



STOCK STORY

The Fund's investment philosophy centres on fundamental research, analysing individual businesses to identify mispricings and devoting little attention to broader investment thematics. As it happens, however, one of our largest holdings is positioned at the coal face of one of the largest global investment thematics: the energy transition. The company in question is Gentrack, a global provider of enterprise software to utilities and airports. Gentrack has been held in the Fund since inception and has been the strongest contributor to performance. In the following, we outline the rationale for our investment.

For simplicity, we will focus on the utilities side of the business, which accounts for most of the company's value. For its utility customers, Gentrack's software handles everything from customer information and billing to data and energy management. We like businesses that sell this type of 'mission-critical' enterprise software, as customer churn is typically very low due to how costly and disruptive it can be to switch providers. Upgrading this software is a massive project for the utility, costing anywhere between \$50 million and \$250 million and taking 12 to 24 months to implement. It's the kind of project a utility undertakes once every 10 years, which benefits the software providers because it effectively locks in customers for a decade. This creates predictable, annuity-style revenue streams and a business that is uncharacteristically durable for the software industry. Gentrack itself exemplifies this durability, having been in operation for more than 35 years.

The industry's high barriers to entry naturally favour an oligopoly structure, with SAP and Oracle the two

incumbents competing against a small selection of specialist providers including, among others, Gentrack, Kraken and Kaluza. The opportunity for these specialist providers lies in the fact that the energy transition is vastly increasing the complexity of the energy grid. Historically, energy grids were largely characterised by centralised power generation and one-way distribution. However, the grid is becoming increasingly decentralised, with assets like solar panels, EVs and batteries enabling consumers to generate, store, and buy and sell energy off the grid. This vast increase in the complexity of the grid means that the software many of these utilities are operating on – some of which is 20 to 25 years old – is no longer fit for purpose and needs to be upgraded. Some energy grids are further along in this transition than others, particularly in Gentrack's core markets of Australia, New Zealand and the UK. In these markets, SAP and Oracle have ceded significant market share to the specialist providers. If this trend serves as a proxy for other global markets, there is a substantial market share opportunity ahead of Gentrack.

Gentrack also boasts a strong management team, led by CEO Gary Miles who joined the business in 2020. While his tenure has been relatively short, Gary has an impressive track record in enterprise software, having run and sold two separate enterprise software businesses, one of which he co-founded. The latter of these two businesses he sold to Amdocs, a market leader in telco enterprise software, where he subsequently held senior executive roles before joining Gentrack. Gary has assembled an impressive team, including Gentrack's chief operating officer, who previously served as the general manager of global delivery at Amdocs, and Gentrack's chief technology officer, who formerly held the same position at Xero.

Quality software companies with long-term growth stories rarely trade at prices we would find attractive. Usually, we only get the chance to invest if the company has gone through some kind of temporary hiccup. In Gentrack's case, the company had been navigating

some customer closures in the UK related to price caps imposed on energy retailers, which put many small retailers out of business. These closures, and the resultant loss of revenue, substantially reduced Gentrack's profit margins. We viewed these issues as mostly temporary, and purchased Gentrack on a view that margins could eventually return to historical levels, a possibility that in our opinion was not reflected in the 2x sales valuation.

Fast forward to today, and Gentrack has performed exceptionally well, rising 87% in 2024 following the release of strong financial results. The FY24 result was particularly encouraging, with the company seeing strong profit margin expansion on an underlying basis, giving us further confidence in our margin recovery thesis. While the company now trades on around 33x our estimate of FY25 EBITDA, profit margins remain depressed versus history. If we normalise profit margins back to historical levels of around 30%, that EBITDA multiple falls to just 19x, which we believe looks attractive relative to the market share opportunity ahead of the business as well as other software peers. While we do not expect margins to fully revert to historical levels in the near term, this underscores the potential operating leverage that lies ahead. Consequently, we continue to see compelling long-term value in Gentrack, and it remains a core holding in the Fund.

By Will Granger, Portfolio Manager - Airlie Small Companies Fund

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