

Spheria Emerging Companies Limited

ACN 621 402 588



# Spheria Emerging Companies Limited

ASX : SEC

Annual General Meeting

25 November 2020

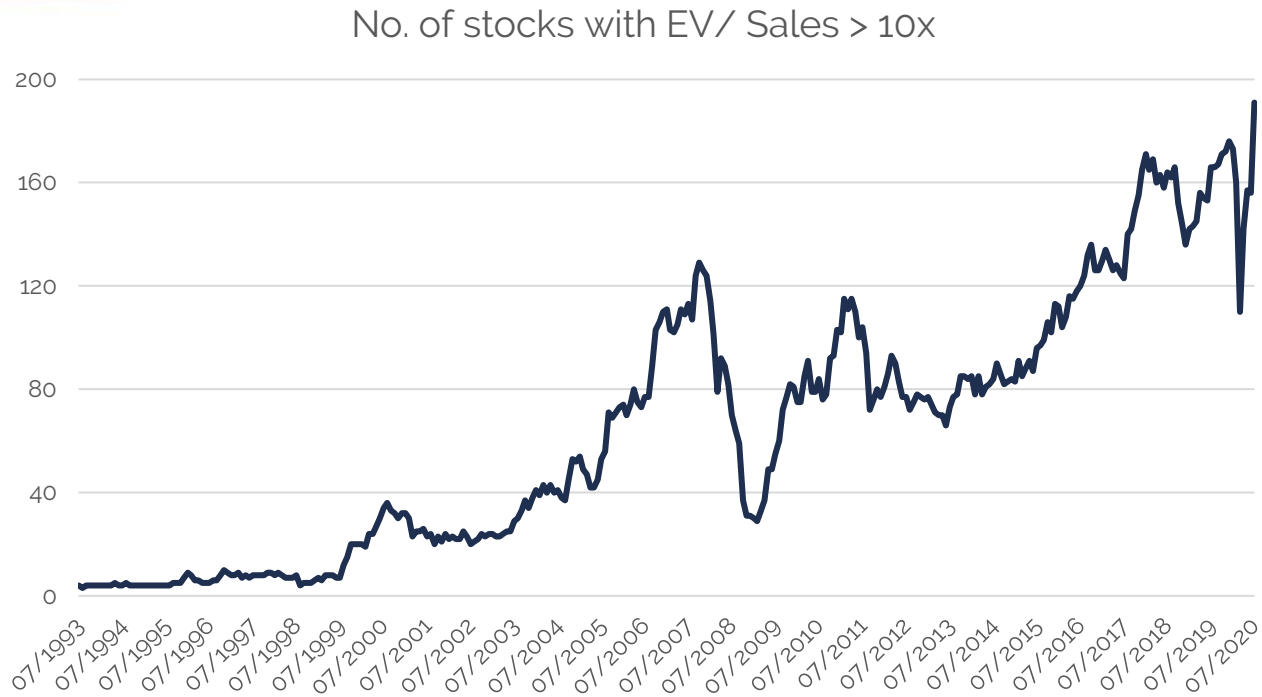
# Agenda

1. SEC Company update
2. Smaller companies investing
3. Opportunities

# Spheria Emerging Companies (SEC.ASX)

- SEC is a listed version of the **Spheria Australian Smaller Companies Fund**
- Designed to give investors exposure to:
  - **cash generative**
  - **lowly geared** smaller companies
  - with **supportive valuations**.
- SEC will typically have **20-65 stocks** (currently 53) with a max. weight of 5%
- Has consistently **paid dividends every 6 months** (since inception) in line with prospectus

