



Why Judo's float tempted this fundie back into the IPO market

Alex Gluyas *Markets reporter*



Martin Pretty is the founding director and investment manager of Equitable Investors.

If you had to convince me, why should I invest in micro caps and small caps rather



Equitable Investors' Martin Pretty believes the over-researched nature of blue chip stocks makes them less appealing. **Eamon Gallagher**

I count over 30 sell-side analysts covering BHP between its two listings, and imagine how many fund managers locally and internationally are devoting considerable resources to being all over the former Big Australian. If there is any validity in efficient markets, it is going to be most evident at BHP's end of the market cap spectrum.

We're looking for an edge in terms of our knowledge of a business, its opportunities and its value drivers. It just seems extremely difficult to find an edge that one can profit from by focusing on the most intensely researched equities in the market.

MedAdvisor is a Melbourne-based medtech company that doesn't seem to be very well-known in markets even though it has quite a reach in the population both here in Australia and in the US.

MedAdvisor has said it is on track to deliver \$55 million to \$57 million revenue in the 2022 financial year, up from \$40 million. It has been generating operating losses as it invested in its offering and expanded geographically but gross margins are strong at 55 per cent and facilitate operating leverage as the top line grows.

It has a market cap of under \$120 million and a share registry led by strategic investors and founders. It hasn't yet attracted any research coverage from major brokers and deserves to be better known!

Which small cap IPOs are you in, or do you like the look of?

We haven't invested in an IPO for quite some time but have participated in the offer for neobank Judo, which is a small cap but not that small. Too many entrepreneurs look at financial services and think they can disrupt by acquiring customers digitally, without understanding that they are still in the business of capital and need an edge on the cost of funding, risk assessment and pricing of loans. Judo appears to have the right capabilities and is turning profitable this year, based on its prospectus forecasts.

What's driven your 60 per cent one-year return?

That period's returns were built on a broad base with about 70 per cent of our positions delivering positive returns over the 12 months to September 30. The sizzle on top included Geo, a listing on the New Zealand Exchange, unlisted digital diagnostics company Ellume and a couple of attractively priced takeover offers.

Geo Limited, a company listed in New Zealand but with a management team based in Sydney, returned about 140 per cent. One of the first things that compelled me to look at Geo was the involvement of Webjet chairman Roger Sharp. I first came across Roger when I was a Financial Review reporter, back in 2005 I think, and have admired the way he and his team get actively engaged with companies and work towards a strategic outcome – Roger was the first person I heard use the phrase “private equity in public markets”.

We revalued our holding in unlisted Brisbane-based digital diagnostics business Ellume after it secured a \$US231 million (about \$305 million) contract with the US Department of Defence for its COVID-19 rapid test.

Strategic buyers ponied up to take out two other holdings – traffic monitoring company Redflex and IT services business Empired – at significant premiums. This highlights another argument I think weighs in favour of smaller companies – if they are good businesses and the market doesn’t re-rate them, there is every chance a larger strategic buyer will recognise the value and swoop.

How did you transition from being a journalist to a fund manager?

There’s significant overlap between my experience of journalism and investing. Both careers allow you to be a perpetual student. There’s always something more to learn. You never know enough. Journalism gave me a green light to essentially ask anyone anything and that kind of contact and questioning remains a core part of what I do – even if it has mostly been over Zoom and Teams in recent times.

The challenge of the transition was more about being confident that others would see you belonged – which probably compelled me to undertake further study and secure industry-specific credentials.

Any TV shows, podcasts, or books you’ve enjoyed?

I’ve been reading King of Capital, a biography of Blackstone’s Stephen Schwarzman that was recommended to me recently by my business partner, Paul Dwyer.

There’s a long list of podcasts I listen to. In the investing world, I enjoy the banter of the research team from Intelligent Investor. Tony Martin’s Sizzletown and various

Wil Anderson podcasts are good for a laugh. I love my basketball and get a fix by streaming Rogue Boggles.

Morning Wars is the TV show of the moment in our household, but I also sneak in the new take on Isaac Asimov's Foundation series – which I found on my parents bookshelf as a kid and started reading before I really understood all the words.

What are your interests and hobbies outside of work?

Attempting to play basketball and coaching my daughters' teams. When we do get on the court, it is also great fun having kids who are into the game and excited about their dad calling the subs (except when they get subbed off themselves).

I have to slip in the Melbourne Football Club as well. Having lived a lifetime waiting for their former glory to be restored, the only downside of the 2021 AFL grand final was that the victory came at the expense of the Western Bulldogs, the team my wife and in-laws support passionately.

Which restaurant will you be hitting up in Melbourne when lockdown ends?

It has been too long since I had the Kenzan Gozen lunch box at Kenzan Japanese Restaurant in Collins Place.