

Spheria Emerging Companies Limited (ASX:SEC)

1HFY24 Results & Portfolio Update

Disclaimer

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

1HFY2024 Highlights

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

- 1HFY24 net profit after tax of \$8.6m
- Company Performance of 9.2%, +2.8% compared to benchmark⁵ 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)²
- Trailing dividend yield equal to 5.4³ (7.6%⁴ including franking)
- Conditional proposal to exchange shares in SEC for units in Spheria Australian Smaller Companies Fund announced

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 23 quarter dividend of 2.7 cents (paid 6 November 2023) and December 23 quarter dividend of 2.9 cents (paid 6 February 2024).

³ 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.

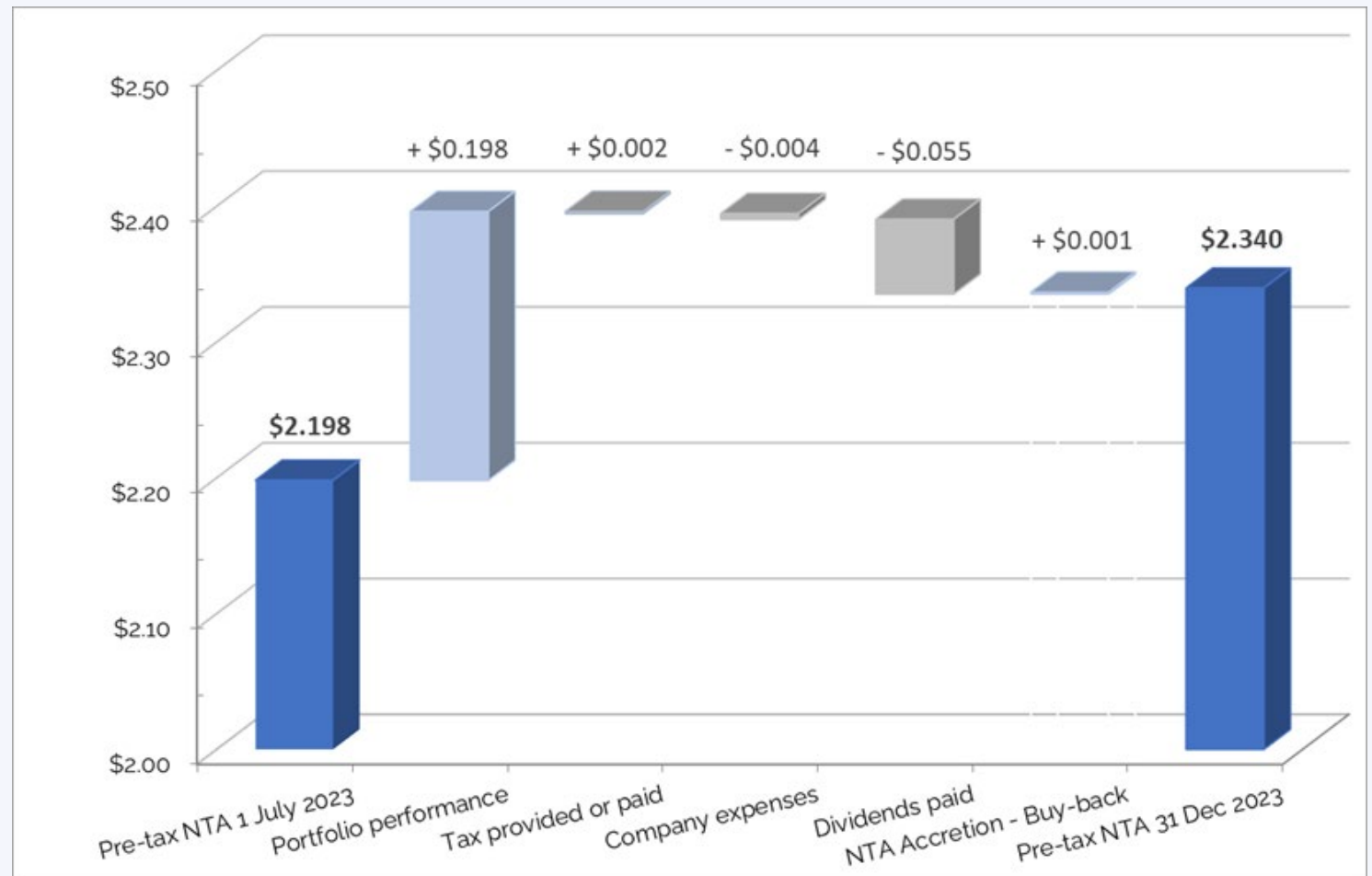
⁴ Trailing dividend yield including franking credits based on total quarterly dividends declared for calendar year 2023 of 10.6 cents, calculated on share price as at 31 December 2023 of \$1.98, using 30% tax rate.

