



Pinnacle Investments Small Caps Conference

Spheria Smaller Companies

A bifocal world

September 2024

“Nothing sedates rationality like large doses of effortless money.”

Warren Buffett (letter to shareholder 2023)

Current Environment

What could cause a re-assessment

1. Economic sensitivity of small caps has played out
2. Inflation has hurt small caps
3. Rates seemed to have peaked
 - The Cut Club includes (Canada, UK, EU, Switz, Sweden, NZ etc),
 - Yet to Cut Club includes (Australia, USA)
4. Investors have flocked to Large, Liquid, “Perfect” names at any price
 - Leaving opportunities in REITS, Cyclical and Microcaps
5. Backstops exist – e.g. M&A arbitraging away the valuation disconnect

Domestic... Flight to “Larger” Thematic

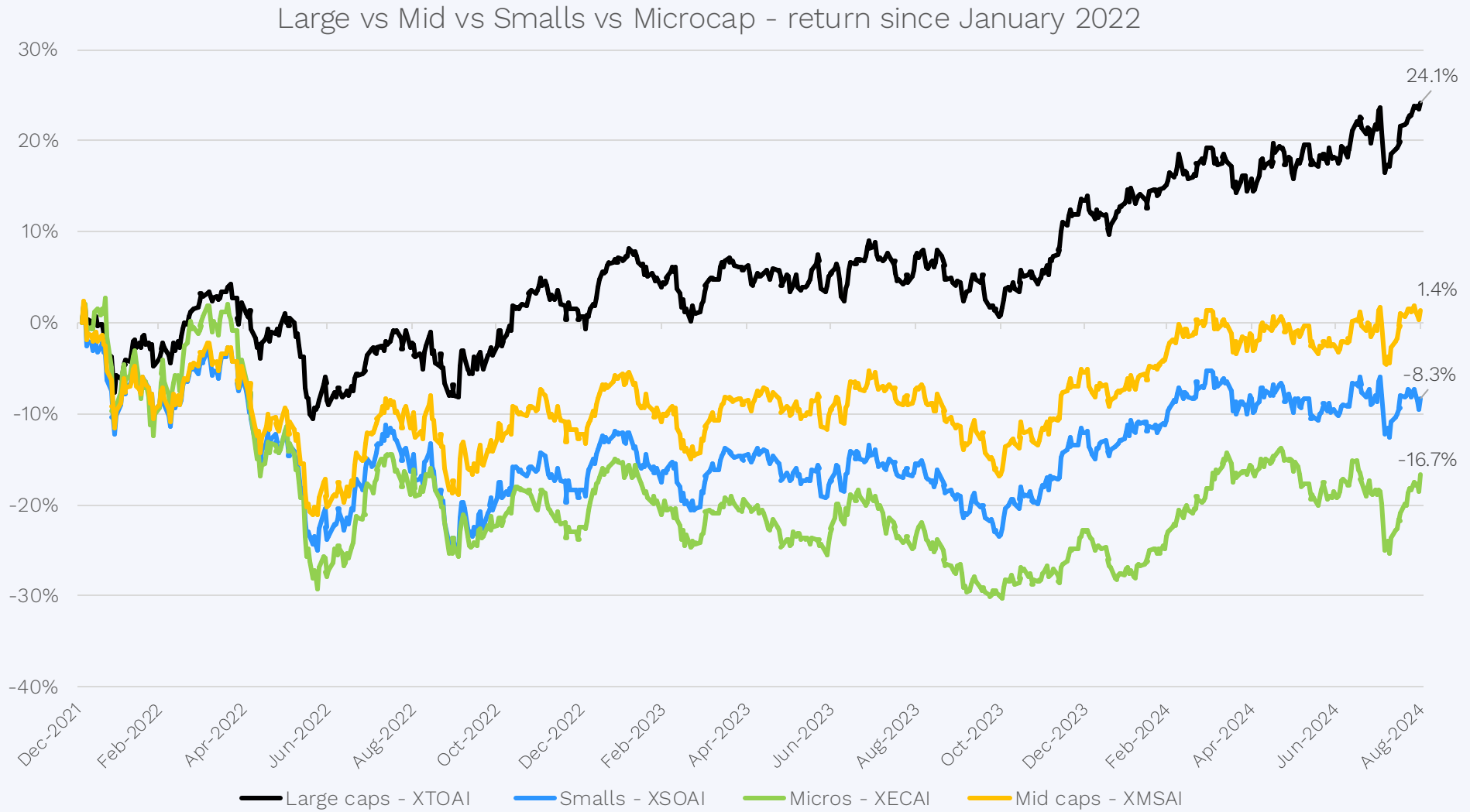
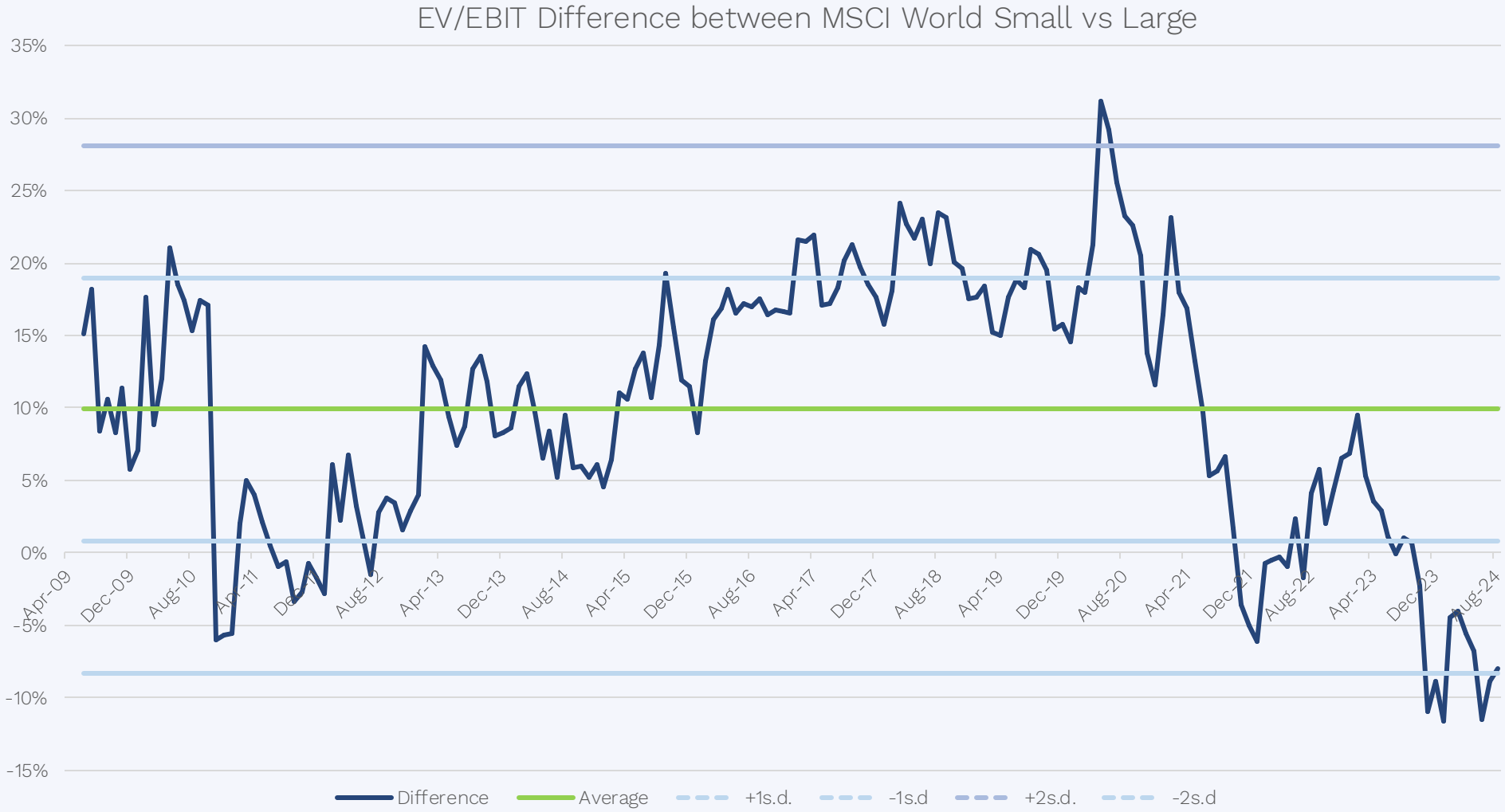


