

NGE Capital Limited

Market update

31 January 2018



NGE Capital Limited

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References to dollars, cents or \$ in this presentation are to Australian currency, unless otherwise stated.

Company snapshot

- ▶ NGE Capital Limited (**NGE** or **Company**) is a Listed Investment Company (**LIC**) which allows investors to invest in a concentrated, high conviction, professionally managed portfolio of financial assets.
- ▶ Focus primarily on listed ASX and international equities.
- ▶ Aim to generate strong risk-adjusted returns over the medium to long term.
- ▶ Internally managed by Chief Investment Officer David Lamm and Portfolio Manager Adam Saunders.
- ▶ Significant Board shareholding in the Company: backing our investment decisions, and aligned with shareholders.

Board of directors

David Lamm	Chief Investment Officer
Adam Saunders	Portfolio Manager
Ilan Rimer	Non-Executive Director

Summary

ASX ticker		NGE
NTA per share post tax (31 Dec 2017)	\$	\$0.630
NTA attributable to cash (31 Dec 2017)	\$	\$0.141
Net asset value (31 Dec 2017)	\$m	\$23.6
Share price (29 Jan 2018)	\$	\$0.490
Discount to NTA	%	-22.2%
Shares outstanding	m	37.44
Market cap	\$m	\$18.35

Top shareholders

Kentgrove Capital Pty Ltd ⁽¹⁾	26.9%
Noontide Investments Ltd	6.9%

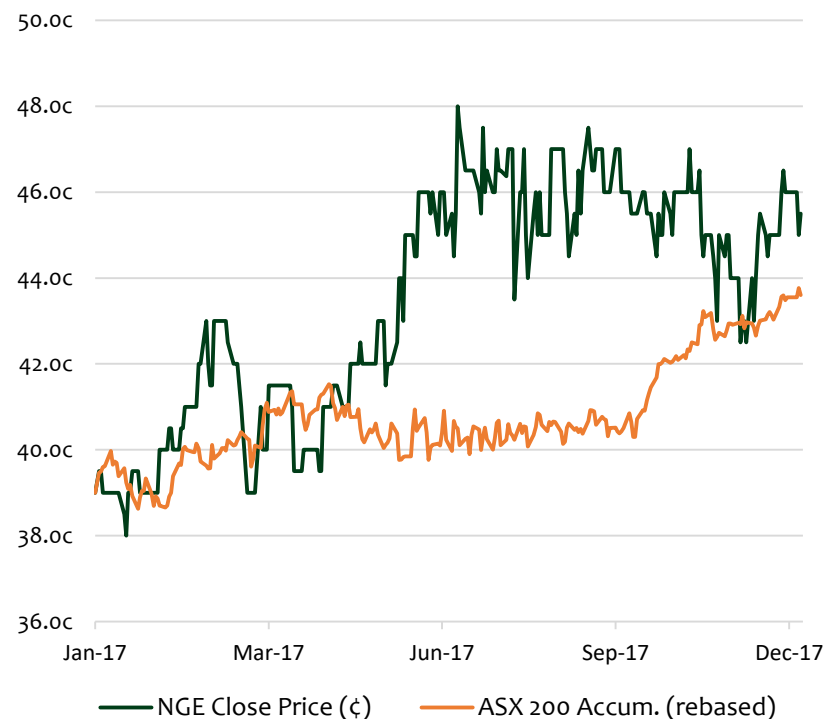
(1) Entity controlled by David Lamm.

Review of operations – FY2017

- ▶ 26.8% increase in NTA (after tax) per share to \$0.630 in the first full year of operation as a LIC.
- ▶ Achieved an after-tax profit (unaudited) of \$4.68M for the year.
- ▶ Unaudited FY2017 financial performance included investment income of \$735k, realised gain on sale of \$1.75M, and unrealised gain on listed investments of \$3.60M.
- ▶ Built up NGE's portfolio based on our investment philosophy and process, with investments in Eureka Group, Mineral Deposits, Godfreys, Millennium Services and Powerwrap.
- ▶ Exited investment in Metals X and Westgold Resources (following demerger) for a \$1.7M gain from a \$5.0M investment.
- ▶ Bought back 3.53M shares for \$1.45M (incl. brokerage) to complete a 10/12 on-market share buy-back that commenced in August 2016.
- ▶ Bought back an additional 425k shares for \$195k under a new on-market facility that commenced in August 2017.