⁵ S&P/ASX Small Ordinaries Accumulation Index.

NTA breakdown for 1HFY24

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

- Pre-tax NTA increased by \$0.142 from \$2.198 at 30 June 2023 to \$2.340 at 31 December 2023
- Post-tax NTA as at 31 December 2023 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 tax rate of 30%



Performance History

Since inception Company outperformance of 2.7% p.a.

SEC Company performance

SEC Limited Net Performance as at 31st Jan 2024

Period	1 month	3 month	FYTD	1 year	3 year (pa)	5 year (pa)	Since Inception (pa)	Inception Date
SEC Ltd.	0.3%	23.2%	9.5%	7.7%	5.9%	8.6%	7.0%	30/11/2017
S&P/ASX Small Ordinaries Accumulation Index	0.9%	15.8%	7.4%	2.1%	1.3%	5.4%	4.3%	
Outperformance	-0.6%	7.4%	2.1%	5.6%	4.6%	3.2%	2.7%	

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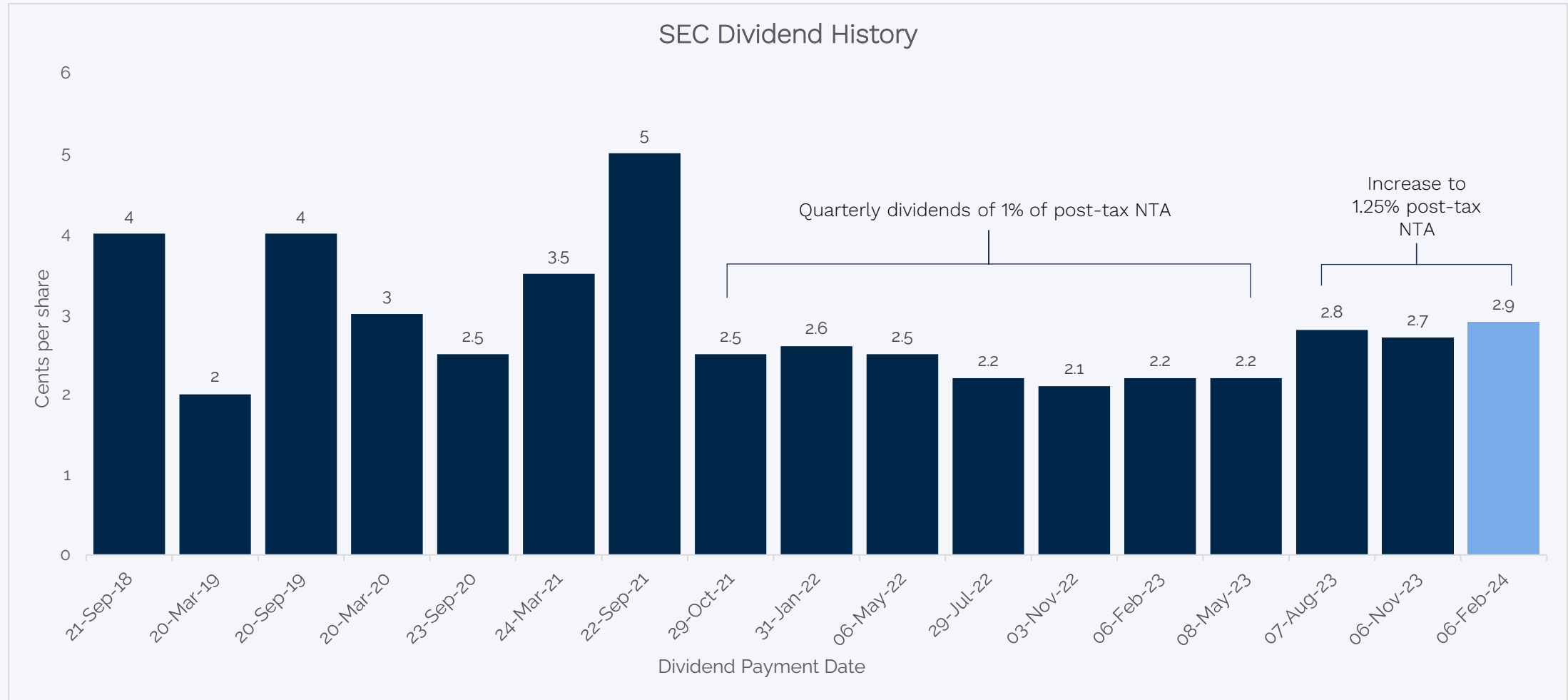
Company's performance is calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, and after company expenses

