# Emerging Companies Fund

## Monthly Update: July 2022

Dear Fellow Investors,

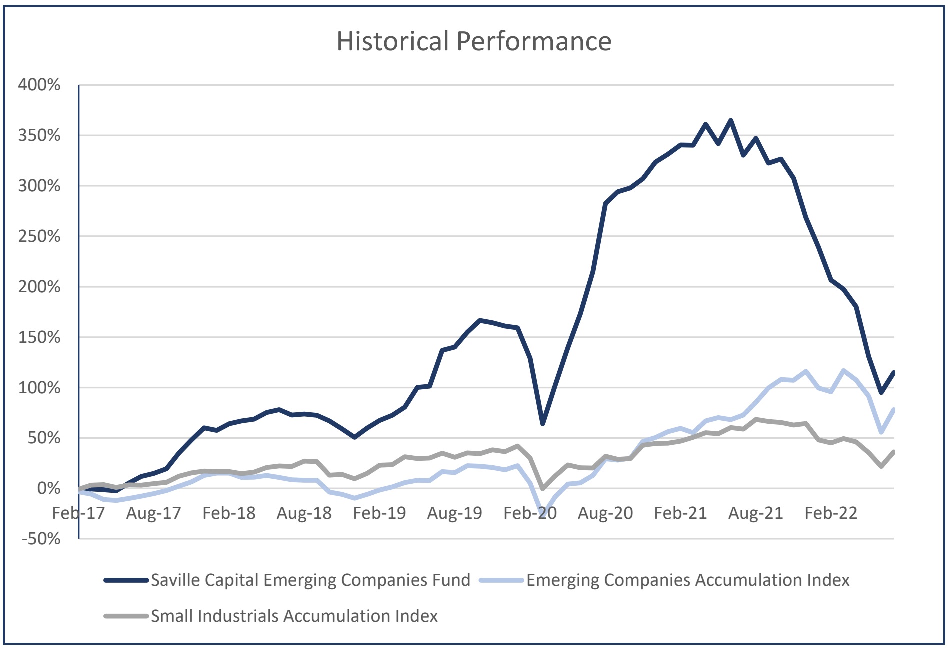
Our Emerging Companies Fund was up +10.1% in July vs +14.3% for the Emerging Companies Accumulation Index (XECAI) and +11.8% for the Small Industrials Accumulation Index (XSIAI). Since inception, the Fund has generated +14.9% p.a. and a total return of +114.9% vs +78.1% for the XECAI and +36.1% for the XSIAI.

July saw a continuation of the rebound we started to observe in late June, largely as a result of bond yields declining in response to weakening economic lead indicators. More importantly, we were very pleased with the vast majority of quarterly updates provided by our portfolio companies. We remain optimistic that with bond yields having stabilised (retreated, in fact) and many of our companies generating strong/accelerating growth (with several key share price catalysts on the horizon) the Fund appears very well positioned for the next six to 12 months. We are, however, currently observing more divergence in share price performance across the portfolio than perhaps normal, with the larger/more liquid stocks rebounding ahead of the smaller/illiquid stocks. The latter is likely a result of selling decisions made weeks ago (some forced due to institutional mandate losses) that are yet to be fulfilled due to an acute lack of liquidity in particular stocks. But once these sell orders are met with sufficient demand to be processed by the market, we expect those stocks to begin their re-rate towards more rational valuations.

## Performance summary

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total | 3M | 12M |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | | -3.2% | +2.6% | -0.6% | -1.0% | +7.6% | +6.4% | +2.7% | +4.0% | +13.2% | +9.5% | +8.1% | +60.1% | | |
| 2018 | -1.6% | +4.2% | +1.6% | +1.1% | +4.1% | +1.6% | -3.1% | +0.7% | -0.8% | -3.2% | -4.8% | -5.2% | -5.9% | | |
| 2019 | +6.0% | +4.8% | +3.1% | +4.7% | +10.8% | +0.6% | +17.6% | +1.4% | +6.1% | +4.6% | -0.8% | -1.3% | +73.2% | | |
| 2020 | -0.6% | -11.7% | -28.4% | +23.3% | +18.4% | +14.1% | +16.0% | +20.7% | +3.1% | +1.0% | +2.3% | +4.0% | +62.3% | | |
| 2021 | +1.9% | +2.1% | -0.1% | +5.0% | -4.4% | +5.5% | -8.0% | +4.3% | -5.5% | +1.0% | -4.5% | -9.6% | -13.0% | | |
| 2022 | -7.9% | -9.6% | -3.0% | -5.8% | -17.6% | -15.5% | +10.1% | | | | | | -41.7% | -23.3% | -49.9% |