NGE performance – 2017

Total return	NGE	ASX 200 Accum.
NTA per share	26.8%	
Share price	16.7%	11.8%



Target investments that can generate strong returns with an adequate margin of safety

- Individual securities can and do significantly deviate away from their fair value.
- Potential to generate strong risk-adjusted returns by investing in select securities at opportune times.

Aim to hold a high conviction, concentrated portfolio

- Only invest in a compelling opportunity, otherwise hold cash.
- Prefer to invest heavily in a small number of high conviction opportunities, than invest small amounts in a large number of less compelling investments.

Invest based on fundamental analysis

- Bottom up stock selection, focusing on the fundamentals of individual companies rather than market trends.
- Conduct extensive proprietary research with a focus on:
 - **Board and management** – track record, skin in the game.
 - **Credit risk** – gearing, debt profile, interest coverage.
 - **Earnings** – free cash flows including timing and likelihood, margins, payout ratio, growth potential.
 - **Valuation** – multiples, discounted cash flow analysis, break-up value.
 - **Competition** – market share, industry position, sensible market operating.

Investment process

Idea generation

- Screening
- Identify mispricing
- Leverage network of contacts



Proprietary research

- Fundamental analysis
- Company meetings / site visits
- Speak to experts



Investment decision

- Buy, hold, sell, wait, do nothing
- Investment committee approval as required
- Sizing and structure based on risk-reward payoff



Assessment

- Qualify against investment philosophy
- Stress test valuation and assumptions
- Refine hypothesis



Monitor and exit

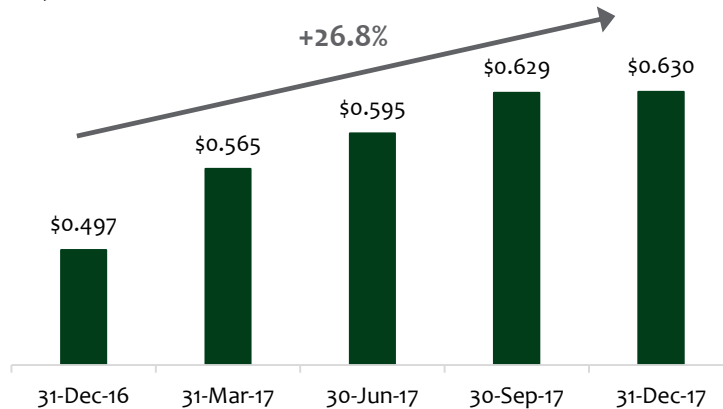
- Update assessment for new information
- Stay on top of the story

A top performing LIC in 2017

► NGE has been one of the best performing LICs on the ASX over calendar year 2017.

Total portfolio return CY2017 – NGE

(\$ per share)

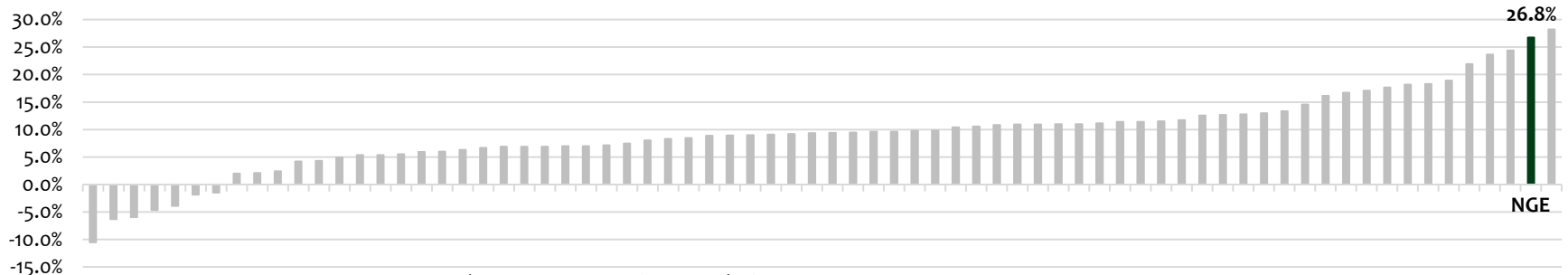


Portfolio performance – all ASX LICs⁽¹⁾

	#	CY 2017		
		Average	Low	High
Total portfolio return				
LICs - Australian large cap	18	8.6%	2.0%	14.5%
LICs - Australian mid/small cap	24	8.7%	-10.5%	28.2%
LICs - Australian/International blended	4	10.3%	4.2%	13.3%
LICs - International	17	12.1%	2.1%	23.6%
LICs - Absolute Return	5	4.0%	-4.6%	21.9%
LICs - Specialist	3	4.7%	-6.3%	11.4%

Note: LIC returns include dividend payments.