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

All p.a. returns are annualised

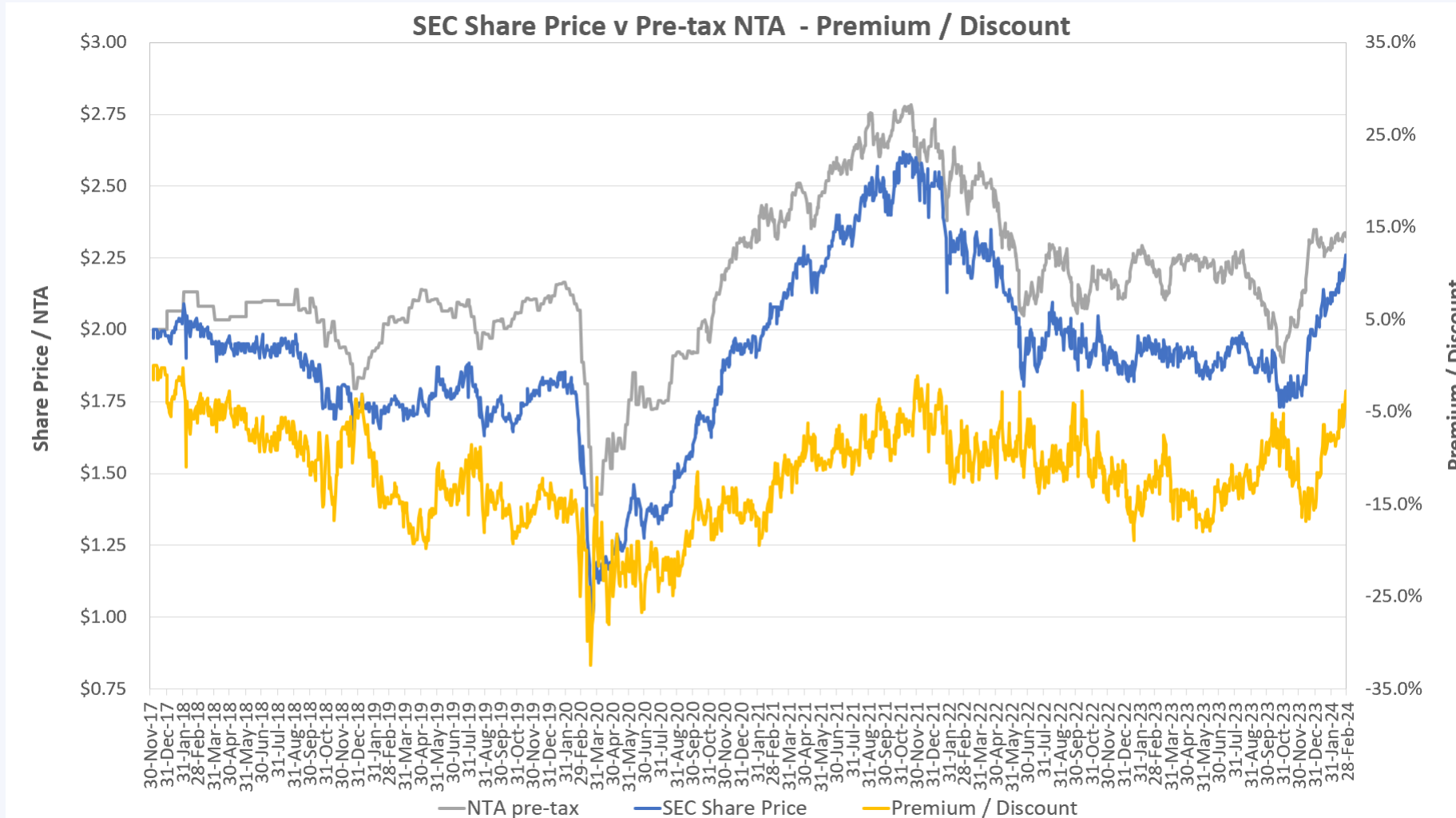
Dividends

Delivering on the dividend target of 5.0% p.a. (excl. franking) paid quarterly



ASX:SEC - Solving the NTA Discount

Conditional proposal to exchange shares in SEC for units in Spheria Australian Smaller Companies Fund announced



