# Emerging Companies Fund

## Monthly Update: December 2017

Dear Fellow Investors,

Our Emerging Companies Fund had another very strong month in December. The Fund was up +8.1% vs +6.0% for the Emerging Companies Accumulation Index (XECAI) and +1.6% for the Small Industrials Accumulation Index (XSIAI). We were particularly pleased with this month's performance given the movement in the XECAI was largely driven by a strong rally in small resources, to which the Fund is not exposed (the Small Resources Index was +8.9% in December). Since inception the Fund's absolute return is now +60.1% vs +12.9% for the XECAI, +17.2% for the XSIAI and +4.1% for our cash-based benchmark.

## Performance summary

| | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Inception |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Saville Capital Emerging Companies Fund[1] | -3.2% | +2.6% | -0.6% | -1.0% | +7.6% | +6.4% | +2.7% | +4.0% | +13.2% | +9.5% | +8.1% | +60.1% |
| Benchmark[2] | +0.3% | +0.4% | +0.4% | +0.4% | +0.4% | +0.4% | +0.4% | +0.4% | +0.4% | +0.4% | +0.4% | +4.1% |
| Relative Performance | -3.5% | +2.2% | -1.0% | -1.4% | +7.2% | +6.0% | +2.4% | +3.6% | +12.8% | +9.1% | +7.7% | +55.9% |

[1] *Net of all base fees, performance fees and expenses of the Fund*
[2] *RBA cash rate +3% (per annum)*

## Performance commentary

The Fund's performance was driven by very strong contributions from a number of our key investments, including PolyNovo (PNV, +37%), Tourism Holdings (THL.NZ, +20%), Lovisa (LOV, +15%), Think Childcare (TNK, +13%), FSA Group (FSA, +10%) and National Veterinary Care (NVL, +7%). Furthermore, as flagged in our November update, we participated in a $43m placement undertaken by Longtable Group (LON) at $0.03, however because the placement was subject to shareholder approval, we did not take receipt of the stock until 22 December. In the meantime, the stock rose +57% from its placement price to $0.047. Conversely, Spirit Telecom (ST1, -14%), BIG Un (BIG, -9%) and Melbourne IT (MLB, -6%) were all negative contributors. Notably, our portfolio weighting matrix continues to yield good results given that those last three stocks currently sit amongst our four smallest positions. In fact, we significantly trimmed our holdings in two of those stocks (BIG and MLB) in November due to reduced valuation support.

While a material pullback in BIG's share price was not surprising given the incredible gains it has made in such a short space of time, it still managed to deliver more positive news, upgrading its 2Q FY18 cash revenue guidance to >$22m (was $20m). This upgrade came only a month after its initial guidance was released, indicating that the momentum within its business remains very strong. BIG also announced that Australian-based SME cash flow management platform, Finstro, had become the first sponsor of BIG's Apple TV channel, due for launch shortly. Finally, BIG agreed to a strategic marketing partnership agreement with US-based Zeta Global (Zeta) which will enable BIG to accelerate its acquisition of new clients in the US via Zeta's database of more than 1.1 billion individuals.

TNK executed a credit approved term sheet with ANZ to extend its existing funding facility from $29m to $62m. Based on our forecasts, this enlarged facility can potentially fund the next five years of acquisitions for TNK, all of which already sit within its incubator model and thus provide excellent line of sight over TNK's potential growth pipeline. TNK also announced the acquisition of a childcare centre from one of its incubator partners for $1.9m based on a multiple of 4x EBITDA, to be funded from internal resources.

Meanwhile, NVL announced the acquisition of an additional four vet clinics in Australia. The new clinics are located within existing NVL geographic clusters in Queensland and Victoria and will therefore leverage NVL's operational structure. The four clinics are expected to deliver combined annual revenue of c.$4.5m, annual EBIT of c.$0.79m and be EPS accretive in FY18. Total consideration for the acquisitions is $3.6m, implying an EBIT multiple of 4.6x (consistent with its historical range of 4-5x). These acquisitions take the total number of integrated veterinary services businesses within NVL to 64, thus tracking slightly ahead of our own forecasts for the Group.

## Company in focus: Longtable Group Limited (LON)

LON invests in and operates premium brands within the food and beverage industry. Currently, its two investments are a 100% stake in B.-d Farm Paris Creek (Paris Creek) and a 48% stake in Maggie Beer Products (MGP). Based in Adelaide Hills, Paris Creek is a leading biodynamic-organic dairy processing and manufacturing company that produces a range of certified organic products including milk, yoghurt and cheeses that are sold throughout Australia. It has the second largest organic milk supply in Australia with plans in place to at least double this over the next four years through its existing relationships with organic dairy farmers, supported by a recent factory upgrade which enables it to triple its current production with no additional capex. Furthermore, it has significant growth opportunities in terms of product development, marketing activities and improving its penetration of key distribution channels (e.g supermarkets) and geographies (e.g. VIC/NSW). The transaction also includes c.24 ha of factory land as well as solar electricity and solar hot water generation. The founders will stay in the business during the transitional stages and continue to provide services to convert more farms to organic.

