Small Talk

EQUITABLE INVESTORS®

For Equitable Investors' Wholesale Clients

Monday, September 12, 2022

Benchmark Indices | September 5-9 , 2022

	Week	12m
Australia		
S&P/ASX 100	0.84%	-5.34%
Gov 10yr Bond Yield (constant) 3.57%	-0.09%	2.30%
S&P/ASX Small Ordinaries (ETF: ISO)	2.50%	-20.32%
ASX Emerging Companies (LIC average)	-3.35%	-25.07%
Global		
AUD / USD 0.684	0.47%	-7.11%
Large Caps - iShares MSCI World (USD)	3.60%	-12.46%
... iShares MSCI World Index (AUD spot)	*3.11%*	-5.76%
Smaller Stocks		
iShares US MicroCap (USD)	3.14%	-19.67%
... iShares US Micro Cap Index (AUD spot)	*2.65%*	-13.52%
S&P/TSX Venture Composite (CAD)	2.14%	

Equitable's "FIT" Universe Returns	Week	12m
All-FIT Geo Mean % Change	-0.81%	-28.41%
Sector Averages		
Communication Services	-0.29%	-18.23%
Consumer Cyclical	-0.46%	-23.03%
Consumer Defensive	-0.17%	-22.61%
Energy	0.00%	-23.15%
Financial Services	-0.77%	-12.74%
Healthcare	2.01%	-16.08%
Industrials	-0.83%	-25.94%
Technology	-1.09%	-17.30%
Basic Materials	-2.54%	-15.64%
Real Estate	1.55%	-12.80%
Utilities	3.87%	-21.80%

	Week	12m
Low PE	-0.03%	-9.52%
Mid PE	-0.32%	-10.90%
High PE	0.16%	-6.66%
No or negative PE	-1.21%	-36.63%
Low EV/EBITDA	-1.11%	-7.58%
Mid EV/EBITDA	-0.33%	-9.74%
High EV/EBITDA	0.96%	-11.34%
No/negative EV/EBITDA	-1.00%	-40.72%
Low EV/Revenue	-1.03%	-22.22%
Mid EV/Revenue	-0.74%	-20.96%
High EV/Revenue	-0.01%	-12.99%

We track our "FIT" (Financials, Industrials & Technology) universe by measuring the share price performance of companies that meet the following criteria: ASX-listed; Market caps of between $10 million and $5 billion; At least $5m annual revenue in the previous financial year; and not a mining company or REIT. *Data sources include: Sentieo, Iress , GuruFocus, MarketWatch, Yahoo Finance.*

Technology & Thematics | USD ETF proxies	Week	12m	
High-Growth Tech	9.88%	-62.67%	*ARK Innovation ETF*
FinTech	7.11%	-49.11%	*Global X FinTech ETF*
CyberSecurity	5.48%	-14.38%	*Global X Cybersecurity ETF*
Battery Tech	7.42%	-9.27%	*Global X Lithium ETF*
Cloud Computing	8.04%	-40.55%	*Cloud Computing ETF*
Airlines	5.23%	-18.85%	*U.S. Global Jets ETF*
Cannabis	-0.37%	-65.83%	*AdvisorShares Pure Cannabis ETF*

Sector / Factor | USD ETF proxies	Week	12m	
Inflation	-0.96%	-8.27%	*Spdr Series Trust*
Gold	0.35%	-4.40%	*SPDR Gold Trust (ETF)*
Commodities	0.20%	31.15%	*PowerShares DB Com Indx Trckng Fund(ETF)*
Cryptocurrency	8.13%		*ProShares Bitcoin Strategy ETF*
SPACs	-0.10%	-4.60%	*The SPAC and New Issue ETF*
Momentum Factor	2.62%	-19.69%	*iShares Edge MSCI USA Momentum Factor ETF*
Value Factor	2.87%	-5.30%	*iShares Edge MSCI USA Value Factor ETF*
Quality Factor	4.24%	-12.72%	*Quality Semiconductor*