Source: Spheria Emerging Companies, as at 28 February 2024

SEC Portfolio Update

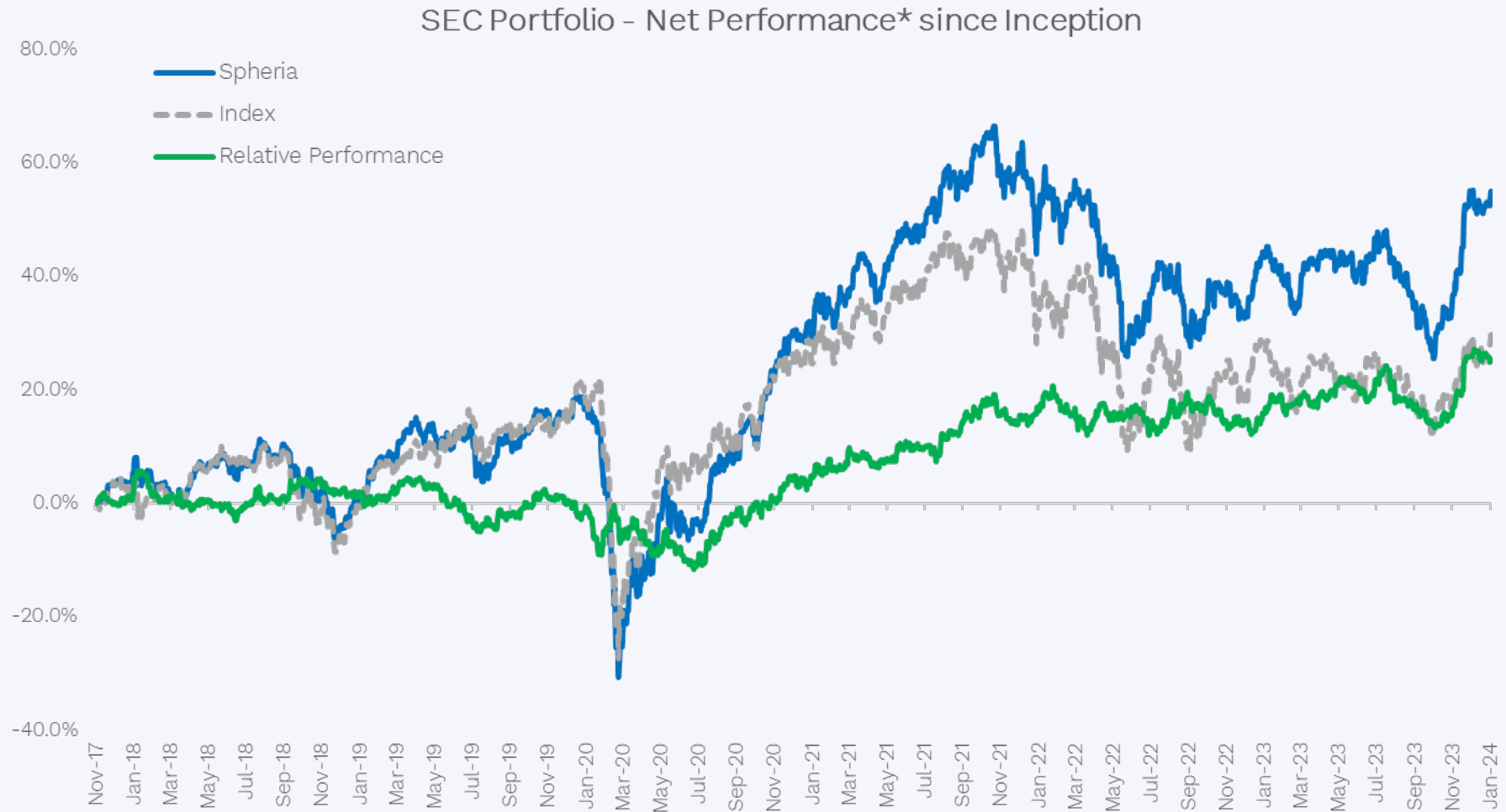
Spheria Asset Management Investment Process

