

# Compelling Longer-Term Opportunity

Feb 2022 Update

“Money flows, in effect, can render fundamental analysis futile in the short run, even while creating a compelling longer-term opportunity.” - *Seth Klarman, Baupost Fund, December 6, 2000*

| Performance to Feb 28, 2022 | 1 month       | 3 months       | Fiscal YTD    | Last 12 months | 3 years          | Inception    |
|-----------------------------|---------------|----------------|---------------|----------------|------------------|--------------|
| <b>Dragonfly Fund</b>       | <b>-2.81%</b> | <b>-13.77%</b> | <b>-1.72%</b> | <b>-8.73%</b>  | <b>+6.14% pa</b> | <b>+1.4%</b> |

Performance Hurdle: a total return greater than the five year government bond rate + 5% pa over the medium-to-long term.  
Fund return is calculated net of all management fees, expenses and accrued performance fees.

## Fund Facts

|                  |                   |
|------------------|-------------------|
| <b>NAV</b>       | \$1.0141          |
| <b>Inception</b> | Sep 1, 2017       |
| <b>Bloomberg</b> | EQUINDF AU Equity |
| <b>APIR code</b> | EQB7664AU         |
| <b>ISIN</b>      | AU60EQB76649      |

## Portfolio Key Metrics

| February 28, 2022               | % NAV <sup>#</sup> |
|---------------------------------|--------------------|
| <b>Cash</b> (incl. cash ETF)    | 4%                 |
| <b>Unlisted &amp; Con Notes</b> | 27%                |
| <b>ETF</b>                      | 0%                 |
| <b>Listed Equities</b>          | 69%                |
| <i>Market cap &lt;\$100m</i>    | 67%                |
| <i>Market cap \$100m-\$1b</i>   | 33%                |
| <i>Market cap &gt;\$1b</i>      | 0%                 |
| <b>Top 5 positions</b>          | 48%                |
| <b>No. positions*</b>           | 28                 |

<sup>#</sup> May not add up to 100% due to rounding  
<sup>\*</sup> excludes positions <0.1%; counts multiple security types in one company as one position  
Note: In-the-money convertible notes treated as equity

## Key Contributors to Monthly Performance

|              |                                      |
|--------------|--------------------------------------|
| <b>Best</b>  | Earlypay (EPY), Geo (GEO:NZ)         |
| <b>Worst</b> | EML Payments (EML), MedAdvisor (MDR) |

## SUMMARY

- **THE MONTH** | The world and its markets were dramatically disrupted by Russia invading Ukraine in February. Markets that were already stressed by inflation fears had a new uncertainty to worry about. Would the invasion escalate into a wider conflict? How much has the risk of nuclear war increased? What would become of energy and wheat markets in the fall-out? How much would all this further stoke inflation? The average return in our “FIT” universe of 600+ micro-to-midcaps was -4.3% for the month. The worst hit stocks were both those on higher valuation multiples and the smallest, generally least liquid stocks.
- **STOCK PROFILES** | Over the past month, Fund investors have received profiles on some of those key holdings with strong financial performances, **Reckon (RKN)** and **Medadvisor (MDR)**, as well as **Mad Paws (MPA and Upsure (unlisted))**, via our *Small Talk* updates.
- **OUTLOOK** | “It’s always darkest before dawn”, JP Morgan reminded investors with a recent chart showing seven of the ten best days on the market occurred within 15 days of the worst ten days. We are not macro investors or market timers and continue to focus on the individual businesses in which we invest. We used illiquidity as an opportunity in February to add selectively to some of our existing listed positions and our future value expectations remain strong - although it is a double-edged sword. Our unlisted positions, meanwhile, appear to be making good progress.