# Unintended Consequences

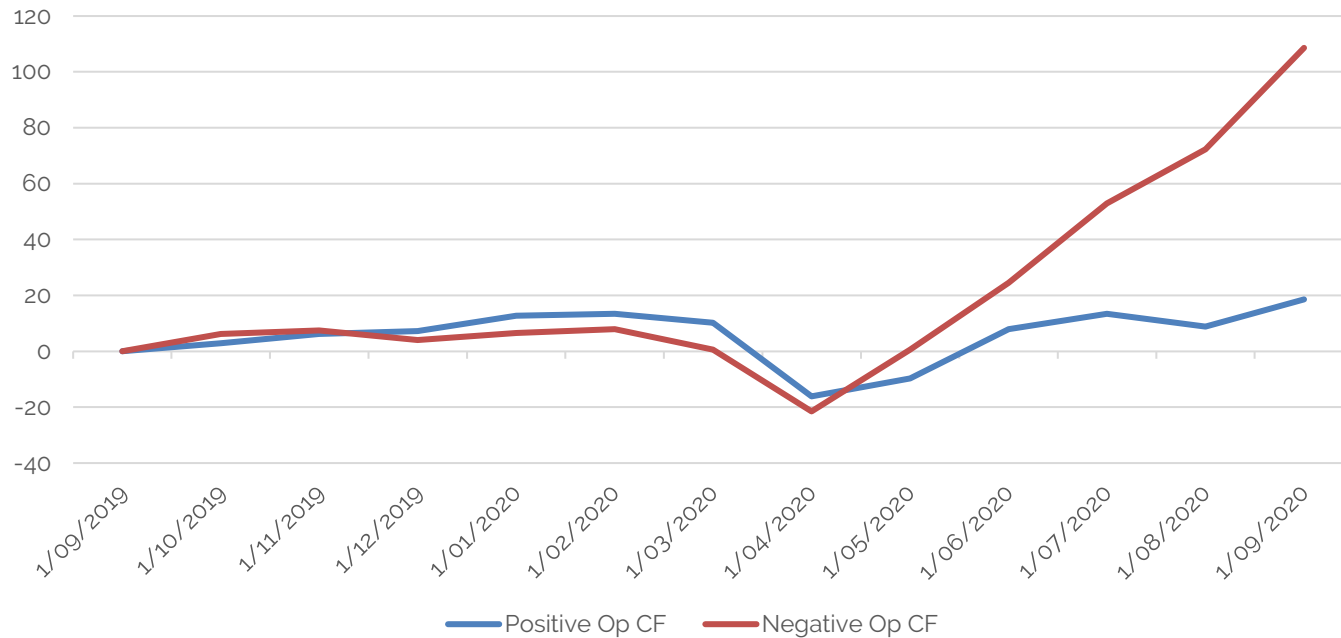


- EV/Sales > 10 is expensive in historical context
- Resource stocks, BNPL wannabes and speculative micro caps have inflated this bubble

Chart Source: Bloomberg data, ASX stocks with market cap > \$50m and EV/trailing sales multiple over 10x

# The Less You Earn, The More You Are Worth

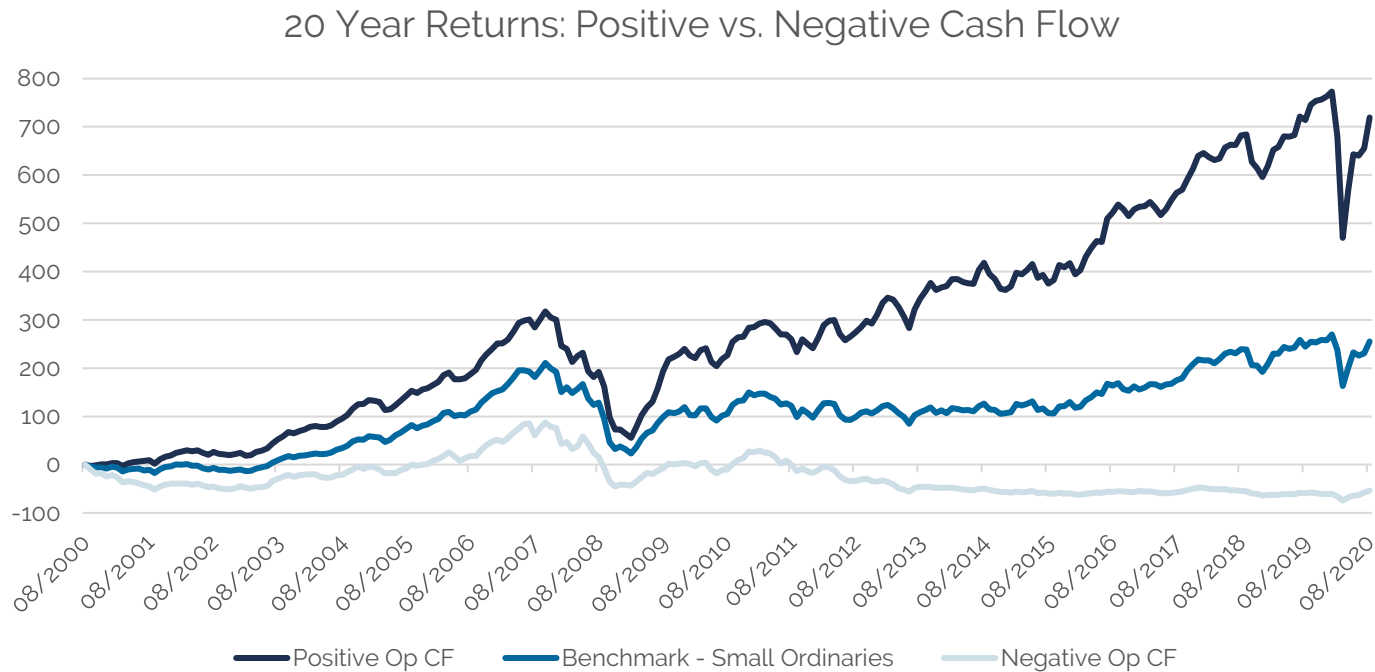
Smaller Companies Average Return – Prior 12 Months



- Such is the upside down world we live in – negative operating cash flow outperformed

Chart Source: Bloomberg data: simple average return of stocks between (\$50m and 3.0bn market cap divided into positive op cash flow and negative op cash flow over prior 12 months.

# However When the Weighing Machine Operates



- Back tested portfolio of positive operating cash flow vs. negative operating cash flow companies

Chart Source: Bloomberg data. Back tested returns of stocks between (\$50m and 3.0bn market cap divided into positive op cash flow and negative op cash flow over past 20 years.

