MARKET MATTERS
INVEST

# MONTHLY REPORT | DEC 2024 | EMERGING COMPANIES

## PORTFOLIO DETAILS

| | |
|---|---|
| Model Name | Emerging Companies |
| Benchmark | S&P/ASX Small Ords Index |
| Included Assets | Equities |
| Portfolio Manager | James Gerrish |
| Annual Performance | -7.59%* |

**Inception Date 31.01.2020*

## OBJECTIVE

To provide an active exposure to Australian emerging companies defined as all listed stocks outside the S&P/ASX 100. Returns will primarily be achieved through capital appreciation with an overall objective of outperformance of the S&P/ASX Small Ordinaries Index over 5 years.

## PORTFOLIO PERFORMANCE & ACTIVTY

The **Market Matters Emerging Companies Portfolio declined** 5.1% in December, underperforming the Small Ordinaries Accumulation Index which fell by -3.07%. The portfolio has returned -4.9% for the rolling 12 months, 0.93% per annum for 2 years and -7.59% per annum since inception (January 2022).

| PERIOD | 1 MONTH | 3 MONTH | 6 MONTH | 1 YEAR | 2 YEAR PA | INCEPTION |
|---|---|---|---|---|---|---|
| **PORTFOLIO %** | -5.11 | -5.65 | -4.88 | -4.91 | 0.93 | -7.59 |
| **BENCHMARK %** | -3.07 | -1.01 | 5.46 | 8.36 | 8.09 | -0.86 |
| **RELATIVE %** | -2.04 | -4.64 | -10.34 | -13.27 | -7.16 | -6.73 |

*Benchmark: S&P/ASX Small Ords Accum Index*

The portfolio held 22 positions at the end of December with cash sitting around 10%. Another soft month of returns and while we're not getting the results from a performance perspective, it's important to remember that things change quickly in small caps.

During the month, we made several changes to the portfolio, taking profits on **Zip Co (ZIP)** and **Austin Engineering (ANG)**, booking losses from **Audinate (AD8) & Chrysos (C79)**.

New positions were established in **RPM Global (RUL)** and **Hanson Technologies (HSN)**.

## RPM GLOBAL (RUL)

RPM Global (RUL) is at an interesting stage in its life, often referred to as an inflexion point where the investments made over a long period start to have a meaningful impact on the operating metrics of the business, underpinning a strong improvement in operating leverage, profitability and free cash flow, all the things that make software businesses great investments if they work.

Taking a step back, this $600m company develops and sells enterprise mining software solutions, covering all aspects from mine planning to execution. They used to sell this software under licence for a large upfront fee and then smaller maintenance fees each year. They flipped the model in 2017, turning it into an annual subscription-based service which caused short-term pain on revenues, but the change is now bearing fruit with revenues reoccurring in nature, making them stickier and a lot more predictable over time, while compounding does the rest.

The same is true in a subscription service like Market Matters. Some business models in our space sell higher cost, longer-dated subscriptions (much like licence fees), which is a quick sugar hit to revenues initially, however, there are many examples where businesses fail over time using this model. Each year they start from scratch again and try and find new customers to sell to. It's a flawed model, but a hard one to change.

It took around 5 years for RUL to push through the change where shorter-dated subscription revenue overtook licence sales, but they are now over the hump, and it creates an exciting platform for growth over the coming years.

In FY24, RUL sold $77m of subscriptions for the full year, beating the $70m in FY23. About half of new sales in the 2H were contracted for at least eight years, and both contract size and length is increasing.  In FY25, it is expected that total revenue will top $120m with earnings (EBITDA) nearing $20m, up 20% y/y, In FY26, that growth rate is expected to leap again to ~30%, which highlights the power of the model as it scales.

