price. On that same Monday there were two other takeovers of key portfolio positions, namely Link Administration (LNK) entering a scheme of arrangement with Mitsubishi UFJ and Adbri (ABC) being targeted by CRH, a leading international diversified building materials business headquartered in Dublin, both at material premiums to recent trading prices. Later that week A2B (formerly Cabcharge), another long-term holding, received a takeover proposal from ComfortDelgro also at a tidy premium to recent trading prices.

<sup>9</sup> After investment management fees. After deducting Company administration expenses (excluding taxes), Company performance was 9.2%.

Incredibly, despite the takeover frenzy in key positions it was Bravura Solutions (BVS) that was the largest contributor to portfolio outperformance during the six-months as the share price continued its recovery from 47 cents at the beginning of the period to 86 cents at the end, up over 80%. It was only a year ago that we had to help re-capitalise the group at 40 cents and be heavily involved in board and management renewal. Things can change very quickly in the investment world, for the better in the case of BVS and for the worst in respect of Appen (APX) a turnaround situation that we entered earlier in the year that has seen its core business evaporate in the face of the rapid evolution of AI. Unfortunately, the management team was unable to pivot the business away from data sourcing and data annotation to model evaluation solutions that may have stabilised the business. The situation looks dire now and as of writing this commentary we have fully exited the APX position at a loss. It was the largest detractor to performance for the period.

## **Market Outlook**

It was only a few months ago that there was a smorgasbord of opportunities in the small cap market, however, with the recent rally it is now more an ala carte menu where high growth/high popularity is definitely off our menu as valuations have become sublimely nonsensical. Instead, we are looking at sectors and companies that are lacking in popularity. From a sector perspective we believe property trusts and resources are looking increasingly interesting and there are some industrials in the consumer discretionary and healthcare sectors that have valuation appeal. We expect M&A to feature in the next few months as rising markets tend to inflate confidence levels. Hopefully, this continues to benefit the portfolio although the run up to Christmas will never likely be repeated.

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 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, 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

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