Airlie Small Companies Fund

A concentrated, active portfolio of Australian listed small companies.

Fund Update: 30 September 2024 **ARSN: 665 882 673**

FUND FEATURES

- Leverages the experienced, proven Airlie investment team to provide a focused exposure to Australian small companies.
- A conservative and robust investment process that focuses the team's energies on their 'best ideas'.
- Strong team alignment through co-investment in the fund.

FUND FACTS

Investment Objective
The Fund's primary investment objective is to provide long-term capital growth and income through investment in Australian listed small companies.

Investment Strategy
- Active, long-only Australian small companies fund with a focus on bottom-up, fundamental research.
- High-conviction, concentrated portfolio of 20-40 quality Australian listed small companies which when first acquired do not rank in the S&P/ASX 100.
- Typical cash and cash equivalents exposure between 0% - 10%.

Investment Risks
All investments carry risk. While it is not possible to identify every risk relevant to an investment in a fund, we have provided details of risks in the relevant Product Disclosure Statement. You can view the PDS for the Fund on Airlie's website: www.airliefundsmanagement.com.au

Inception Date	4 April 2023
Benchmark	S&P/ASX Small Ordinaries Accum. Index
Portfolio Size	AUD $4.6 million
Distribution Frequency	Semi-annually
Management Fee[1]	0.98% p.a.
APIR	MGE1188AU
Performance Fee	Performance fees are 20% of the excess return of the units of the Fund above the S&P/ASX Small Ordinaries Accumulation Index over each Calculation Period[2].
Minimum Initial Investment	AUD$10,000
Buy/Sell Spread	0.25%/0.25%

[1] Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.
[2] As defined in the Fund's PDS.

PORTFOLIO MANAGER

Will Granger
Will Granger joined Airlie in 2020 as an Equities Analyst. Will is now the Portfolio Manager for the Airlie Small Companies Fund which launched in March 2023. Prior to Airlie, Will worked as an analyst at KIS Capital Partners (February 2016 to June 2019). KIS Capital Partners was a market neutral hedge fund with about $270 million of funds under management.

Visit www.airliefundsmanagement.com.au for more information, including: fund performance, unit prices, investment insights, PDS & forms

PERFORMANCE*

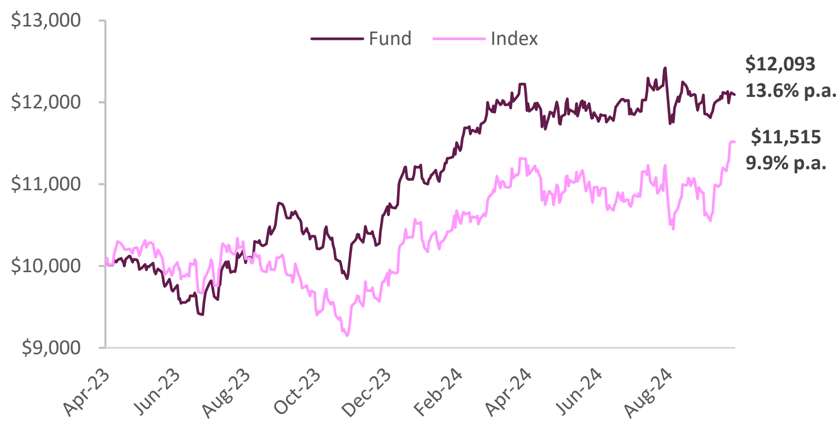
	Fund (%)	Benchmark (%)	Excess (%)
1 Month	1.0	5.1	-4.1
3 Months	0.6	6.5	-5.9
6 Months	-1.1	1.8	-2.9
1 Year	16.7	18.8	-2.1
Since Inception (p.a.)	13.6	9.9	3.7

Past performance is not a reliable indicator of future performance.

TOP 5 POSITIONS (BY WEIGHT)

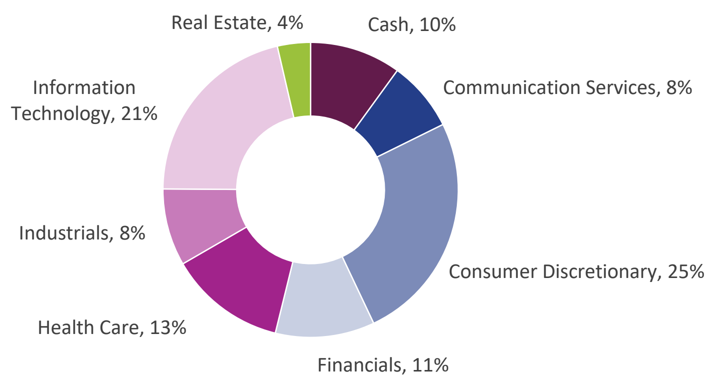
Company	Sector**
Gentrack Group Ltd	Information Technology
News Corp	Communication Services
Joyce Corp Ltd	Consumer Discretionary
EBOS Group Ltd	Health Care
Nick Scali Ltd	Consumer Discretionary

PERFORMANCE CHART GROWTH OF AUD $10,000*



Past performance is not a reliable indicator of future performance.