Chart Source: IRESS. Rolling return to 31st August 2024

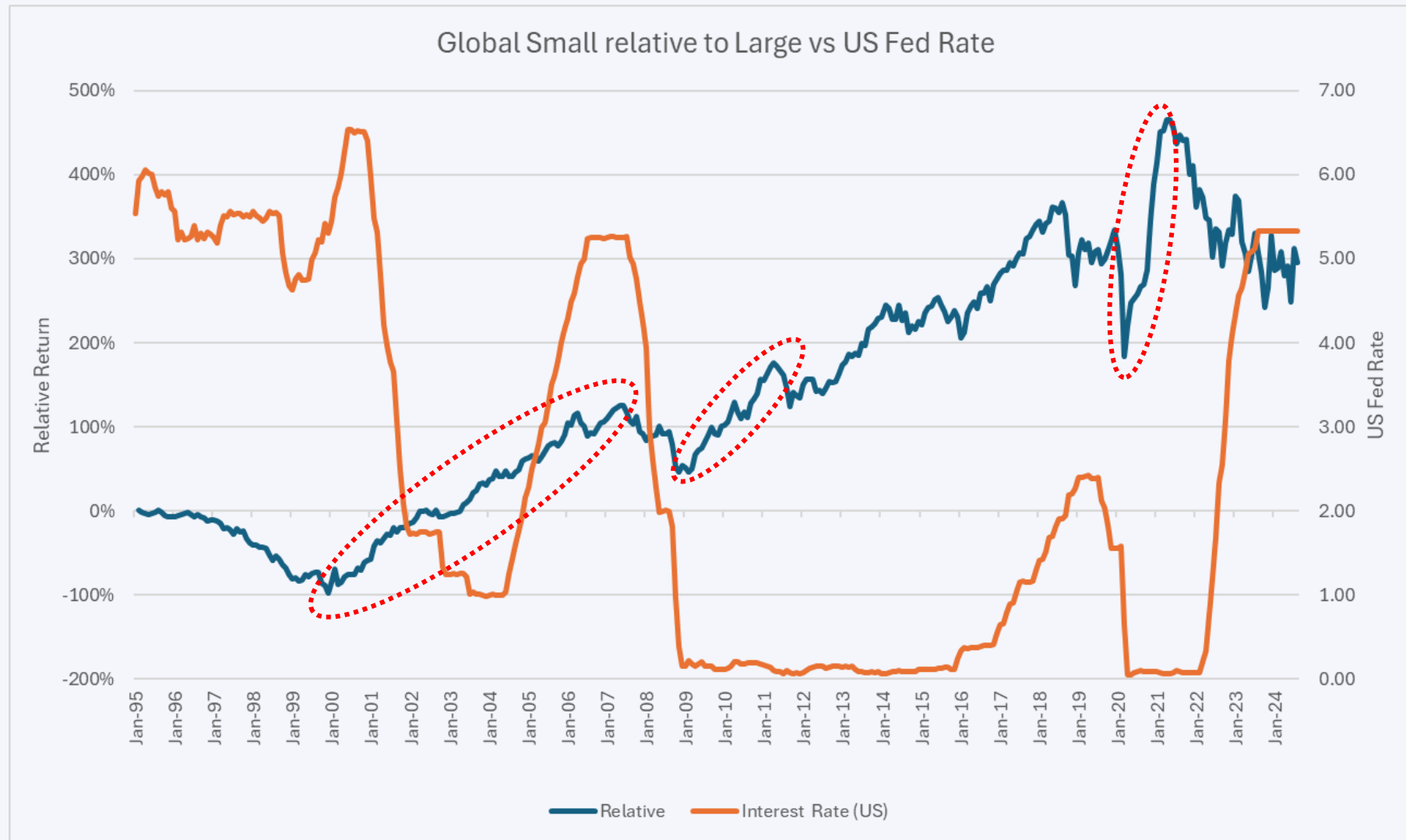
Very attractive entry point



Source: Bloomberg, to 31st