# SEC Performance

## Company Performance\* as at 31<sup>st</sup> October 2020

	1 month	6 month	1 year	Since Inception (p.a.)	Inception Date
Company	1.8%	21.3%	-2.5%	3.1%	30/11/2017
S&P/ASX Small Ordinaries Accumulation Index	0.5%	15.1%	-2.4%	3.3%	
Outperformance	+1.3%	+6.2%	-0.1%	-0.2%	

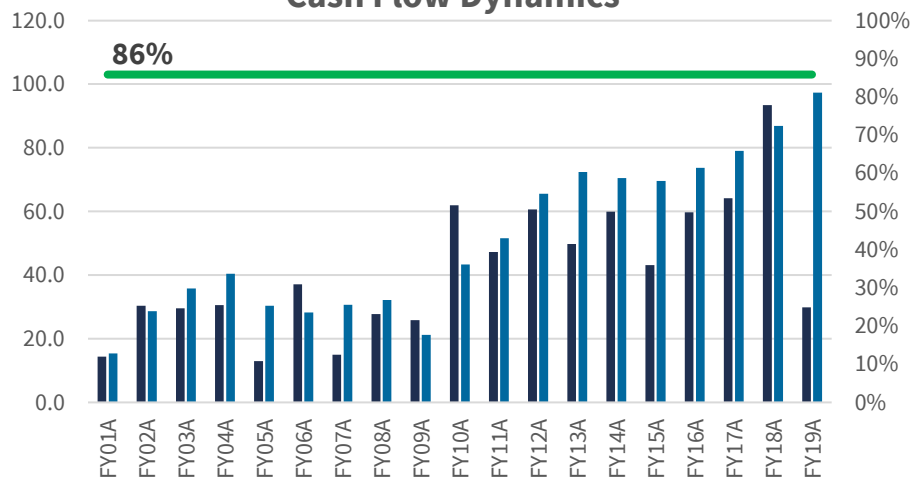
\* Company performance is illustrative of performance only. Calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, and after company expenses Company performance excludes the impact of dividends paid by the Company and the accretive impact of the share buy back on the Company's NTA



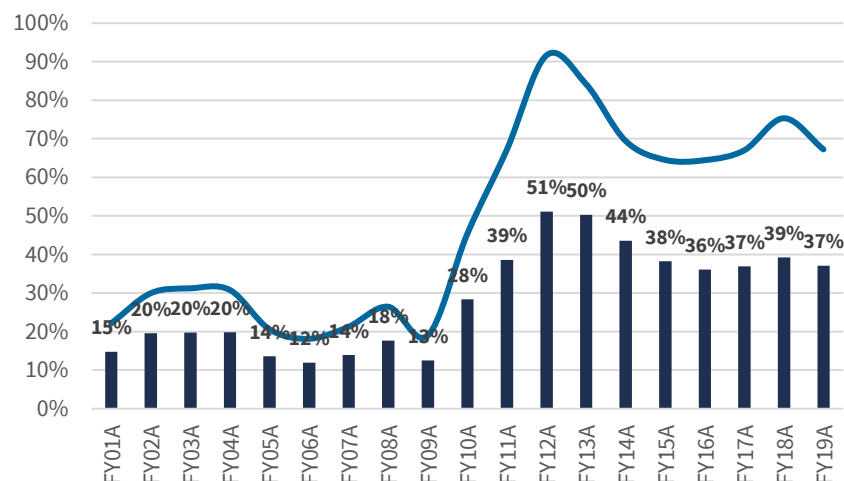
# Breville (ASX:BRG)

## The Sage of Europe

### Cash Flow Dynamics



### Return Metrics



Free Cash Flow before Tax and Interest | EBITA | Cash Conversion (Average)

ROI | ROTIC

- An innovation led global player in the premium small domestic appliance space through the Breville (Australasia, North America, ROW) and Sage brands (Europe and Middle East)
- Solid history of earnings growth with good cash conversion and high ROIC
- Increasing R&D and marketing investment seeing accelerating top line growth from SKU and geographical expansion

Source: Spheria Asset Management, Morningstar



# Company Positions

SEC holdings as at 31 October 2020

Company Name	% Portfolio
Class Limited	5.0
Ht&E Limited	4.1
Breville Group Ltd	3.7
Mortgage Choice Ltd	3.5
Adbri Limited	3.5
Fletcher Building	3.4
Sims Limited	3.3
City Chic Collective	3.3
Technology One	3.2
Corp Travel Limited	3.2
<b>Top 10</b>	<b>36.3</b>

Source: IRESS

# Outlook

- Continued momentum in Fintech and GAAP (growth at any price) continues to leave opportunity in cyclicals, travel related and smaller cap stocks.
- Central Banks around the world have signaled continued interest in QE and further stimulus.
- The IPO pipeline is now active and we anticipate further M&A.
- A rotation is underway from speculation to valuation.

# Thank you for joining us

## SEC Shareholder Enquiries

For general information and investment enquiries please contact the Share Registry, Automic.

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E: [hello@automic.com.au](mailto:hello@automic.com.au)

For investment enquiries please contact Pinnacle.

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# Disclaimer

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

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