Total portfolio return CY2017 – all ASX LICs⁽¹⁾



Note: Each bar represents the total NTA return (including payment of dividends) of an ASX listed LIC over calendar year 2017.

(1) Peer comparison data comprises 71 ASX-listed LICs with FUM of at least A\$10M that were listed as at 1 January 2017.

Our aim is to generate strong risk-adjusted returns for shareholders over the medium to long term

Key characteristics – 31 December 2017

Listed equities	59%
Unlisted equities	17%
Convertible notes	3%
Cash balance ⁽¹⁾	21%

(1) Net of liabilities.

Top holdings – 31 December 2017

Listed equities	
Mineral Deposits	35%
Eureka Group Holdings	12%
Godfreys Group	6%
Millennium Services	4%
Unlisted equities	
Powerwrap	15%

Portfolio holding: Mineral Deposits

Mineral Deposits (ASX:MDL)

Description	<ul style="list-style-type: none"> ▶ MDL owns a 50% stake in the TiZir joint venture, which owns the Grande Cote (GCO) mineral sands operation in Senegal and the TiZir Titanium & Iron ilmenite upgrading facility (TTI) in Norway.
Situation	<ul style="list-style-type: none"> ▶ Company had been trading at depressed levels due a heavy debt burden carried by its joint venture company, TiZir. ▶ The company was stretched to the brink following a large decline in the market prices of its core commodities of ilmenite, zircon, titanium slag and high purity pig iron.
Assessment	<ul style="list-style-type: none"> ▶ Bottom of the cycle of commodity prices – MDL is highly leveraged to a recovery in commodity prices, which have been improving in recent months. ▶ Operational performance of the GCO mineral sands operation has been improved. ▶ TiZir has refinanced its debt on reasonable terms. ▶ Investment has so far played out to plan, and we believe there to be significant upside from the current share price as commodity prices trend higher still.

Snapshot – Mineral Deposits

ASX ticker		MDL
Price (29 Jan 2018)	\$	1.17
Market cap	\$m	230
EV	\$m	214
NGE position size ⁽¹⁾	%	~15%

(1) At investment.

Snapshot – TiZir joint venture (50%)

Net assets (30 Jun 2017)	US\$m	451
Corporate net debt (31 Dec 2017)	US\$m	323
Sub debt - ERAMET ⁽¹⁾	US\$m	139
Sub debt - MDL ⁽¹⁾	US\$m	84

(1) As at 30 June 2017, ERAMET had provided excess loans of ~US\$55m to TiZir in the form of subordinated debt and accrued interest.

Share price performance



Portfolio holding: Eureka Group

Eureka Group Holdings (ASX:EGH)