August 2024. Cumulative performance.

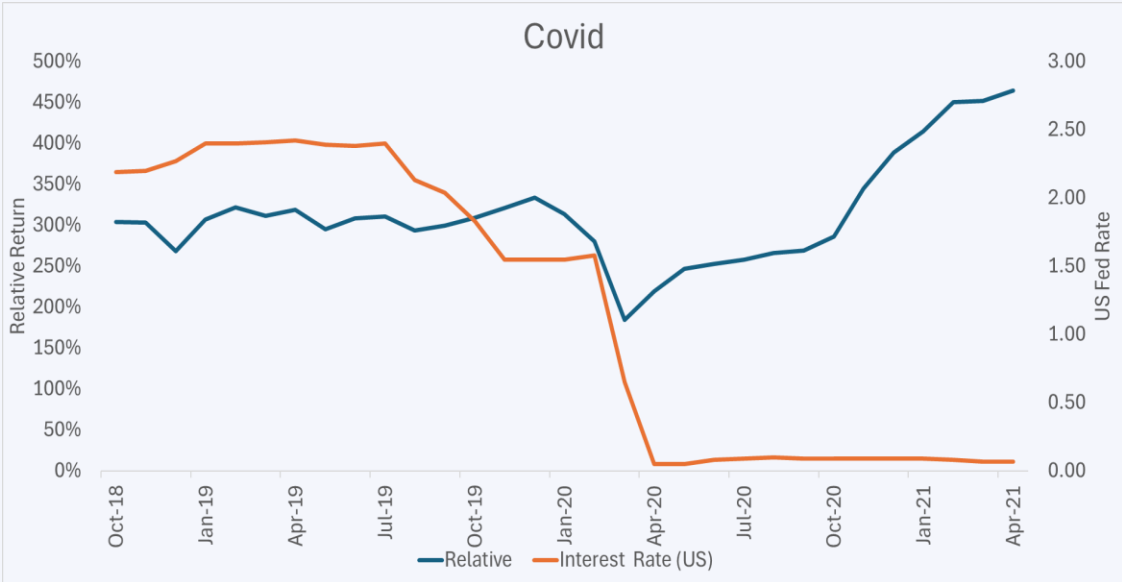
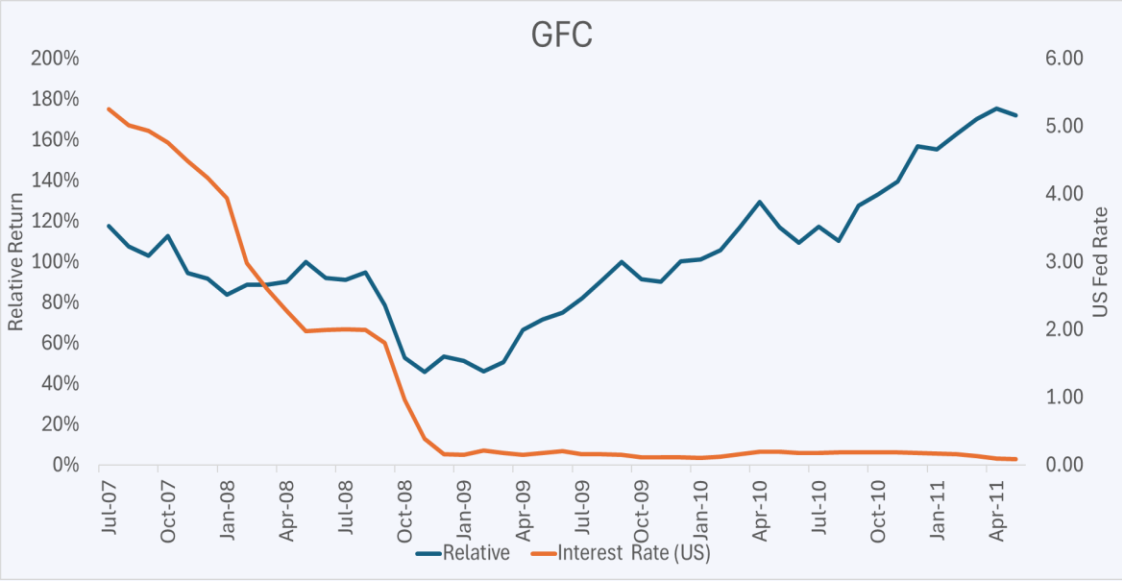
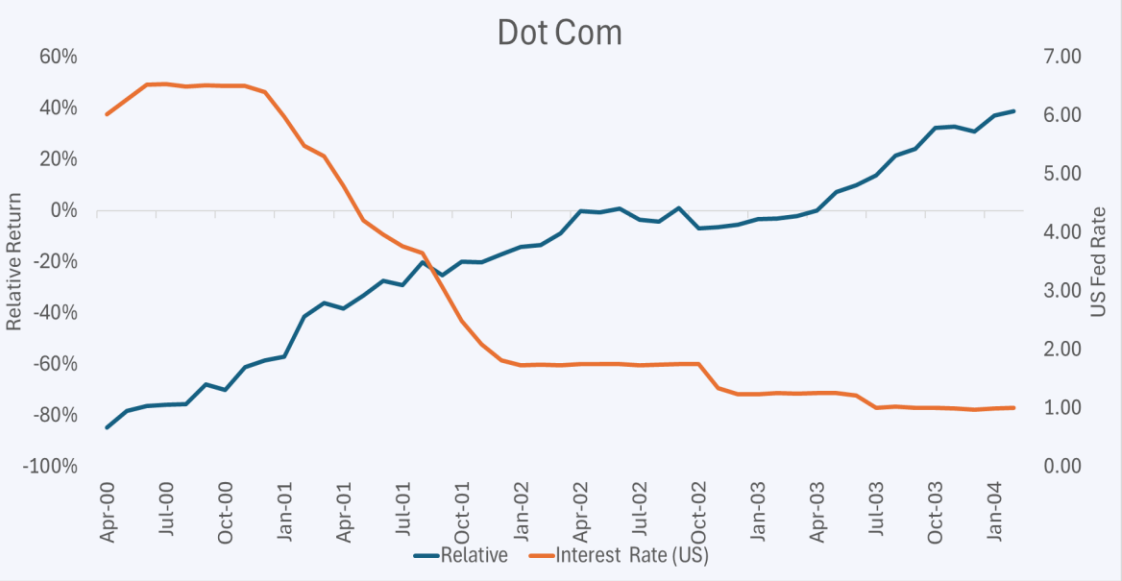