**Top Nine Positions** (alphabetical order, as of February 28, 2022; ASX-listed unless otherwise stated)

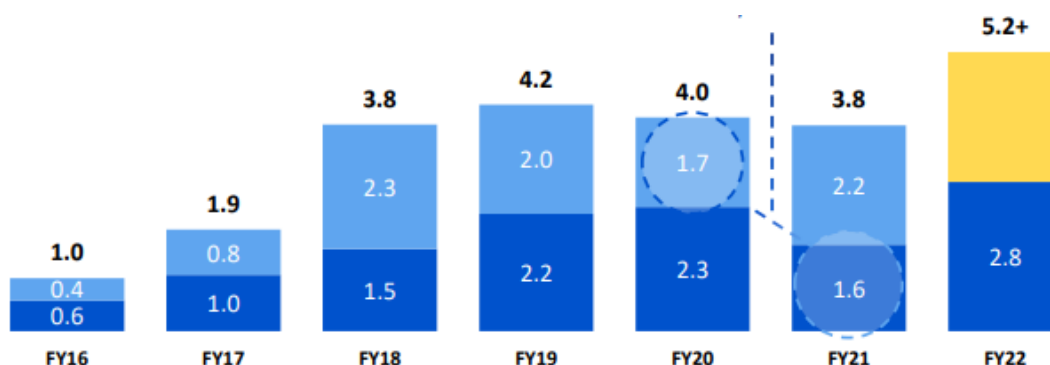
|                     |                        |                |
|---------------------|------------------------|----------------|
| Ellume (unlisted)   | Energy World Corp      | MedAdvisor     |
| Energy Technologies | Geo (NZX-listed)       | Scout Security |
| Earlypay            | Intelligent Monitoring | Spacetalk      |

**PORTFOLIO REVIEW**

In a benign earnings season, here’s what the key movers for the Fund reported:

- Alternative business lender **Earlypay (EPY)** had already delivered a strong earnings guidance update in January and followed up with its formal half-year results release in February. EPY’s 1H net profit (before amortisation) of \$7.7m was just ahead of the January guidance of \$7.5m - and up 118% on the previous 1H. EPY also upgraded its FY22 full year earnings guidance again to \$15m+ net profit (before amortisation), compared to \$14m+ guidance in January and \$12.2m prior to that. In March EPY followed up by increasing its primary invoice finance warehouse facility to \$200m, supporting TTV 50% growth beyond FY22.

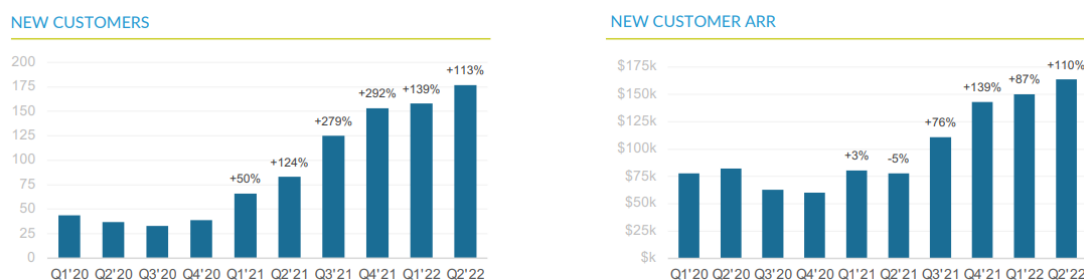
**Figure 1: EPY’s EPS through time**



Source: Company

- NZ-listed trade and field services app maker **Geo Limited (GEO)** reported Annualised Recurring Revenue (ARR) of \$NZ3.1m at the end of the first half of FY2022, up 4.2% from a year ago despite GEO allowing users to downgrade or pause their subscriptions during lockdowns that impact on the September quarter in particular. GEO noted record quarterly new customer sales - up 98% on the year-ago period. The company had \$6.2m cash at December 31, 2021, having burned \$730k on operational cash flow for the first half. The company is progressively increasing its marketing spend and has begun to attack the UK market.