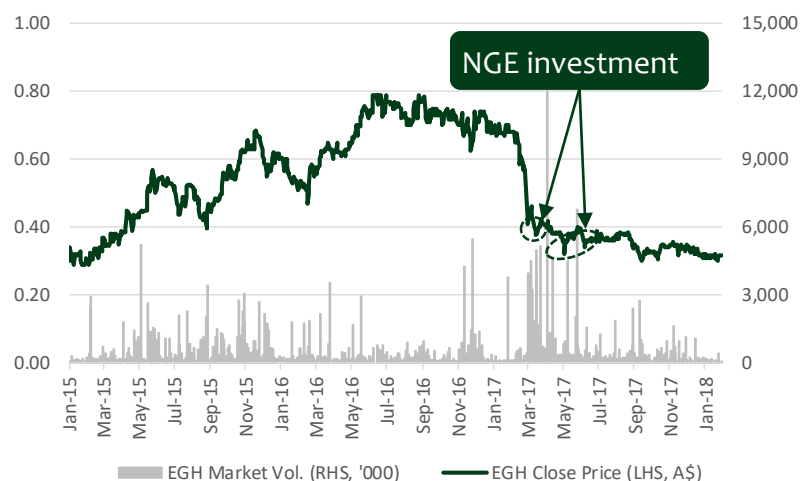
Description	<ul style="list-style-type: none"> ▶ Provider of low cost rental accommodation to independent retirees who are reliant on the Government pension and Rent Assistance. ▶ The company owns and manages 29 villages comprising 1,460 units, and manages a further 9 villages comprising 681 units.
Situation	<ul style="list-style-type: none"> ▶ Business model has been to steadily acquire villages based on disciplined criteria, however a failure to continue historical pace of acquisitions, a few poorly executed deals, and a lack of management oversight led to a sell-off.
Assessment	<ul style="list-style-type: none"> ▶ Eureka's problems have proved more difficult to solve than anticipated, leading to poor performance since we invested. ▶ Revamped management and board should learn from the mistakes of the past and put in place better procedures around future acquisitions. ▶ Thematics remain strong: ageing population, housing affordability at all-time lows. ▶ High operating leverage: higher occupancy will fall to the bottom line. ▶ Few large competitors in the affordable rental retirement space (e.g. not a focus of Ingenia).

Snapshot

ASX ticker		EGH
Price (29 Jan 2018)	\$	0.315
Market cap	\$m	72
EV	\$m	119
EV / EBITDA (FY18E)	x	14.8
P/E (FY18E)	x	13.2
NGE position size ⁽¹⁾	%	~16%

(1) At investment.

Share price performance



Portfolio holding: Godfreys

Godfreys Group (ASX:GFY)

Description	<ul style="list-style-type: none"> ▶ Specialty retailer of vacuum cleaners and cleaning products for domestic use in Australia and NZ.
Situation	<ul style="list-style-type: none"> ▶ Share price has taken a battering after a series of poor financial results. ▶ The market remains jittery over: <ul style="list-style-type: none"> ▶ a high level of debt (gross \$29.9m, net \$16.5m); ▶ a high level of inventory (\$32.2m); ▶ poor comparable store sales; and ▶ a highly competitive retail environment, with Amazon entering the market.
Assessment	<ul style="list-style-type: none"> ▶ Disappointing investment for NGE to date. ▶ Unlike some retail categories Godfreys primarily sells their own designed products, therefore there is little risk of going to Godfreys and then finding the same product cheaper online. ▶ Business remains profitable, cashflow positive and cheap on traditional valuation methods. ▶ Slight improvements in performance should result in a big re-rating in the share price.

Snapshot

ASX ticker		GFY
Price (29 Jan 2018)	\$	0.40
Market cap	\$m	16
EV	\$m	33
EV / EBITDA (FY18E)	x	3.9
P/E (FY18E)	x	6.5
NGE position size ⁽¹⁾	%	~11%

(1) At investment.

Share price performance



Portfolio holding: Godfreys



We encourage our shareholders to shop at Godfreys stores and take advantage of the excellent in-store service and fantastic product range

Selected product range



**Hoover Air Stick Pro 25.2V
Stickvac**
(launched August 2016)

<https://www.youtube.com/watch?v=4ndEXecNz7I>



Hoover Zoom
(launched July 2017)



Wertheim 7 Series Vacuum
(launched August 2017)

<https://www.youtube.com/watch?v=WjvnczGov4I>

Portfolio holding: Millennium Services



Millenium Services (ASX:MIL)

Description	<ul style="list-style-type: none"> ▶ Mid-tier provider of cleaning, security and low-level maintenance services to retail shopping centres, offices and schools in Australia and New Zealand.
Situation	<ul style="list-style-type: none"> ▶ Case study in how severely the market can punish companies that fail to meet their prospectus forecasts, with the share price plummeting from its Nov 2015 IPO price of \$2.25. ▶ Appears to have flown under the radar for a lot of investors since.
Assessment	<ul style="list-style-type: none"> ▶ Bulk of revenues come from cleaning contracts at retail shopping centres. ▶ Owners and operators of large shopping centres have a strong incentive to keep them well-maintained, clean, safe and attractive to visitors. ▶ High renewal rate of contracts, which typically run for 3 years with options to renew. ▶ Bad debts almost negligible due to blue chip nature of company's clients. ▶ Looking to grow security services revenue. ▶ Trades on low earnings multiples given the company's highly visible, recurring earnings and ability to retain existing clients and win new business.