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

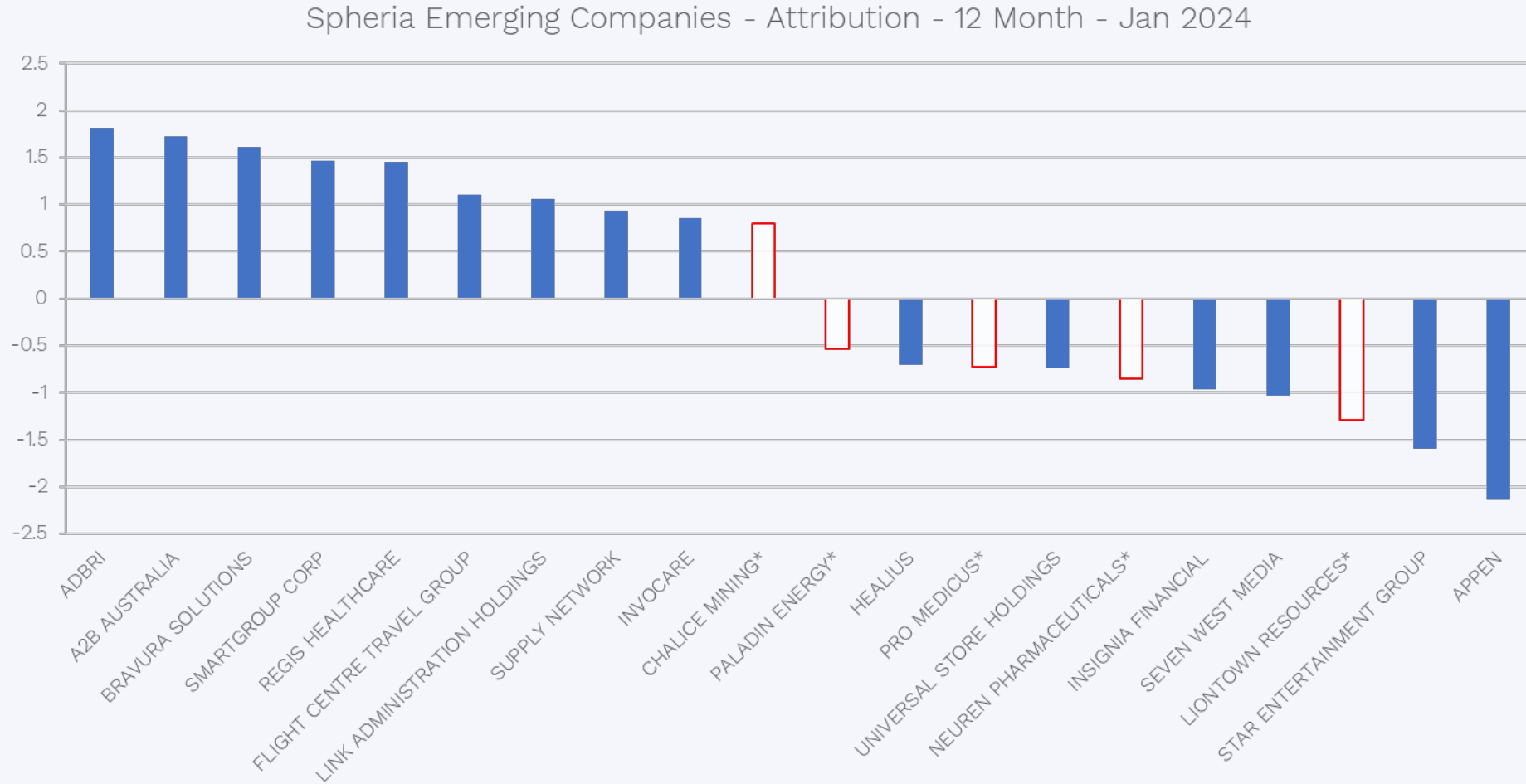
Strong relative performance in the last two years



