

SEC Results FY21

Highlights

FY21 Profit	Company Performance ¹	Final dividend	Yield	Yield (including franking)
\$40.2m	+55.5%	5.0c	3.5% ²	4.8% ³

- **FY21 record net profit after tax of \$40.2m, a material turnaround from the net loss in FY20.**
- **Company NTA performance of +55.5%**
- **Final dividend of 5.0 cents per share (fully franked). Annual dividend yield equal to 3.5%² (4.8%³ including franking).**
- **FY21 annual dividend of 8.5 cents is an increase of 55% on the FY20 annual dividend of 5.5 cents, in recognition of the strong profit for the year**
- **New target dividend yield of 4% of NTA p.a. (5.4% including franking), paid quarterly, for FY22, beginning in the September 2021 quarter.**
- **On-market share buy-back of \$9.9m to date (\$3.1m during FY21), adding 2.8 cents of NTA per share**

Spheria Emerging Companies Limited (**ASX:SEC** or the **Company**) recorded a record operating profit of \$40.2m for the year ended 30 June 2021 (**FY21**). The investment portfolio performance of 56.0% exceeded its S&P/ASX Small Ordinaries Accumulation Index benchmark by 22.8% and the Company has increased its dividends paid to shareholders during the year. We remain confident that the Company's investment process is well positioned to endure the market volatility resulting from the ongoing COVID-19 pandemic – the Board is monitoring events closely and will continue to manage the Company's capital appropriately to the prevailing economic conditions.

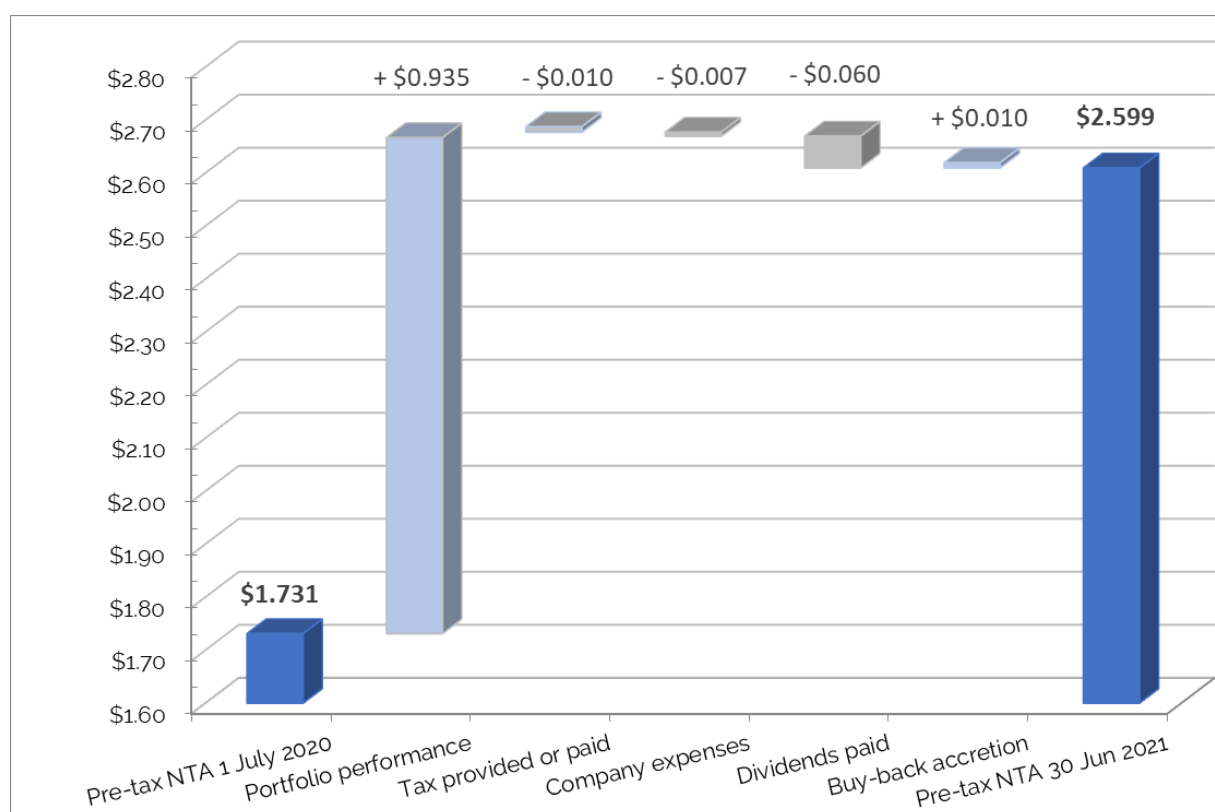
Company NTA performance, which includes the impact of tax on realised gains and other earnings of the portfolio, was +55.5% for the year when adjusted for dividends paid.