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Small Talk is back in action after a reporting season hiatus. Earnings season on the ASX came to a close with a historically low number of downgrades on the FY22 numbers, as tracked by Wilsons, but more downgrades than upgrades to EPS and dividend guidance for FY23, based on Evans & Partners' numbers. You can see the charts on these outcomes in our latest "10k Words" blog - here. One thing that is visible from the aggregate data is the expected impact from cost and wage inflation - while slightly more companies upgraded revenue guidance than lowered it; there was a clear downgrade trend on costs that led to the EPS changes. Here's a few quotes from earnings calls that add some colour:

- Earlypay (EPY): "We are very confident in the robustness of invoice and trade finance but putting 5-year loans out when trading conditions are uncertain, we don't think is sensible."
- Mad Paws (MPA): "Does the shift to cost focus reflect Mad Paws' confidence in business development channels or view that a lot of the low-hanging fruit in terms of market penetration have been realised? … We still feel there's a lot of growth for the business to be had, but we want to be as prudent as possible from a cost perspective."
- Omni Bridgeway (OBL): "We perceive there will be opportunities for investments created by the prevailing macroeconomic conditions, both because of the demand for our capital when traditional sources of capital are constrained and because litigation risk is hugely elevated during periods of economic stress."

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News of the Week | News from companies Equitable Investors has an eye on

- **Global Data Centre Group (GDC;** $81m market cap; -1.1% price change last week**)** | The data centre investment company announced that its Etix Everywhere unit has acquired two data centres in Lille, France, for ~$81.2m, to be 55% debt financed.

- **Scout Security (SCT;** $6m; -5.2%**)** | The security-as-a-service company raised funds to support the ramp-up of its white-label recurring subscription business after the recent announcement of a partnership with Fortune 500 pattern Lumen Technologies. SCT raised $0.93m in a placement and announced a $2.3m rights issue, pricing shares at $0.03 a share and offering one option for every two shares at a $0.07 exercise price. *Disclosure: Equitable Investors' Martin Pretty is a non-executive director of SCT.*

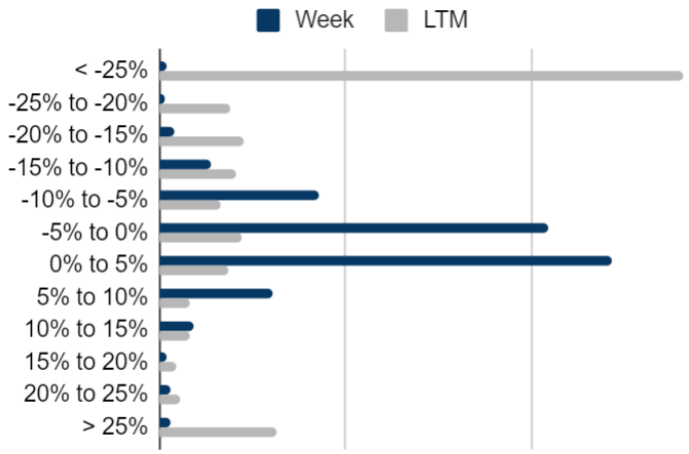
- **Spectur (SP3;** $8m; -15%**)** | The remote monitoring technology company held its AGM to approve its recent placement and share purchase plan. It also announced that, post capital raising, it was reducing its loan facility from EGP to $1.1m from $1.5m to reduce line fee costs. "Spectur does not envision the requirement to further draw on the EGP loan facility," said SP3 MD Gerard Dyson.

- **Omni Bridgeway (OBL;** $1,060m; +5.2%**)** | The Australian Federal Government announced that it intends to reverse the regulatory changes introduced by the prior Government. The proposed changes include the confirmation that the managed investment scheme (MIS) regime is not applicable to the funding of Australian class actions. OBL said Australian class actions constitute 12% of its global portfolio and the regulation changes, whilst welcome, will not have a material impact on the group's business.

"FIT" Universe Returns

Our "FIT" (Financials, Industrials & Technology) universe measures the share price performance of companies that meet the following criteria: ASX-listed; Market caps of between $10 million and $5 billion; At least $5m annual revenue in the previous financial year; and not a mining company or REIT.