Interest Rate cuts lead to Small's Outperformance



Source: Bloomberg, Interest Rate refers to the US overnight Fed Rate

Zooming into Rate Cut Periods – Relative returns



Source: Bloomberg, Interest Rate refers to the US overnight Fed Rate



Why Spheria? Process based on Cash Flows & Valuation

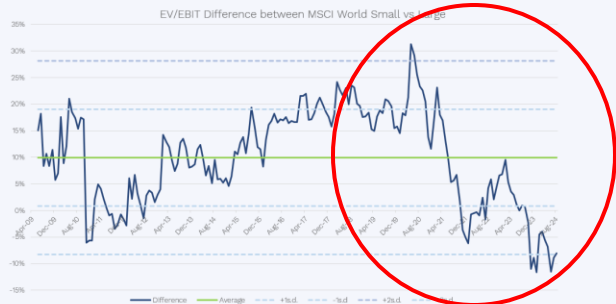
How Our Investment Process is Different

1. Focus on quality businesses with risk control overlay
 - Sustainable free cash flow generation through the cycle
2. Fundamental investment focus
 - Free cash flow valuation model
 - Lowly geared balance sheets (ideally)
 - Discount to valuation
3. Keep an open mind (facts change)
 - Inflection points, changes in management/strategy, shifts in industry structure
4. Market under researched and inefficient outside of larger companies