Snapshot

ASX ticker		MIL
Price (29 Jan 2018)	\$	1.415
Market cap	\$m	65
EV	\$m	87
EV / EBITDA (FY18E)	x	4.3
P/E (FY18E) ⁽¹⁾	x	6.9
NGE position size ⁽²⁾	%	~4%

(1) Adjusted for amortisation related to recent acquisitions.

(2) At investment.

Share price performance



Portfolio holding: Powerwrap

Powerwrap Limited

Description	<ul style="list-style-type: none"> ▶ Powerwrap is an unlisted public company that provides investment portfolio administration services. ▶ Powerwrap has ~\$7bn in funds under administration.
Situation	<ul style="list-style-type: none"> ▶ Raised \$19.6m in June 2017 at a depressed valuation of \$0.06 per share due to debt stress. ▶ NGE participated in this capital raise.
Assessment	<ul style="list-style-type: none"> ▶ Powerwrap is one of the biggest platform providers to the independent financial advice market, which is a strong, high-growth industry. ▶ Debt issue resolved through capital raise. ▶ Clients are sticky as it is a hassle to switch platforms. ▶ Peers include listed companies Netwealth, Hub24, Praemium, Managed Accounts and OneVue which trade on high earnings multiples. ▶ Powerwrap undertook a \$2m capital raising in late December 2017 at \$0.10 per share.⁽¹⁾ ▶ Powerwrap has ambitions to list on ASX in the near future.

(1) In accordance with our Investment Valuation Policy we generally hold unlisted companies at cost for the first 12 months and due to the small amount raised we have not revalued our holding.

Snapshot – Powerwrap

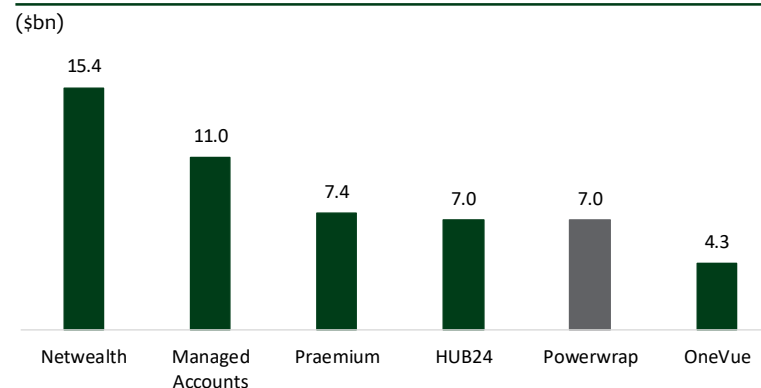
FUA ⁽¹⁾	\$bn	~7.0
FY17 Revenue ⁽²⁾	\$m	11.6
FY17 EBITDA	\$m	-5.7
Net cash (30 Jun 2017)	\$m	11.4
NGE position size ⁽³⁾	%	~16%

(1) FUA is not reported by the company. Estimate based on press reports.

(2) Excludes \$3.5m R&D rebate.

(3) At investment.

Listed peers FUA



Note: FUA relates to Platform Services only.

Board and management



David Lamm

*Executive Chairman &
Chief Investment Officer*

- ▶ Responsible for the origination of investment ideas, management of NGE's portfolio and overall performance of the LIC.
- ▶ Over a decade of experience in business and financial markets including roles at Credit Suisse, Bain and the Alter Family Office.
- ▶ Founder and MD of Kentgrove Capital.
- ▶ Fellow of the Institute of Actuaries of Australia.
- ▶ Bachelor in Commerce from the University of Melbourne with First Class Honours.



Adam Saunders

*Executive Director &
Portfolio Manager*

- ▶ Responsible for the origination, analysis and execution of investment ideas and management of NGE's portfolio.
- ▶ Senior Associate at Kentgrove Capital, and previously held corporate advisory roles at GBS Finanzas in Madrid and Credit Suisse in Melbourne.
- ▶ Bachelor in Commerce from the University of Melbourne with Honours in Finance.
- ▶ Graduate of the Australian Institute of Company Directors.