Market Cap Bands	Week	12m
$10m to $50m	-2.65%	-29.35%
$50m to $100m	-2.52%	-24.95%
$100m to $250m	-0.38%	-17.73%
$250m to $500m	0.70%	-13.92%
$500m to $750m	2.35%	-12.65%
$750m to $1000m	1.91%	-12.55%
$1000m to $1500m	1.73%	-16.54%
$1500m to $2000m	0.23%	-11.36%
$2000m to $3000m	1.51%	-16.05%
$3000m to $4000m	0.00%	-5.47%
$4000m to $5000m	-0.78%	11.42%



"FIT" Universe - Best & Worst Price Performance of the Week

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Best		Worst	
Tyro Payments Ltd (ASX:TYR)	40.31%	Contango Asset Management Ltd (AS	-39.39%
Dubber Corp Ltd (ASX:DUB)	36.11%	Electro Optic Systems Hldgs Ltd (ASX	-34.72%
Nuix Ltd (ASX:NXL)	31.30%	PRO-PAC Packaging Ltd (ASX:PPG)	-29.93%
Cronos Australia Ltd (ASX:CAU)	30.43%	Toys R Us ANZ Ltd (ASX:TOY)	-22.92%
Veris Ltd (ASX:VRS)	25.00%	8VI Holdings Ltd (ASX:8VI)	-22.33%
Myer Holdings Ltd (ASX:MYR)	24.51%	FinTech Chain Ltd (ASX:FTC)	-20.00%
AMA Group Ltd (ASX:AMA)	23.53%	Vita Group Ltd (ASX:VTG)	-20.00%
Cettire Ltd (ASX:CTT)	22.60%	Axiom Properties Ltd (ASX:AXI)	-18.18%
Universal Biosensors Inc (ASX:UBI)	20.41%	Aerison Group Ltd (ASX:AE1)	-17.50%
Megaport Ltd (ASX:MP1)	20.26%	Carbonxt Group Ltd (ASX:CG1)	-16.67%

Notes

- Payments company Tyro (TYR) said it had rejected an unsolicited approach by private equity investors to buy it out at $1.27 a share- the stock rose to $1.375 at the end of the week from $0.98 the prior Friday.
- No news from cloud voice recording tech company Dubber (DUB), other than it being removed from the S&P/ASX 300.
- Data analytics software company Nuix (NXL) was the subject of takeover speculation, although it stated that it had not received a bid or written proposal from speculated suitor Reveal.
- Weapons technology company Electro Optic Systems Holdings (EOS) came out of a trading suspension after it failed to lodge its financials before the end of August. The company reported a -$34.7m EBITDA figure in the June half for an operating loss of -$98.9m. It spoke of customer delays, supply chain challenges, re-working and excessive cost to be reduced.
- To reduce debt, packaging and distribution company Pro-Pac Packaging (PPG) conducted a $23.6m institutional placement of shares and launched a $30m entitlement offer, priced at $0.30 a share, a 53% discount to its prior close.

Valuation Distribution - EV/EBITDA multiples from our "FIT" universe

We sort stocks within our "FIT" universe by EV/EBITDA, using EBITDA from the last 12 months, and identify stocks by sector.