From Macro to Micro

(ASX:DHG)⁹

Domain Holdings an attractive valuation



0.65 correlation*

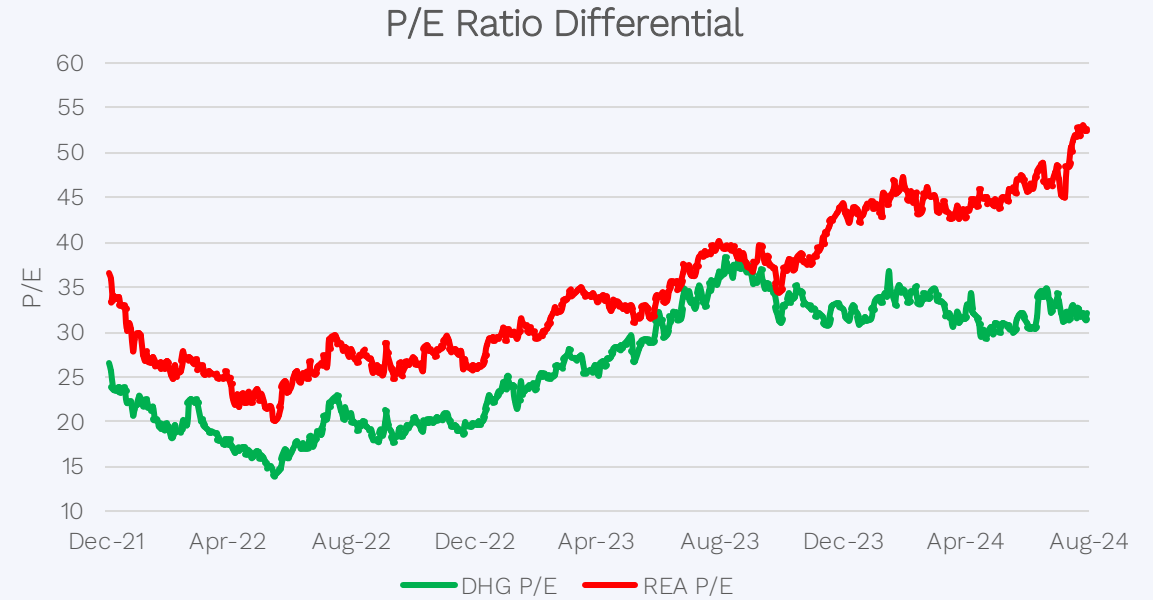
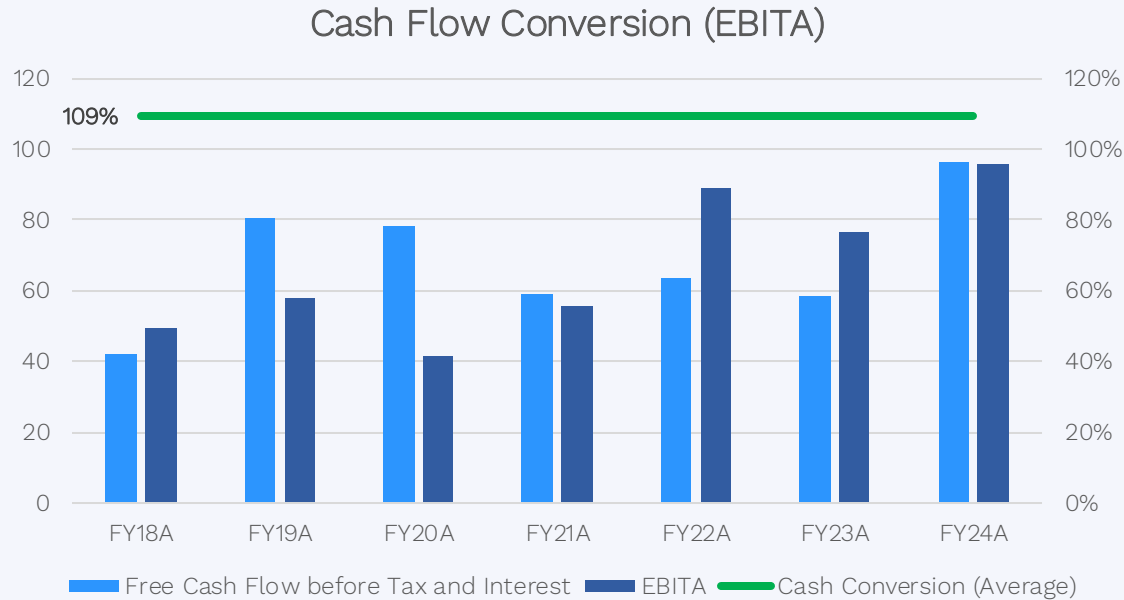


*weekly frequency
Source: Bloomberg, to 31st August 2024. Cumulative performance.