*Returns are net of all base fees, performance fees and expenses of the Fund*



## Performance commentary

The key positive contributors during July were FBR Limited (FBR, +135%), Marley Spoon (MMM, +33%) and Redbubble (RBL, +31%). The key negative contributors were Murray Cod Australia (MCA, -15%), Terragen (TGH, -13%) and Pro-Pac Packaging (PPG, -27%), which we have now exited.

MMM delivered another strong quarter of revenue growth (+35% on pcp) and margin improvement (+50 basis points on pcp) despite challenging operating conditions due to ongoing input cost inflation and labour shortages. When combined with much lower investment in marketing (15.9% of revenue vs 22.7% in 1Q and 20.9% in pcp), MMM was able to significantly improve its Operating EBITDA loss from -€9.1m in 1Q to -€3m in 2Q, putting it on track to achieve its guidance of breakeven (or positive) EBITDA in 2H CY22.

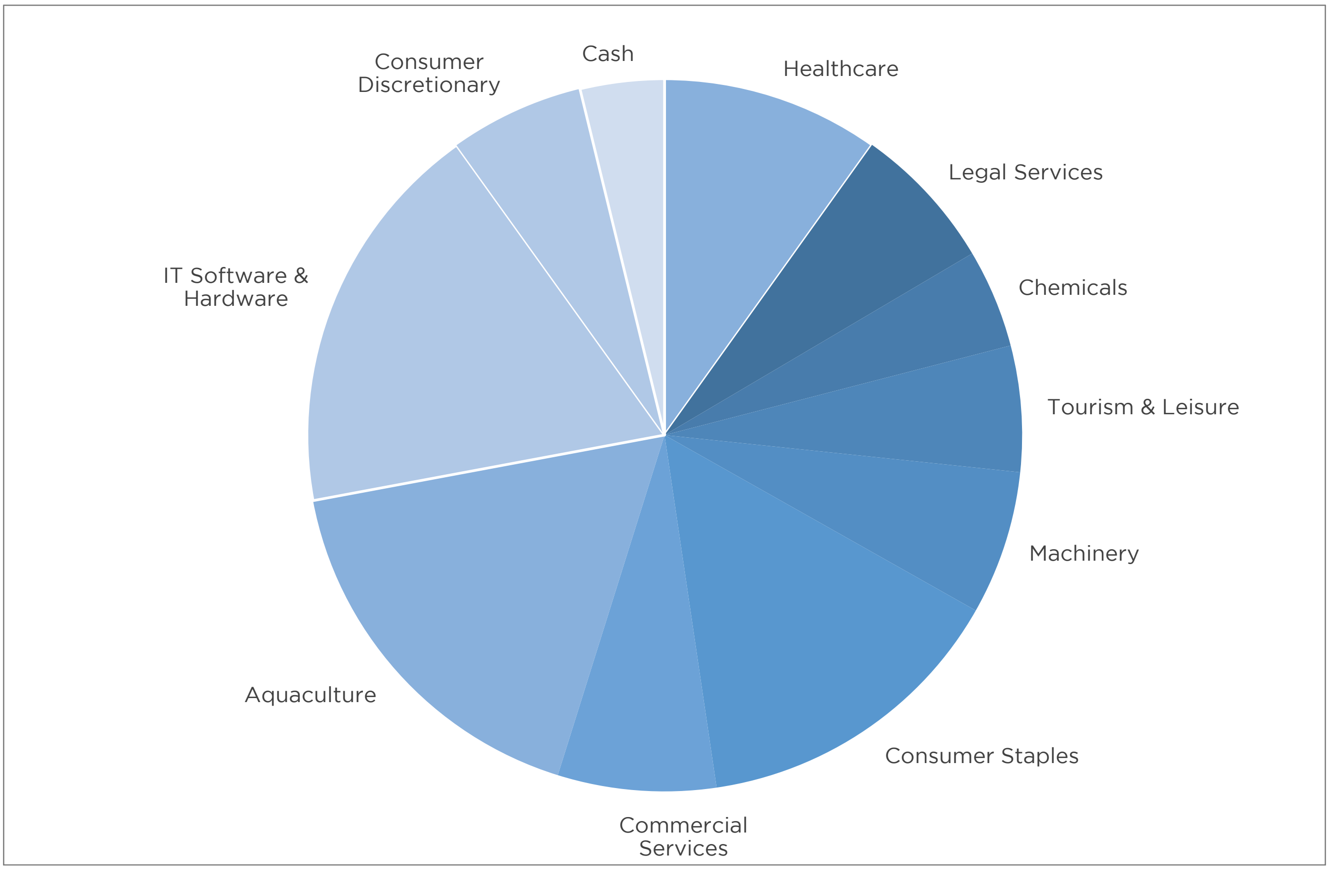
Bluechiip (BCT, +30%) recorded sales of $527k for 4Q FY22, a modest absolute figure, but 35% more than the entire three prior quarters combined. BCT is an example of a company which was severely hampered by COVID lockdowns, but is now rapidly growing its revenue base as it begins to scale its business into new customers. BCT already has 10 labs across nine active direct customers, including repeat orders, which is a great achievement given that its own range of storage consumables, readers and software were only launched in the December quarter. Management seems very confident of adding a lot more customers (and more labs within existing customers) during FY23, as well as converting its licence and development agreement with Fujifilm Irvine Scientific into a long-term supply agreement. With the product now having been validated through the acquisition of a range of customers including Crux Biolabs in Australia and The American Regenerative Medicine Institute in the US, it appears that BCT is poised to grow its revenue base to a point where it can become EBITDA positive and self-funding, which will be a key catalyst for the share price to re-rate towards its significant potential value.