¹ Calculated as movement in Company's pre-tax NTA, which includes tax on realised gains/losses and other earnings, but excludes any provision for tax on unrealised gains/losses, adjusted for dividends paid by the Company.

² Annualised dividend yield when combined with FY21 interim dividend of 3.5 cents per share, calculated on share price as at 30 June 2021 of \$2.40

³ Annualised dividend yield when combined with FY21 interim dividend of 3.5 cents per share, calculated on share price as at 30 June 2021 of \$2.40 using 26% tax rate

NTA performance breakdown for FY21



Final dividend

The Board has resolved to pay a fully franked final dividend of 5.0 cents per share. The dividend will be paid to SEC shareholders on 22 September 2021 with a record date of 8 September 2021. When combined with the interim FY21 dividend of 3.5 cents per share paid in March 2021, this equates to an annualised dividend yield of 3.5%² or a grossed-up yield including franking of 4.8%². The FY21 annual dividend is an increase of 55% on the FY20 annual dividend, in recognition of the strong profit for the year.

Dividend ex-date	Record date	Payment date
7 September 2021	8 September 2021	22 September 2021

Discount to NTA

Pleasingly, and aided by the strong investment performance, the discount between the Company's NTA per share and its share price reduced from 25.5% at the start of FY21 to 7.7% at the close on 30 June 2021. At 20th August 2021⁴, SEC shares were trading at a 5.7%⁵ discount to pre-tax NTA (\$2.62 per share). Despite the significant improvement in the NTA discount, the Board is continuing to take steps to address the discount, including the revised dividend guidance outlined below.

⁴ Date of last published NTA backing

⁵ Share price at 20 August 2020 of \$2.47

Shareholders are also reminded of the Board's decision to extend the on-market share buy-back at the FY21 interim results, another major initiative to close the NTA discount.

New target dividend yield of 4% p.a. (5.4% including franking), paid quarterly

A significant benefit of the listed investment company (LIC) structure such as SEC is the ability to pay regular and consistent fully franked dividends to shareholders. Typically, this benefit can best be utilised by long established LICs that have had the time to build up a strong reserve of both retained profits and franking credits out of which to pay fully franked dividends.

Given the strong cash flow generating nature of the stocks SEC invests in that underpins a solid dividend stream from SEC's investment portfolio, as well as the "banking" of capital gains during the strong rise in the portfolio during FY21, SEC's balance sheet as at 30 June 2021 has a healthy level of both retained profits and franking credits. This has enabled the Board to reassess the Company's dividend guidance.

In light of this strong balance sheet and the attractiveness of regular fully franked dividends to shareholders, the Board has decided to set a new dividend target yield of 4% of NTA p.a. (5.4% including franking) for FY22. The intention is to pay dividends quarterly at a level of 1% of NTA per quarter (1.35% including franking), based on the NTA at the end of each calendar quarter. The first of these quarterly dividends will be declared based on the 30 September 2021 NTA. A further announcement detailing the quantum and timetable of this first quarterly dividend will be made in due course.

This new dividend guidance is subject to available profits, cash flow and franking credits and will continue to be reviewed by the Board based on its effectiveness at closing the NTA discount and market conditions.

On-market share buy-back

On 1 July 2019 the Company commenced an on-market share buy-back as a pro-active measure to assist with addressing the Company's shares trading at a discount to NTA.

During FY21, 1,807,763 shares had been purchased under the buy-back for total consideration of \$3,138,000.