Domain Holdings

(ASX:DHG)¹⁰

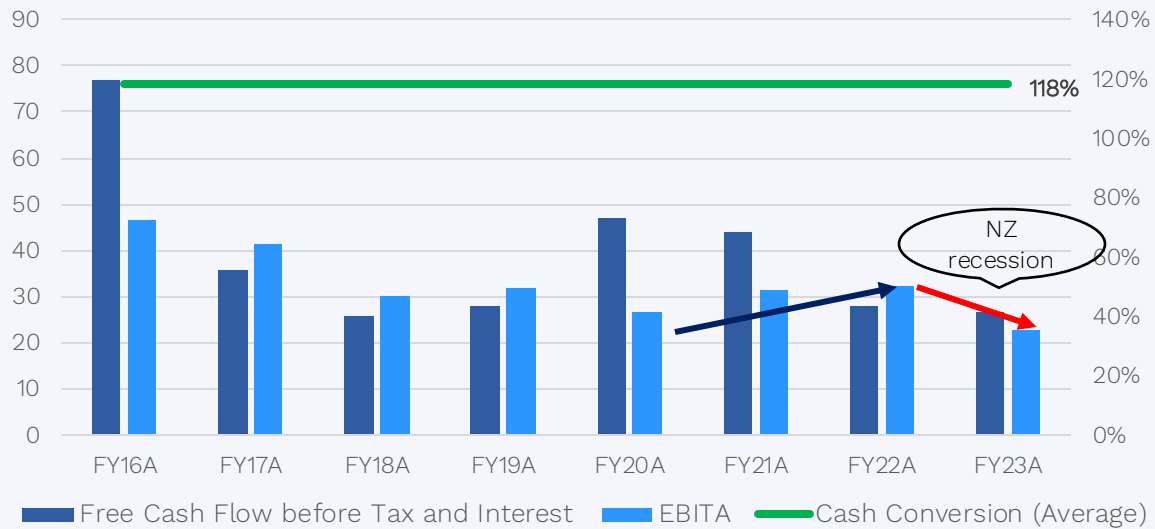
No. 2 is perfectly fine for us



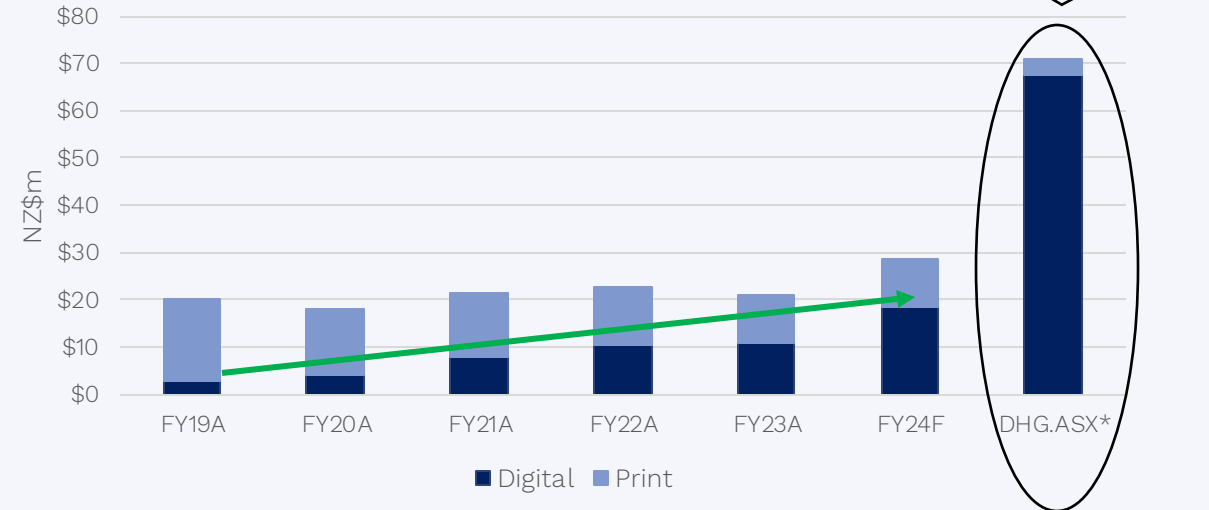
- Domain operates in a near duopoly market with Realestate.com.au (REA.ASX) the market leader
- Remains under penetrated in most markets particularly outside of Sydney and Melbourne metro
- REA has exercised its significant pricing power over many years, DHG has followed
- Stock has significantly de-rated providing an opportunity for us initiate a position for the first time
- Strong cash conversion, trading on ~19x FY25 EV/EBIT

OneRoof could be worth more than the entire market value of NZME!

Cash Flow Conversion (EBITA)



OneRoof Revenue vs Domain adjusted for population/currency



- NZME #1 in audio, #1 newspaper and #2 digital property platform in New Zealand
- Continued transformation away from traditional revenue streams to digital (now >30% of group revenue)
- Digital property platform (OneRoof) now outright 2nd on all key metrics behind TradeMe
- OneRoof now profitable, with revenue growing +47% in 1HCY24 and digital revenue +64%
- NZ recession has created a unique buying opportunity, recent rate cut a turning point for NZ economy.

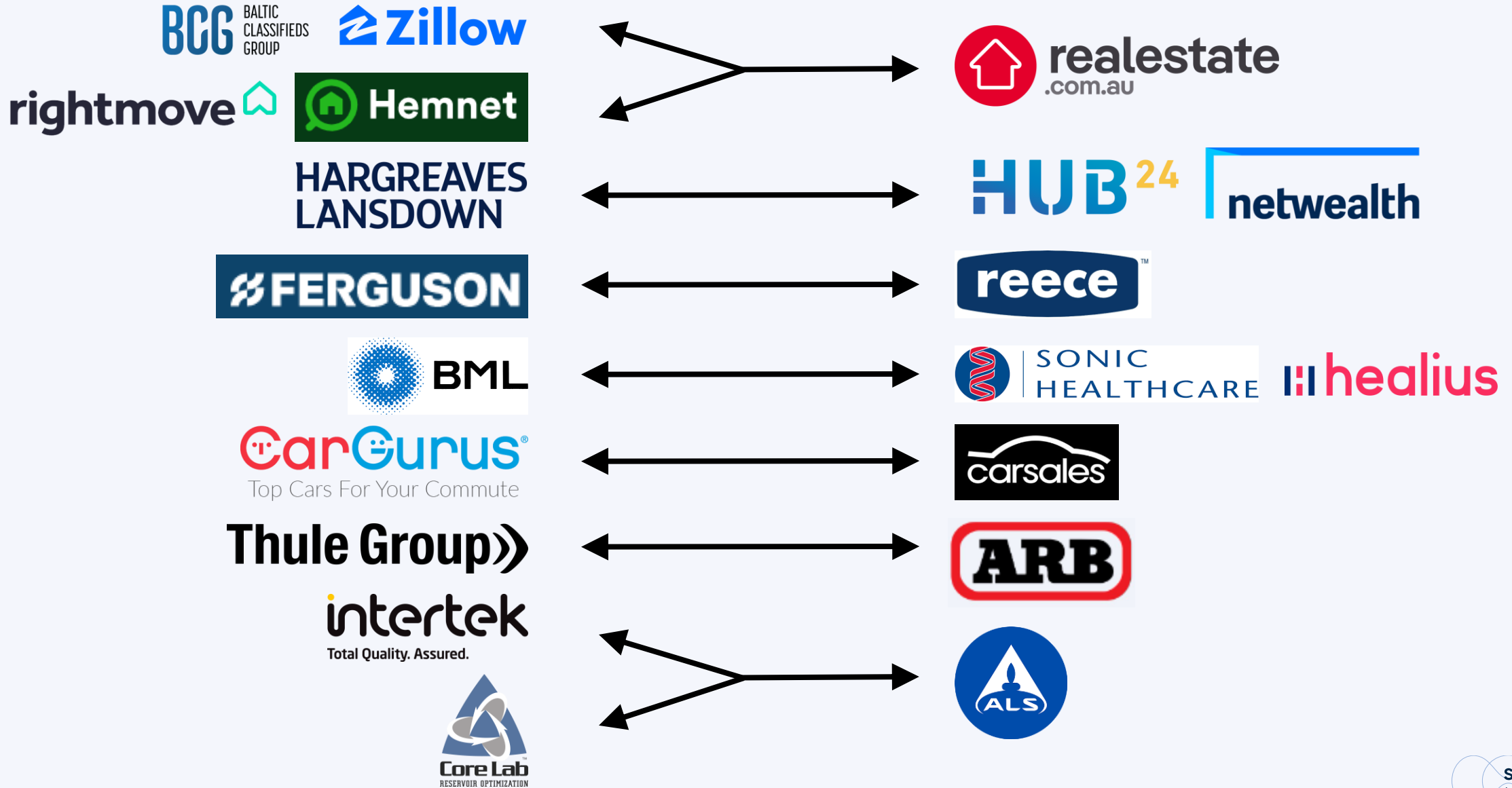
Source: Morningstar, IRESS, Spheria *Domain FY24F property classified related revenues adjusted for population and currency. Companies mentioned on this slide are illustrative only and not a recommendation to buy or sell any particular security

Why constrain your universe?