| PORTFOLIO STOCKS | |
|---|---|
| NO. OF HOLDINGS | 23 |
| ESTIMATED YIELD (%) | 1.65 |
| TOP 5 POSITIONS (% OF AUM) | 26.3 |
| TOP 10 POSITIONS (% OF AUM) | 47.6 |

| STOCK | CONTRIBUTION (%) |
|---|---|
| SRG GLOBAL (SRG) | 0.15 |
| READYTECH (RDY) | 0.13 |
| PALADIN ENERGY (PDN) | 0.08 |
| PEXA GROUP (PXA) | 0.07 |
| NINE ENTERTAINMENT (NEC) | 0.04 |

| STOCK | DETRACTION (%) |
|---|---|
| VAULT MINERALS (VAU) | -0.70 |
| CATAPULT SPORTS 9CAT) | -0.33 |
| CORONADO GLOBAL RESOURCES (CRN) | -0.30 |
| AUSSIE BROADBAND (ABB) | -0.30 |

| % | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FY25 | -0.04 | -6.02 | 7.30 | -2.99 | 3.1 | -5.11 | | | | | | | **-3.76** |
| FY24 | -1.05 | 6.72 | 1.21 | -7.74 | 4.28 | 5.16 | -1.61 | 3.27 | 2.87 | -1.13 | 0.93 | -4.45 | **8.46** |
| FY23 | 14.20 | 2.16 | -9.70 | -0.05 | 6.55 | -3.29 | 7.51 | -5.41 | -1.94 | 2.68 | -3.95 | 0.24 | **9.00** |
| | | | | | | | -0.12 | -7.59 | 6.86 | -9.19 | -7.06 | -14.28 | **-31.38** |
| **CUMULATIVE** | | | | | | | | | | | | | **-17.68** |

We are bullish on the broader mining space over the coming years, with the energy transition driving huge investment at a time when running mine operations as efficiently and sustainably as possible becomes increasingly important – RUL's suite of solutions helps mining companies do this.

## HANSON TECHNOLOGIES (HSN)

Hanson Technologies (HSN) is software provider that underpins billing for key services like electricity, gas & pay TV that had resided on our hitlist for some time, with the share price ebbing and flowing between $4 &$6, with no specific catalyst to see it push out of that range. In November, HSN held their AGM and provided what we would describe as a positive and comprehensive outlook, and it looks to us like their German business, Powercloud, is turning the corner. This is the business they bought early this year that was losing ~$30m annually; however, HSN has reduced headcount from 390 to 140, with run-rate cost savings to date of $27m, meaning it will be profitable in the coming months.

At the AGM, Hanson reiterated its guidance expectations for group revenue of between $398mn-405mn which was ~6% ahead of consensus and cash EBITDA of $76-85mn (consensus $81mn).

We viewed this update very favourably. HSN is now at a point where it can shift from restructuring and pulling costs out of a new business into growth and take advantage of the significant level of energy company software upgrades from here.

## PEXA GROUP (PXA)

A position we continue to hold is PEXA Group (PXA), an electronic lodgement and settlement network that aligns communication in property transactions between vendors, banks, lawyers and other participants in the transaction. It is a growth company, on a growth multiple/valuation, but has ultimately failed to meet market expectations. It was originally formed by what is now known as the National Cabinet, funded by the big 4 banks, with Link Administration (LNK) also providing capital in later rounds before its IPO in 2021. There was a growing push from all stakeholders to use a platform in property settlements and refinancing and PXA was born to solve the problem, and they've been successful in doing so.

PXA is a great solution, that we think is now on the cusp of turning into a great business. Earnings are set to grow strongly in the coming years, yet the share price is down from the IPO in 2021 and has tracked mildly lower in the past year.

The crux of their issues has been the complexity associated with aligning all stakeholders, bedding down complex systems and scaling operations into other jurisdictions, such as the UK. This is a very difficult area, and it's taken longer and cost more than expected. While the Australian business has performed pretty well, the UK has been more of a struggle.

When they released FY24 results in August, they also announced the resignation of the CEO, and guided revenue growth in FY25 of 13-19%, which was a little light on given the market was already at the top end (19%).They also announced a very strong CEO to take over on the 31st of March 2025. Russell Cohen is currently the Group Managing Director of Operations at a very successful multinational technology company called Grab, leading a team of 3000 across seven countries. He is highly rated, and the market reaction (stock +8%) at time of announcement provides some insight into the markets interpretation of this appointment.

In FY25, we expect revenue to increase another ~16% to $400m underpinning an improvement in earnings and as the business scales further, we think earnings growth can compound annually at over 20%, making it an attractive growth stock for those with some patience.

We view a price around $13 as a great entry point into a multiple-year growth story, underpinned by a structural shift towards digitisation.

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