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

Source: Spheria Asset Management to 31st January 2024

SEC Portfolio - stock attribution

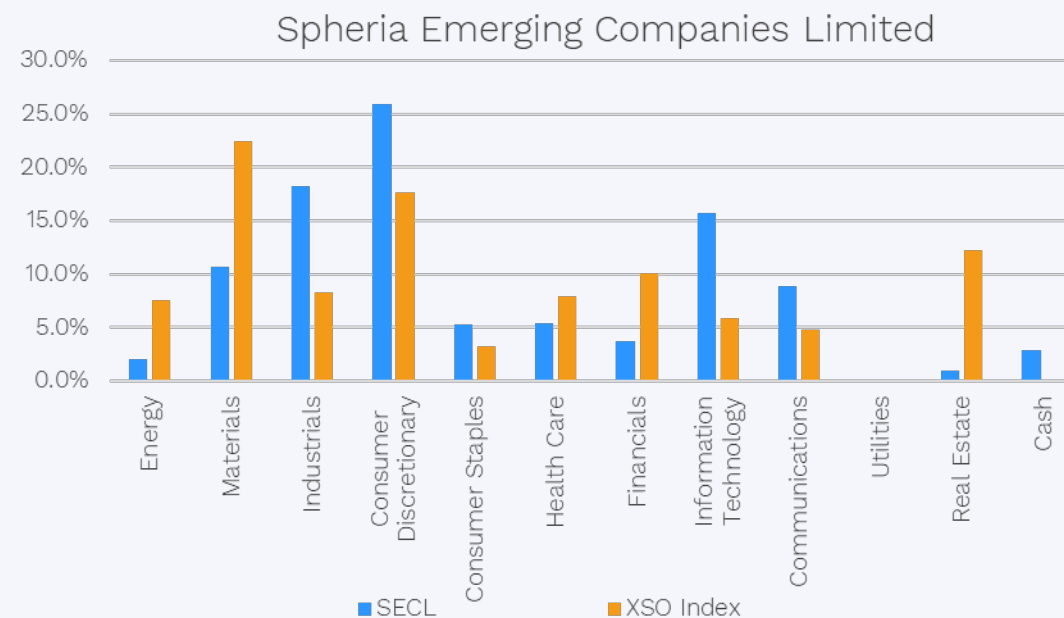


* Red Outline - companies we did not hold during the period

Source : Bloomberg Data as at 31st January 2024

Top 10 Company Holdings and Sector Exposure

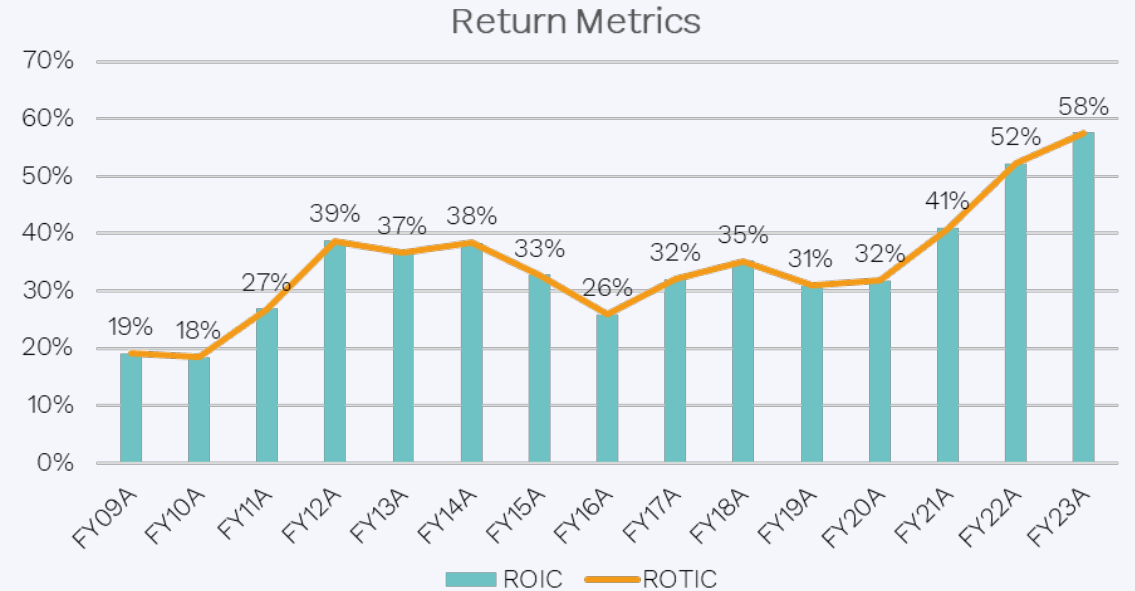
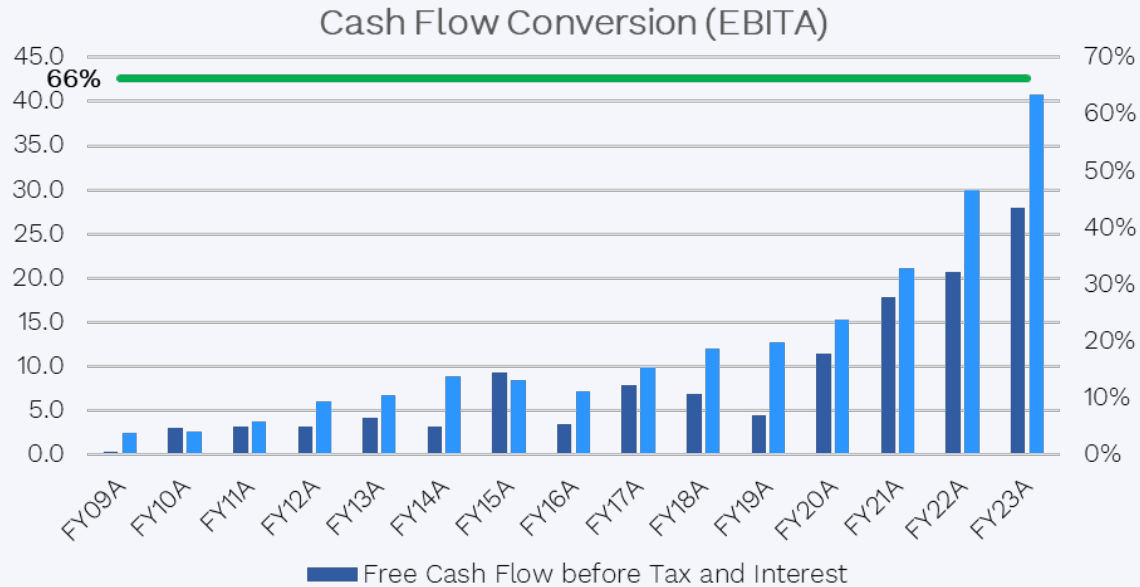
Spheria Emerging Companies Limited		
Ticker	Company Name	% Portfolio
IRE	IRESS Limited	5.3
ABC	Adbri Limited	4.9
BGA	Bega Cheese Ltd	4.6
SNL	Supply Network	3.8
LNK	Link Admin Hldg	3.7
VGL	Vista Group Int Ltd	3.6
SGR	The Star Ent Grp	3.5
AGI	Ainsworth Game Tech.	3.0
DRR	Deterra	3.0
BRG	Breville Group Ltd	2.8
Top 10		38.2



Source: IRESS, as at 31st January 2024. Companies mentioned on this slide are illustrative only and not a recommendation to buy or sell any particular security

Supply Network (ASX:SNL)

Under the radar



- Truck and bus aftermarket spare parts distributor under Multispares brand in AU/NZ
- No. 1 player in the market with 25 branches (20 in Australia, 5 in NZ)
- Strong history of cash generation and re-investment at high ROIC
- Revenue 14% and EBITA 20% CAGR over past 10 years (all organic)
- Trading on PE 22x FY24F with net cash balance sheet (never raised capital)

Key themes

- Last year's late rally has continued into this year, however, it has narrowed to the most popular (i.e most expensive) stocks in the small companies universe.
- Takeover activity has continued with the strong share market backdrop firing-up acquirers. The relatively weak \$AUD has also seemingly encouraged foreign players (e.g. Saint-Gobain knockout bid for CSR).
- Results were generally as expected with many companies delivering significant declines in profitability due to weak macroeconomic conditions.
- It was the reactions earnings announcements which were perplexing with popular companies that achieved lowered expectations rallying significantly and unpopular companies either not reacting or falling precipitously when achieving expectations.
- We are currently rotating out of several takeover situations which are "quasi-cash" into valuation led opportunities and avoiding expensive segments of the market where expectations put simply are non-sensical.

Questions