From	0	5.01	7.51	10.01	12.51	15.01	17.51	20.01	22.51	25.01	27.51	30.01
To	5	7.5	10	12.5	15	17.5	20	22.5	25	27.5	30	>
	FTC	SIQ	WTL	APZ	ISU	CMP	GSS	BWF	CUV	VIG	CAU	CNI
	CQE	SEG	AQN	BCC	RFF	DMP	CCG	CMW	ABY	D2O	CAR	PNV
	MTO	UNI	CWP	IDX	UMG	VBC	FFI	AND	CVW	ANO	3PL	PLT
	CQR	WOT	MSL	VEE	FRI	DTL	CLV	PNC	CNW	TNE	UWL	SOM
	PTL	CSS	DGL	AHX	EOS	DDR	LOV	LFG	SSM	PWH	RFT	FOD
	SUL	RCT	SVW	MGH	WPR	URF	EGL	DBI	JLG	PPL	PXA	DSE
	NWH	SGF	AQS	LBL	PGC	CWY	IRE	SHV	IVC	PSI		LRK
	CVL	KME	JCS	MAD	AVJ	PSQ	EMB	ABB	DHG	LNK		NAN
	BRI	NCK	RPM	SIO	ATL	HRL	IPH	FSG	GDI			AD8
	GNG	VSL	MTS	EVT	RFG	NCL	A2M	PGL				OBL
	CIA	PDL	SYM	BBN	RDY	BRG	NXL	EOL				TUA
	DDH	NEC	GWA	CVC	QUB	NHF	HPG	EDU				RUL
	SXE	VLS	ATA	KPG	APM	AQZ	TWD	PPS				RWL
	GLE	DOW	AUB	SPZ	SDF	EGH	ARF					TNT
	PTM	WAT	ANN	EGN	JIN	VVA	MCP					PYG
	ECX	REP	ORA	HLA	MFD	GUD						TYR
	VEA	OML	EWC	CGS	EPY	LIC						NAM
	BIS	LLV	IFM	MND	ASW	LFS						PME
	SSG	AZJ	AFL	CAJ	BLD	AGI						TRJ
	MRM	LGL	CCP	ESK	SNL	MWY						NWL
	BST	APE	SGH	VN8	COF	FSA						SGR
	VYS	PBP	IFL	HCW	EQT	BKL						CTD
	JHG	AX1	EHE	MVF	ARB	GDA						NEA
	MAM	MMS	KLS	HMC	CTE	ALQ						ASP
	AMX	AAC	IPG	PPE	VRT							NXT
	LGP	GNC	ASH	TAH	HIT							AIM
	PPG	SDI	CYG	RWC								HFY
	GDF	ANG	CCX	VNT								M7T
	LYL	BLX	CKF	TGR								OCL
	MHJ	RKN	ELD	PPC								HUB
	KSC	NUF	PGH	BGA								SDV
	SRV	IRI	AKG	HPI								PFP
	ECL	ASG	PTB	XRF								BMH
	SHJ	EBG	QHL	BLY								AEF
	EGG	SND	SKS	HSN								NOL
	SEQ	ALO	CDA	BAP								ALU
	AGL	PFG	WGN	MBH								CLG
	PCG	RCL	CIP	ECF								PTG
	BKW	GEM	OFX	COS								PLY
	SGM	CCV	SLA									ERF
	TGA	BVS	DXC									GNX
	MIL	VMT	ABC									INA
	DUR	PMV	RIC									ORI
	BYI	IAP	PPT									TPW
	JYC	ADA	AVG									ENA
	CLX	NTD	IMD									AVA
	DSK	BWP	ING									SIG
	AU1	SHA	LVT									STG
	ACL	ACU	IPL									CBO
	DDB	REG	QJP									CV1
	EHL	CSR	CGC									AMP
	UOS	AMO	AHC									XF1
	SWM	CGO	CDP									DUG
	SHM	CUP	PWR									RDG
	GTN	IGL	MNY									DXI
	BOL	ACF	NPR									MAQ
	TPC	APX										
	TRS	AE1										
	TZL	SWP										
	TCO	COO										
	8VI	ASB										
	MEA	GLB										
	MOZ	HT1										
	AXI	SRG										
	XTE	KOV										
	YBR	BWX										
	NGI	HLS										
	SDG	VRS										
	EZZ	ADH										
	WLD	GMA										
	DRA	GAP										
	RTE	GNP										
	WSI	SLH										
	TGP	LAU										
		EVZ										
		SST										
		HVN										

Sector Colour code

- Communication Services
- Consumer Cyclical
- Consumer Defensive
- Energy
- Financial Services
- Healthcare
- Industrials
- Technology
- Basic Materials
- Real Estate
- Utilities