Ilan Rimer

Non-Executive Director

- ▶ Extensive experience in management consulting, corporate strategy and new business development.
- ▶ Founder and CEO of Property Trail.
- ▶ Previously held roles at Bain, PwC, Australia Post, Visy and Stellar Asia-Pacific.
- ▶ MBA from Oxford University and a Bachelor in Commerce (Hons) from Monash University.
- ▶ Graduate of the Australian Institute of Company Directors.



Leslie Smith

*Chief Financial Officer &
Company Secretary*

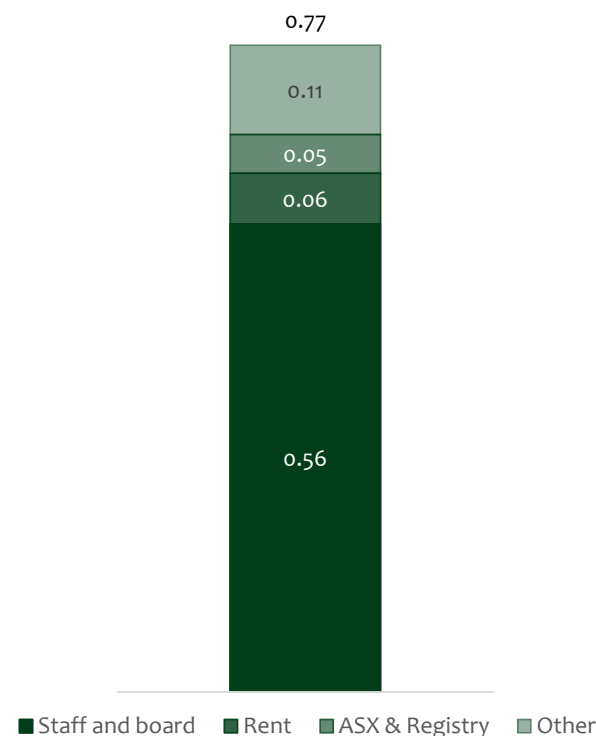
- ▶ Senior financial and company secretarial experience in various private, public and listed entities in the resources, manufacturing, IT and not-for-profit sectors in a career spanning 30+ years.
- ▶ Bachelor of Business from Massey University and a MBA at the University of Melbourne.
- ▶ Graduate Diploma in Applied Corporate Governance.
- ▶ Chartered Accountant and Member of the CPA and Governance Institute of Australia.

LIC structure

- ▶ NGE is an internally managed LIC with no external management fees or external performance fees.
- ▶ Became a LIC in November 2016 following a change in nature of business and ASX re-compliance process. Negligible legacy assets and expenses from historical NGE operations.
- ▶ Experienced, aligned and incentivised management.
- ▶ Our expense ratio currently stands at ~3.2% of NTA. We aim to reduce this ratio through continued positive investment returns and tight expense controls. Currently no plan to raise capital, though may be a possibility in the future to further reduce the expense ratio.
- ▶ The Chief Investment Officer and Portfolio Manager are incentivised via annual bonuses with KPIs tied to achieving NTA growth, with 100% bonus payable on achieving NTA growth of 25% (after running costs).
- ▶ NGE is a tax efficient investment vehicle, with substantial historical tax losses able to be applied to future investment income and capital gains.

Estimated running costs (p.a.)

(\$m)



We continue to see more value opportunities in the market than was the case 12 months ago.

Continue to build up and manage NGE's portfolio.

Continue to grow NTA based on our investment principles.

Our bottom-up, value-based stock picking approach should provide a level of protection from macro-driven events.

Continue sensible capital management programs, with the initiation of another on-market buy-back to enable Company to buy-back shares at attractive prices.

Continue to build track-record, as has been the case over the past year.

Recent inclusion in LIC sector broker reports should help to boost NGE's profile.

Discount to NTA remains high, but we expect this to narrow over time, better reflecting the Company's intrinsic value in the share price.

Contact details



David Lamm

Executive Chairman &
Chief Investment Officer

Adam Saunders

Executive Director &
Portfolio Manager

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Investment proposals

Submit an investment opportunity for us to consider to:



investments@ngecapital.com.au



NGE Capital Limited