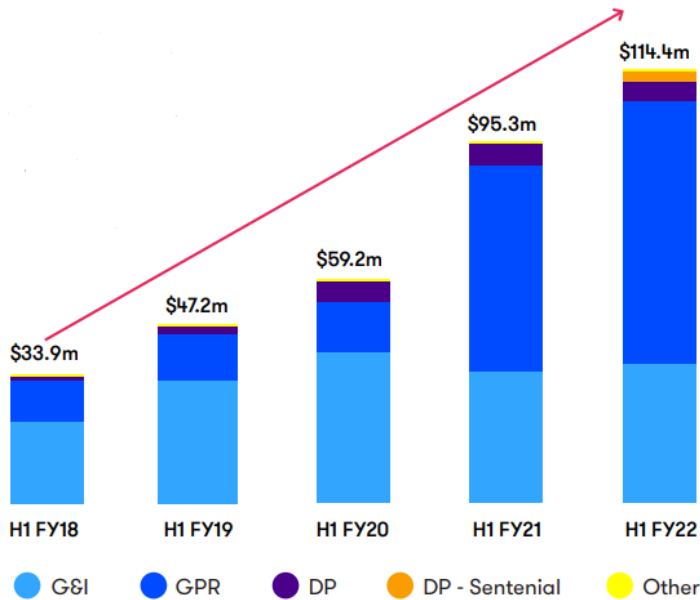
**Figure 2: GEO’s new customer trend**



Source: Company

→ Prepaid card and payments company **EML Payments (EML)** had a result marked by headwinds and one-offs but maintained its full-year guidance: A late surge in Omicron weighed on malls' performance across Germany, Canada and the UK; a \$10.5m provision was raised for legal costs associated with the Shine Lawyers class action. But the company is talking up a brimming new business pipeline. Management also highlighted that every incremental 50 basis point rise in rates translates to \$7.5m in incremental EBITDA.

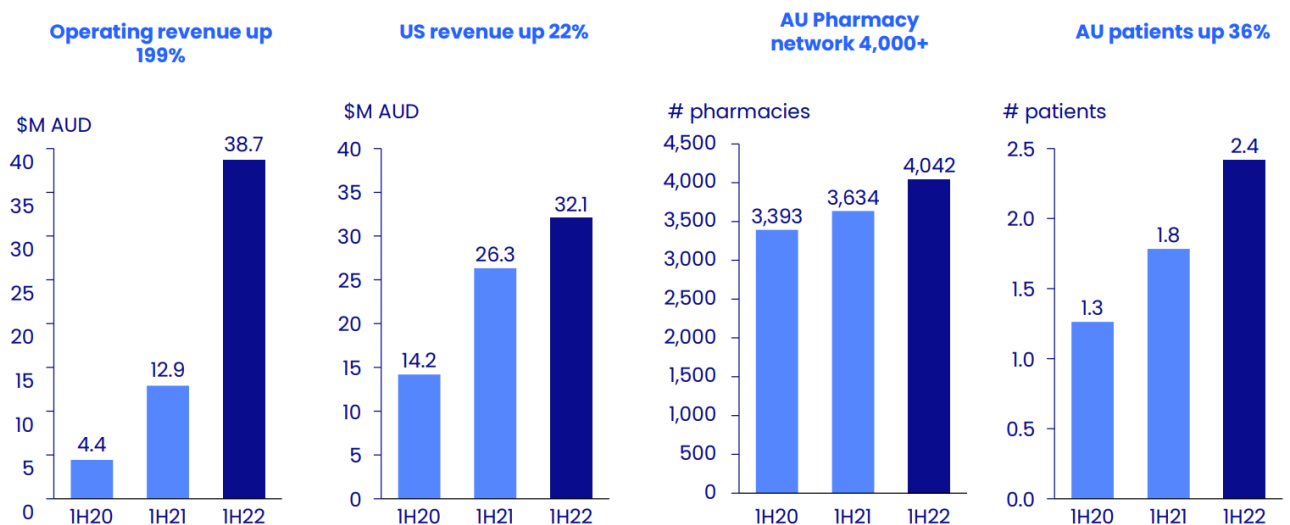
**Figure 3: EML's revenue by segment**



Source: Company

→ MedTech company **MedAdvisor (MDR)** had a financial result that was no surprise after it upgraded its revenue guidance in January. It burned less than \$0.5m for the half on operating activities. Revenue guidance for FY22 is set at \$72m-\$74m after reporting \$38.7m for the half-year (like-for-like 24% growth).