PORTFOLIO POSITIONING**



* Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Returns denoted in AUD.
** Based on GICS Sector classification, may not sum to 100% due to rounding.

FUND COMMENTARY

For the September quarter, the Fund returned +0.6% compared to the Small Ords Accumulation Index return of 6.5%, reflecting underperformance over the period of -5.9%.

The top three contributors to performance during the quarter were Nick Scali (+1.3%), Gentrack (+1.2%) and EBOS (+0.8%). The top three detractors from performance were Mader Group (-1.5%), Tabcorp (-1.8%) and Smartpay (-1.8%).

This quarter included the August 2024 reporting season, and we highlight some key results below.

Nick Scali posted a solid performance in a challenging retail environment. Excluding losses related to the UK expansion, the company delivered profit before interest and tax of $131m for FY24, a decline of 15% on the prior year. Supported by the acquisition of Plush Furniture, Nick Scali has grown profit before interest and tax at a 17% compound annual growth rate over the past five years. At the current share price, Nick Scali trades on a trailing twelve-month P/E of around 16x, which represents a steep discount to the Small Ordinaries Index and is about in line with the company's ten-year average P/E. Notably, this valuation does not account for the potential of the UK expansion, essentially offering a free option on a venture that could one day surpass the scale of its Australian operations.

Another strong result during the quarter came from Sigma, or more specifically its potential merger partner, Chemist Warehouse. Chemist Warehouse grew profit before tax by 34% in FY24, with growth accelerating to 41% in the second half. We explore the Chemist Warehouse opportunity in greater detail in our stock story below.

Tabcorp delivered a poor FY24 result, accompanied by soft guidance for FY25. Prior to this result, Tabcorp's issues had largely been revenue-driven, with the company navigating a cyclical downturn in wagering turnover. Interestingly, the FY24 revenue result was reasonable, with the issues instead stemming from higher-than-expected costs that have bled into next year's guidance. While we had anticipated some cost pressures, the magnitude of the cost downgrade was surprising, particularly given Tabcorp's cost base remains elevated compared to peers, suggesting potential room for optimisation. While some of this may reflect a 'clearing of the decks' by the incoming CEO, we have revised our estimate of sustainable earnings and margins and now see increased balance sheet risk. As such, we have substantially reduced our position in Tabcorp.

Mader delivered a strong result in its Australian business, somewhat offset by a weak 2H24 in the North American division. In North America, both revenue and profit before interest and tax declined sequentially in 2H24, driven largely by reduced coal activity in the US. In contrast, the Australian business continued to grow strongly, with revenue and profit before interest and tax increasing by 25% and 27% respectively in FY24. For FY25, the company has guided to revenues of $870m (+12%) and NPAT of $57m (+13%).

We suspect this guidance is conservative and believe that the implied 19x P/E ratio undervalues the quality of the business and its significant growth potential. As a result, Mader remains a key holding in the portfolio.

STOCK STORY – CHEMIST WAREHOUSE

(Will Grainger - Portfolio Manager)

One of the standout results during the last quarter was the performance of Sigma merger-hopeful, Chemist Warehouse. We first purchased a position in Sigma back in December 2023, shortly following the announcement of its proposed merger with Chemist Warehouse.

Our attraction to Chemist Warehouse is straightforward; few businesses possess such a dominant competitive position in their respective niche as the Chemist Warehouse franchise. The company employs a similar model to many discount retailers, leveraging its large scale to negotiate cheaper prices from suppliers and pass the savings on to customers. This creates a positive cycle where lower prices attract more customers, which further boosts sales and negotiating power with suppliers. As a result, Chemist Warehouse generates best-in-class sales per square metre compared to global pharmacy peers. The company is run by a founder-led management team with significant skin in the game and the balance sheet is in a strong position.

The company also possesses a long growth pipeline. Chemist Warehouse accounts for less than 10% of pharmacies in Australia. Just by replicating its store penetration in Victoria across other states, Chemist Warehouse could grow its Australian store network by 65%. The company also has several irons in the fire internationally, with 70 stores located across New Zealand, Ireland and China. There are potentially decades of strong store rollouts ahead of the business, and the company's franchise model allows for this expansion with minimal capital investment, with the potential to create significant economic value for shareholders.

The fly in the ointment, however, is whether the deal gets blocked by the ACCC. At our average purchase price of around $1.10, we considered the probability of ACCC approval, as well as the upside and downside valuation scenarios. Under that analysis, we viewed the risk reward as highly favourable. The recent announcement regarding Chemist Warehouse's enforceable undertaking, which was likely developed in consultation with the ACCC, indicates to us that the chances of approval have significantly improved. At today's share price of around $2.00, there is clearly substantial downside if the deal is blocked, and we have trimmed our position slightly to reflect this risk. However, given the compelling long-term opportunity and what we consider to be a probable deal completion, we remain holders.