In local currency	DOM LN	DPZ US	DMP AU
Stores	1,258	6,854	898
Country Population (m)	69.2	345.8	26.8
Population per store ('000)	55.0	50.5	29.8
Store per Franchisee	>50% of Franchisee operate 5+ stores ~1/3 of Franchisees operate 10+ stores	6,566 US stores operated by 735 Franchisees = 8.9 stores per Franchisee	1/3 of Franchisees operate 3+ stores 10% of Franchisee operate 6+ stores
			*based on Global (ex Taiwan)
System Sales (m)	1,488	9,026	1,455
Sales per store (m)	1.2	1.3	1.6
Franchisee EBITDA (current)	160k	163k	97.4k
EBITDAm (current)	13%	12%	7.3%
EBITDAm (historical)	14.2% to 15%	10.8% to 13.4%	9.5% to 10.5%
Capital required to open store	300-350k	400k	400-650k
EBITDA Payback (Yrs)	2.0	2.5	4.9
EV/EBIT (FY1/ FY2)	12x/11.1x	20x/18x	19x/18.9x

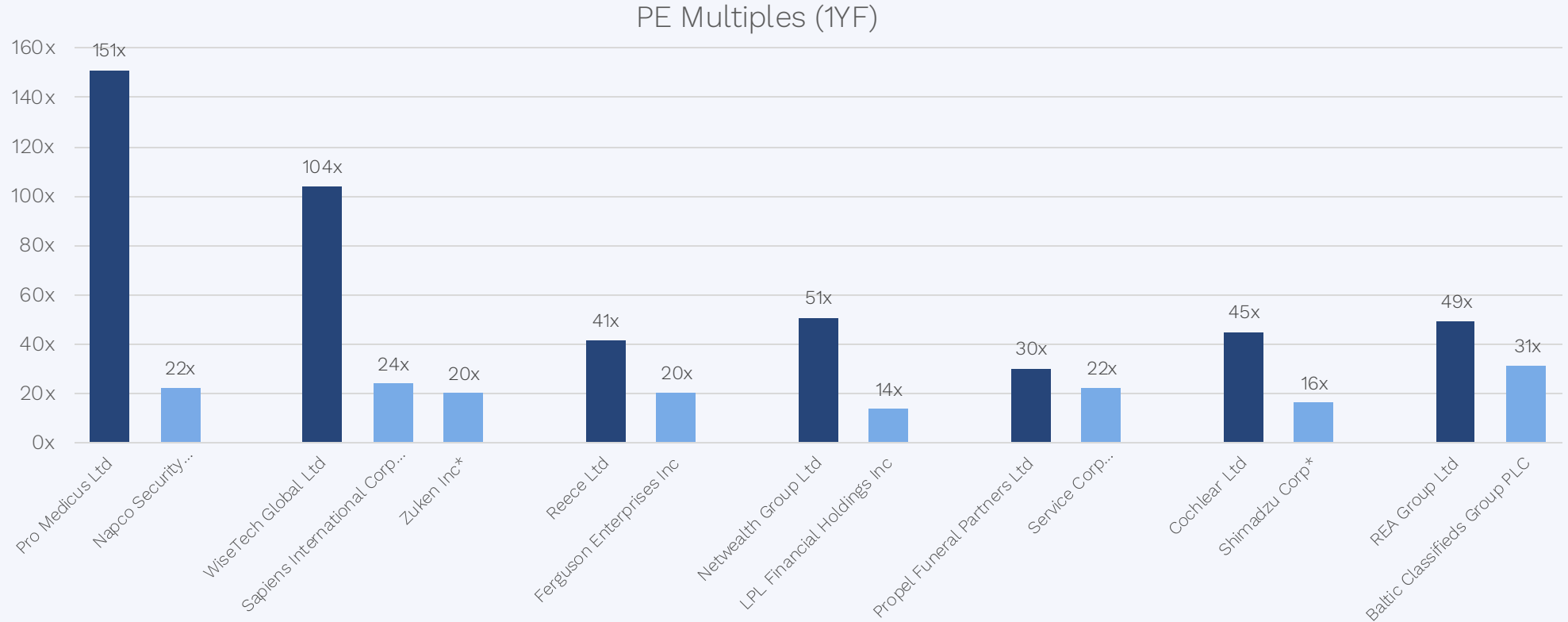
*metrics in local currency

Global synergies with Domestics



Getting more for less in Global

Scarcity leads to crowding into domestic ideas



	PE (1FY)	PE (2FY)	5Yr EPS CAGR*
S&P/ASX Small Ordinaries Index	25x	17x	-13%
MSCI World Small Cap Index	19x	15x	5%

Source: Bloomberg as at 6th September 2024.

*EPS historical cagr between calendar year 2018 to 2023. EV/EBIT used for Japanese names.