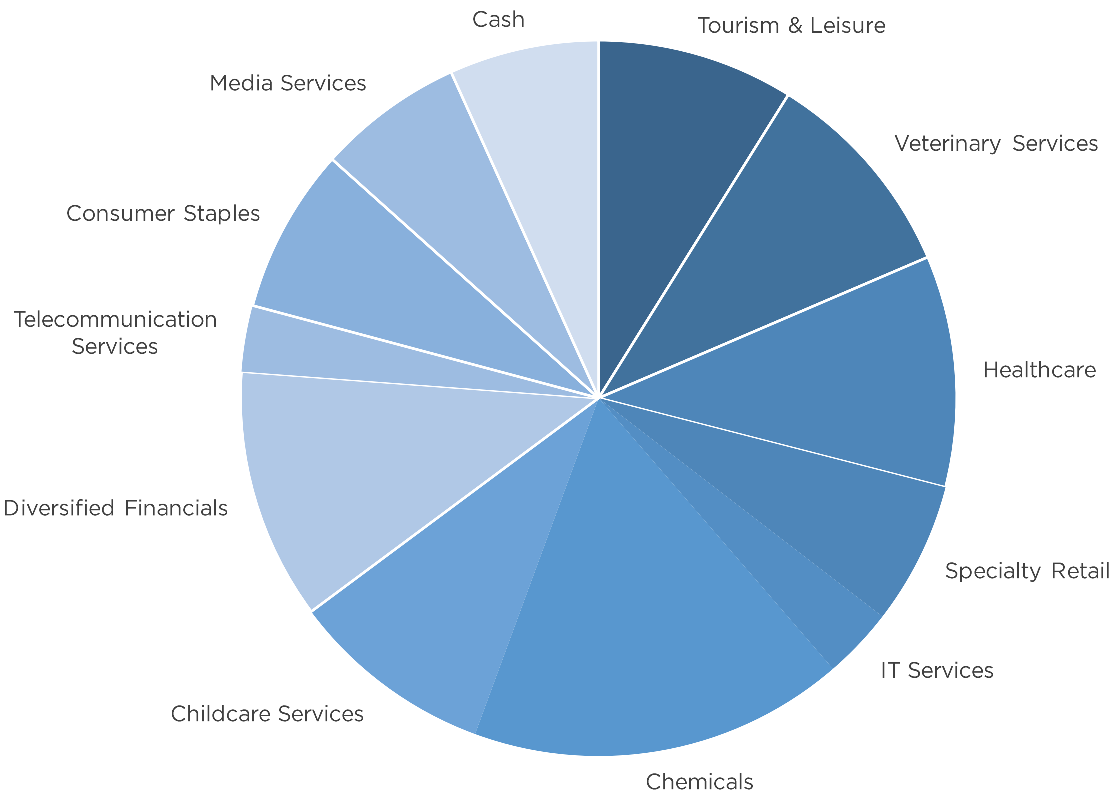
LON acquired its 48% stake in MGP in July 2016 for $15m (with the remaining 52% held by Maggie Beer and her husband), however this investment has since been impaired by c.$8.5m due to subsequent poor performance. Sales declined in FY17 by 6.5% and it slipped from a modest profit in FY16 to a material loss in FY17. Nonetheless, we believe there is significant untapped potential within the business and anticipate that the recent addition of a highly credentialed CEO at LON, Laura McBain (former CEO of Bellamy's), can help realise this potential. MGP comprises the Maggie Beer brand, recipes, products and associated manufacturing equipment. Its products include premium ice cream, pate, pastes, sauces, condiments and beverages. MGP is focused on developing new flavours and products within existing ranges as well as products for new market segments. We would also expect MGP to extract some revenue synergies with Paris Creek, particularly if/when LON decides to buy the remaining 52% stake in the MGP business.

While the headline multiple paid for Paris Creek appears very high (c.22x FY17 EV/EBITDA FY17), this will significantly reduce over the next few years as it rapidly grows its milk supply, increases utilisation of its existing factory (currently operating at <50%) and expands into new products, channels and geographic markets. Given the demand growth for premium branded organic dairy products, combined with LON's management expertise, we see the risk around our forecast growth trajectory (c.27% EBITDA CAGR FY18-21) for LON as relatively modest, albeit coming off a low base.

If we look out to FY20, based on our forecasts LON is currently trading on a P/E of <15x (with no debt) and EV/EBITDA of <8x, which is modest for a business in this category, particularly given our forecast earnings can be achieved without any material new capex. We have derived a DCF valuation for LON of $0.08 (vs current share price of $0.047) based on consistent strong growth in its organic milk supply over the next decade combined with some gross margin improvement. This valuation only assigns the impaired value of MGP ($5.5m) and has no provision for any further accretive acquisitions which LON may undertake. However our expectation is that under Laura's stewardship, LON will continue to add complementary business and brands to its portfolio, leveraging her experience and network while exploiting the advantages of increased scale within LON's target market segment.

## Portfolio characteristics

We currently have c.93% of our capital invested in 13 stocks, with the remainder held in cash. Given the strong run in the market of late, we have moved to a slightly more concentrated portfolio, albeit still with sufficient cash to capitalise on any pullbacks.




Thanks again for your interest and support and I look forward to providing another update in early February on our performance during January. As always, please don't hesitate to get in touch should you have any specific questions about the portfolio.

Kind regards,


Jonathan Collett

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**Important Information**