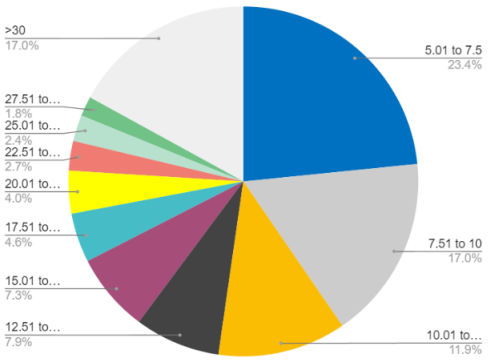
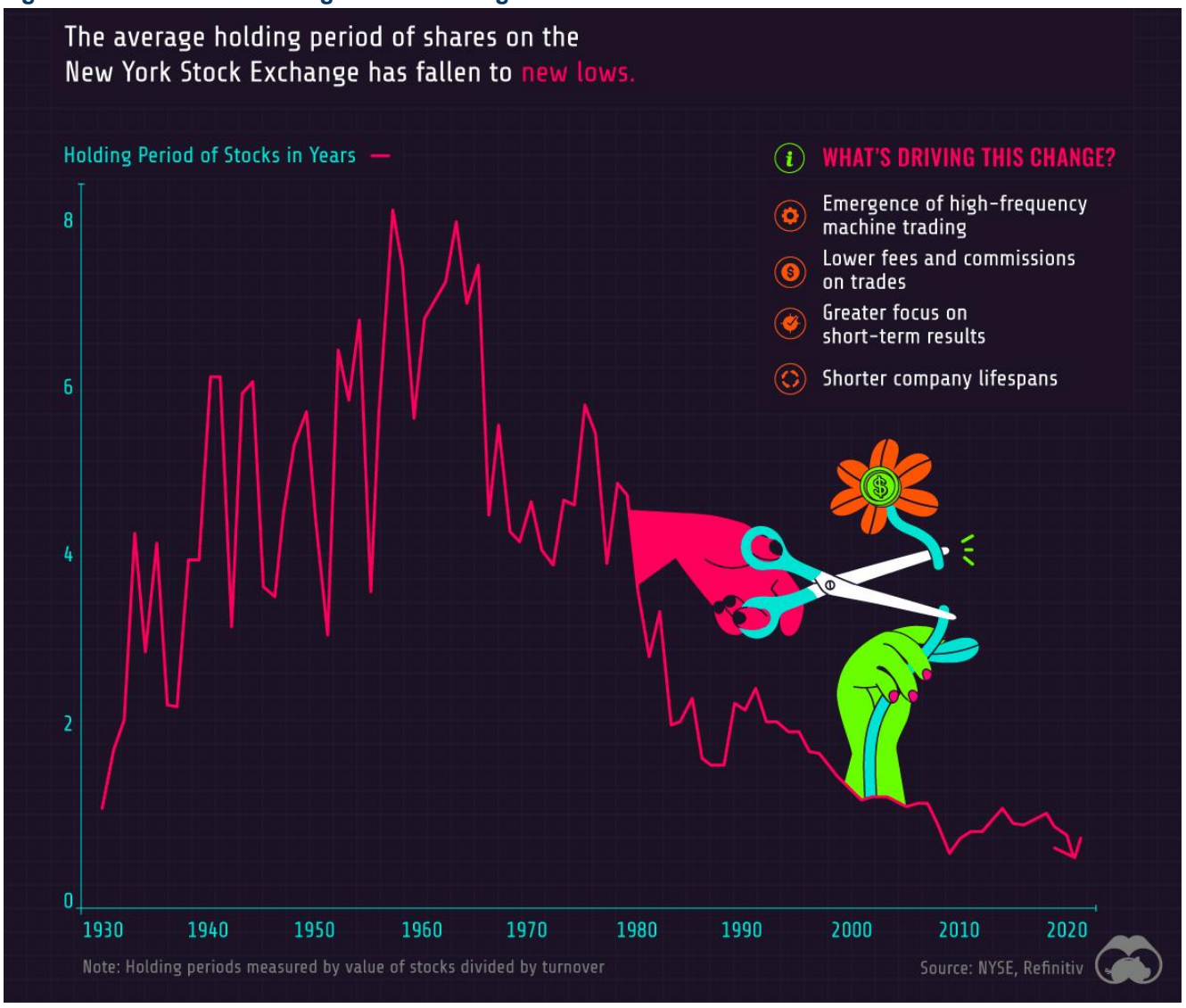


Chart of the Week

Data from the NYSE suggests that few market participants are acting in accordance with a long-term strategy. As of June 2020, the average holding period of shares was down to 5.5 months from a peak in the late 1950s of eight years, as noted by Visual Capitalist.

Figure 1: The Decline of Long-Term Investing



Source: Visual Capitalist

Stocks in Profile

Cirrus Networks (CNW)

Market Cap: $33

By Martin Pretty, CFA

IT services business **Cirrus Networks (CNW)** recently announced that it had won a new three-year contract with ENI Australia, a contract that we understand was previously held by formerly-ASX listed competitor Empired.

Empired was a long term investment of Equitable Investors Dragonfly Fund (EIDF) and of the investment manager's previous firm.