Mighty Craft (MCL, +3%) recorded sales revenue of $23.2m in 4Q FY22, up +161% on pcp and +20% on the previous quarter. Operating cash flow of ~$1.0m was a further improvement on the previous quarter (-$2.9m) reflecting strong wholesale trading through winter, which is traditionally the slowest time of the year, and disciplined management of accounts receivable. MCL also noted that all wholesale volume targets for FY22 have been met, including stand-out performer Better Beer at 4.3m litres (vs 4m target). The Company continues to pursue non-core asset sales (e.g. its two Mighty venues) to improve its balance sheet and enable greater focus on its best-performing brands. We expect that a combination of continued strong revenue growth from its core brands (especially Better Beer), overhead cost reductions (MCL has recently reduced staff costs by $2m) and the disposal of loss-making assets will see MCL reach a sustainable level of profitability in FY23. While becoming profitable should be a key share price catalyst for the MCL Group, we also expect that Better Beer is likely to attract increasing attention from global beer brands that have a presence in the Australian market, with a potential sale price for MCL's stake that could exceed MCL's entire current market value.

MCA delivered another solid quarter of growth in cash sales, up +39% on pcp, driven by a combination of increased volume and prices, with the price of processed fish increasing to $22/kg (up from $20/kg). Its new fillet processing equipment has now been installed, which will provide a step-change increase in processing capacity, enabling a significant increase in supply to the grocery channel (at much improved margins) as supermarket demand grows. Perhaps of most interest in the quarterly update was the commentary on a new 'free range' grow-out trial. The trial will involve the growing of fish in ponds without cages, which, if successful, could significantly reduce the amount of capex and direct growing costs associated with each pond. It would also accelerate the Company's growth trajectory towards its target of 10,000 tonnes given the time, and capital, required for each pond to be built would be drastically reduced. Finally, MCA also announced that it has purchased a 200-hectare property between Whitton and Leeton to be developed as a new hatchery. We understand that this site will increase its hatchery capacity by 150%, underpinning its pathway towards its long-term growth targets.

## Portfolio characteristics

We currently have ~96% of our capital invested in 16 stocks.




Please get in touch should you have any queries regarding the above. Thanks again for your interest and support and I look forward to providing another update in early September on our performance during August.

Kind regards,

Jonathan Collett

Principal

Saville Capital

+61 3 9769 1789
jcollett@savillecapital.com