Global Large vs Smalls

Smalls have outperformed over the long-term



Source: Bloomberg, to 31st August 2024. Cumulative performance, note past performance is not a reliable indicator of future performance

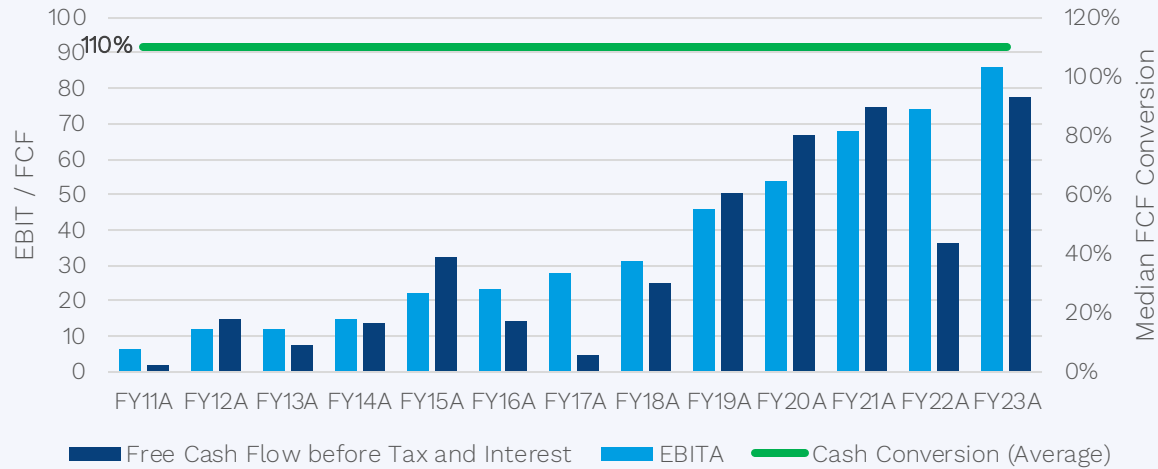


Sapiens International Corp (US:SPNS)

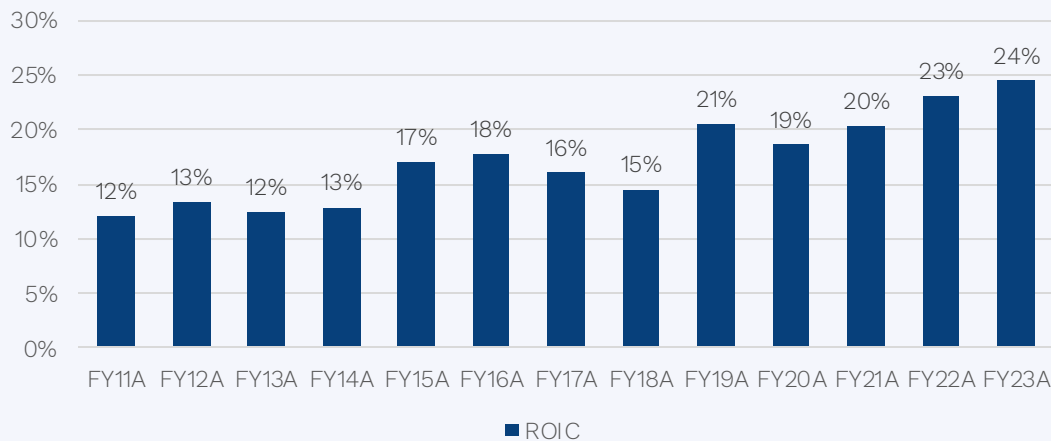


Strong market presence in insurance software industry

Cash Flow Conversion (EBITA)



Return Metrics



- **40+ years of experience** developing and implementing core software and customer engagement platforms that power global insurers.
- **Large and growing market** - \$40b TAM with only half of the 2500 global insurers having migrated off legacy (20yo+) systems.
- **Diverse customer base** - 10 largest customers are 20% of revenue, with >600 customers in total.
- Over 70% of gross profit from software and re-occurring post-production services.
- Consistent 7-8% organic revenue growth with a track record of positive operating leverage and bolt on acquisitions.
- **> 100% cash flow generation, high ROIC, a net cash balance sheet,** and ample scope to grow, trading on an EBIT multiple of 16x FY25.

Performance & Portfolios Composition

Smaller Companies & Global Opportunities

Net Performance as at 31st Aug 2024

Period	1 month	3 month	6 month	1 year	3 years (pa)	5 years (pa)	Since Inception (pa)	Inception Date
Spheria Australian Smaller Companies	0.1%	6.0%	4.2%	14.6%	1.2%	9.0%	8.9%	11/07/2016
S&P/ASX Small Ordinaries Accumulation Index	-2.0%	0.0%	1.5%	8.5%	-2.9%	3.9%	5.7%	
Outperformance	2.1%	6.0%	2.7%	6.1%	4.1%	5.1%	3.2%	

Net Performance as at 31st Aug 2024

Period	1 month	3 month	6 month	1 year	3 years (pa)	5 years (pa)	Since Inception (pa)	Inception Date
Spheria Global Opportunities Fund	-3.2%	2.8%	4.0%	10.5%	1.4%	12.5%	12.0%	1/03/2019
MSCI World Small Cap Index	-3.3%	3.2%	4.1%	10.9%	3.0%	8.9%	8.6%	
Outperformance	0.1%	-0.4%	-0.1%	-0.3%	-1.7%	3.6%	3.4%	

Past performance is not a reliable indicator of future performance. All pa returns are calculated on an annualised basis using exit price to exit price with distributions reinvested. Returns of the Fund are net of applicable fees, costs and taxes.

Take Out and Conclusion

- Global and Domestic Small caps have significantly underperformed Large Caps
- Whilst small caps performance lags into tougher environments they often lead recoveries
- Valuations are generally low – often attracts PE and M&A activity
- The market “twin peaks” offer opportunities in smaller caps in less loved sectors

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