Empired grew through acquisitions and organic customer growth over 15 years, building out a strong cash flow business with growth momentum and eventually a strong balance sheet that had allowed the company to begin paying out dividends to shareholders. Like several IT services businesses before it, Empired was acquired by an offshore leader on a 10x EV/EBITDA multiple.

There's a lot about CNW that reminds us of Empired. They offer a similar combination of managed services and IT consulting with a similar blend of recurring long-term contracts and bespoke one-off work (often for recurring customers). Like Empire before it, CNW trades on a lowish EV/EBITDA multiple. But unlike Empired, CNW already has its balance sheet in a healthy position with just under $10m net cash at June 30, 2022.

It often seems to be the case in this sector that value is recognised when consolidation occurs but we think CNW is worthy of a loftier figure than its current 4.9x EV/EBITDA (using consensus data), even in the hands of minority investors.

CNW has already had a hostile takeover approach by Webcentral (WCG), which was dropped on the company in 2021 and rejected by CNW as opportunistic.

In order to attempt to gain a leverage position, WCG acquired a 19.9% stake in CNW. But the target remained resolute. In August 2022, WCG, which appeared to have other needs for capital, sold its blocking stake in CNW to institutional investors, including Equitable Investors.

FY23 earnings growth is "underpinned" by a significant contract win with Icon Water, and a "strong backlog, positive pipeline of opportunities, disciplined overhead cost controls and strategic focus on higher margin services revenue," according to the company. Broker Veritas expects it to lift revenue 3% in FY23 to $107m but pull through a more than doubling of EBITDA to $5.1m from $2.1m. The EBITDA jump isn't really as big as it looks. In the second half of FY22, CNW's EBITDA was $2.5m. The first half EBITDA had featured headwinds from COVID and costs and disruption from the hostile WCG takeover attempt. The forecast revenue growth accommodates a shift away from low-margin product revenue that was evident in FY22 with a 2% revenue decline.

Figure 1: Forward EV/EBITDA multiples for Empired (blue) and Cirrus Networks (CNW - green)



Source: TIKR, Equitable Investors

Equitable Investors Dragonfly Fund Details

Strategy	Long only. Seeking growth or strategic value at an attractive price.
Management fee	1.5% pa
Expenses	Capped at 0.5% pa
Benchmark	5 Year Australian Government Bond Yield + 5% pa
Performance fee	20% (above benchmark)
High watermark	3 year rolling
Minimum initial investment	$50,000, wholesale only
Investment Manager & Trustee	Equitable Investors Pty Ltd
Custodian	Sandhurst Trustees
Administrator	William Buck Managed Funds Administration (SA) Pty Ltd

Key Characteristics

Unique Opportunities	Invests in businesses that often lack widespread investor awareness.
Proprietary Research	Continually updating investment views, meeting companies, researching, evaluating.
Constructive Approach	Open dialogue with companies assists in maximising value.
Expertise	Equitable's directors have over 50 years of experience.
Alignment of Interests	Seeded by the Manager & all our best ideas go into the Fund.



Dragonfly Fund has the capability to "swap" shares in a company or companies for Dragonfly Fund units where Equitable Investors finds them attractive and suitable investments. To date we have used this capability sparingly, rejecting all but a very small number of proposals, but we continue to seek favourable opportunities. Further info is available here.

Past performance is not a reliable indicator of future performance. Fund returns are quoted net of all fees, expenses and accrued performance fees. Delivery of this report to a recipient should not be relied on as a representation that there has been no change since the preparation date in the affairs or financial condition of the Fund or the Trustee; or that the information contained in this report remains accurate or complete at any time after the preparation date. Equitable Investors Pty Ltd (EI) does not guarantee or make any representation or warranty as to the accuracy or completeness of the information in this report. To the extent permitted by law, EI disclaims all liability that may otherwise arise due to any information in this report being inaccurate or information being omitted. This report does not take into account the particular investment objectives, financial situation and needs of potential investors. Before making a decision to invest in the Fund the recipient should obtain professional advice. This report does not purport to contain all the information that the recipient may require to evaluate a possible investment in the Fund. The recipient should conduct their own independent analysis of the Fund and refer to the current Information Memorandum, which is available from EI.