The buy-back was most recently extended by the Company at the FY21 interim results announcement on 25 February 2021 so that a maximum of 1,500,000 shares were able to be bought back through to 31 December 2021. There are currently 1,480,435 shares remaining to be bought back under this limit.

Investment by the Manager

As at 30 June 2021, the aggregate holding in SEC of the Manager and executives of the Manager (who are not acting in concert with each other) was in excess of 825,000 shares. The Manager is committed to being a long term investor in the Company.

Shareholder webinar on results and portfolio

The Board invites you to the upcoming shareholder webinar on 8 September 2021 at 10.30am (Sydney time AEST). The webinar will provide an update on the Company's full year financials and investments from the Company's Chairman, Jonathan Trollip and Spheria Asset Management's Portfolio Manager, Marcus Burns.

Shareholders are invited to register at the following link:

<https://event.on24.com/wcc/r/3378519/E86625B8579735ED7A0823647F39C80C>

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

Additional shareholder information

Performance as at 30 June 2021

	FY21	Since inception p.a.
Company*	+55.5%	+11.4%
Portfolio**	+56.0%	+11.8%
Benchmark***	+33.2%	+9.4%
Portfolio Outperformance	+22.8%	+2.4%

*Calculated as movement in Company's pre-tax NTA, which includes tax on realised gains/losses and other earnings, but excludes any provisions for tax on unrealised gains/losses, adjusted for dividends paid by the Company.

**Shows how the portfolio, for which the Manager is responsible, has performed after deducting management fees, costs and taxes and performance fees (if applicable).

*** S&P/ASX Small Ordinaries Accumulation Index.

Manager's commentary

Portfolio performance

The investment portfolio increased 56.0% for the twelve-month period ending 30 June 2021, outperforming the Benchmark by 22.8%. The market has been dominated by the recovering outlook globally post the initial reaction to COVID-19 in the first quarter of calendar 2020. The combined actions of central banks and governments have provided massive fiscal and monetary stimulus to economies to pump prime them out of the economic shutdowns imposed to combat the virus's impact.

Many of the most oversold areas of the market recovered the most strongly over the past year. In particular we would highlight consumer discretionary (bricks and mortar retailers), financials (in particular market related stocks) and the tourism and leisure sectors. In addition to being overweight many of these sectors, the Company has been the beneficiary of a number of takeovers. These have included Village Roadshow (VRL) (acquired by BGH Capital), Asaleo Care (AHY) (acquired by its parent company Essity), Mortgage Choice (MOC) (acquired by Realestate.com.au) and Isentia (ISD) (scheme of arrangement from Access Intelligence). In an extremely low interest rate environment with recovering board and management confidence we expect M&A to remain a central theme in the smaller company space for some time.

The IPO market has also returned with gusto. IPO's were essentially put on hold during the initial COVID-19 outbreak with company capital raisings taking their place. Since September 2020 however, as market conditions improved we saw the re-emergence of IPO's. As is usually the case the quality is mixed with entrepreneurs and private equity typically keen to take advantage of this liquidity window. We are selective with our participation here and look for businesses where we can see a consistent history of earnings, a strong balance sheet and a sound reason for coming to the market. Since September 2020 we have bought into 4 IPO's out of the 39 IPO's (above \$30m) which have listed – or around one in ten. IPO's occasionally present us with good opportunities to acquire businesses at attractive valuations but our general preference is to invest in listed companies with longer histories.

The three largest contributors to portfolio performance during the year were Seven West Media (SWM), Mortgage Choice (MOC) and Ainsworth Gaming (AGI) while the three largest detractors that we owned were Blackmores (BKL), Monadelphous (MND) and Flight Centre (FLT).

Market outlook

The major macro themes dominating the market have included the incredible liquidity unleashed by central banks around the world, quantitative easing and fiscal stimulus. Unsurprisingly this has created a surge in equity markets. We remain somewhat cautious about the re-emergence of inflation with all indicators suggesting it is back – the market's only debate is for how long. With a discount rate of 8% built into our valuations we believe the Company's holdings should be well positioned for the potential impact of rising inflation and interest rates. The smaller companies space continues to offer some good opportunities despite the overall strong performance of the market since the nadir reached in late March 2020. 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.

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