**Figure 4: MDR 1H22 financial highlights**



Source: Company

## OUTLOOK

We used illiquidity as an opportunity in February to add selectively to some of our existing listed positions and our future value expectations remain strong. With a strong bias to smaller market capitalisations, liquidity can be a double-edged sword for the Fund. Low liquidity can create opportunities for a nimble fund to get invested in businesses at attractive pricing - but it can also impact on the mark-to-market pricing of NAV in periods where fear is dominant in the market and some investors are willing to sell almost at any price to exit positions in stocks that the Fund holds.

Below, in Figure 5, we show the significant shift in liquidity for security company **Intelligent Monitoring (IMB)**, despite it actually upgrading its annualised EBITDA guidance in February to \$6.5m from \$6.1m. Then in Figure 6 we show an extremely illiquid position we held just over a year ago - where the outcome was a takeover bid at a 130% premium. It is our view that if the market does not recognise the value of a business, others will, be they competitors, vertical integrators or financial buyers.

**Figure 5: Significant decline in value of monthly trade (through to March 28, 2022) for IMB**

| Date                              | Open | High | Low  | Close | Volume | Value   |
|-----------------------------------|------|------|------|-------|--------|---------|
| ▼ January '2022 to March '2022    |      |      |      |       |        |         |
| 31-Mar-2022                       | 33   | 34   | 29   | 30    | 299k   | 92.08k  |
| 28-Feb-2022                       | 38.5 | 39   | 30   | 39    | 517k   | 179.86k |
| 31-Jan-2022                       | 48   | 48   | 31   | 38    | 307k   | 115.32k |
| ▼ October '2021 to December '2021 |      |      |      |       |        |         |
| 31-Dec-2021                       | 45   | 50   | 37.5 | 48    | 756k   | 320.3k  |
| 30-Nov-2021                       | 50   | 50   | 30   | 50    | 1m     | 410.97k |
| 31-Oct-2021                       | 50   | 55   | 40   | 40    | 1m     | 580.91k |

Source: Iress

**Figure 6: Near-zero volume in Redflex pre-takeover**



Source: TIKR, Equitable

Our unlisted positions, meanwhile, appear to be making great progress.

- Digital small business money management tech company **Parpera** announced its integration with Xero and the formal launch of its Business Debit Mastercard on Google Pay.
- Digital diagnostics company **Ellume** was reported by the AFR to be looking at an IPO with valuation between \$500m and \$1 billion. It also commenced production at its US facility in February and advised shareholders it had achieved \$120m revenue for the December half-year (excluding the impact of its product recall in that period).
- Digital insurer **Upsure** is expanding into the UK from Australia (and has publicly confirmed Steadfast (SDF) unit CBN Australia as a backer alongside Equitable Investors).
- Tasmanian data centre operator and crypto miner **Firmus** received [publicity](#) for its “first-of-its-kind supercloud” - an ultra-low emission and high-performance cloud, capable of storing and processing significant amounts of data.
- Relocation tech company **Updater**'s MoveHQ business is partner to the HomeSafe JV that has been awarded a US Defence contract to relocate 325k+ families a year. HomeSafe's majority equity holder, NYSE-listed KBR, in March presented details of this massive move-management contract. Updater also announced two new director appointments, including former Twilio CFO Lee Kirkpatrick.

## Fund Details

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

## Key Characteristics

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

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**STOCK  
SWAP**

Dragonfly Fund has the capability to "swap" shares in a company or companies for 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.