

# **NGE Capital Limited**

(ASX:NGE)

**AGM investor presentation**

31 May 2019



**NGE Capital Limited**

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# Company snapshot

- ▶ NGE Capital Limited (**NGE** or **Company**) is a Listed Investment Company (**LIC**) which allows investors to invest in a concentrated, high conviction, actively 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	<b>Chief Investment Officer</b>
Adam Saunders	<b>Portfolio Manager</b>
Ilan Rimer	<b>Non-Executive Director</b>

## Summary as at 30 April 2019

Ticker		<b>ASX:NGE</b>
Share price	\$	<b>0.680</b>
Shares outstanding	m	<b>37.19</b>
Market cap	\$m	<b>25.3</b>
NTA per share before tax	\$	<b>0.766</b>
NTA per share after tax	\$	<b>0.821</b>
NTA before tax	\$m	<b>28.5</b>
NTA after tax	\$m	<b>30.5</b>

## Top shareholders

Kentgrove Capital Pty Ltd <sup>(1)</sup>	<b>27.2%</b>
Noontide Investments Ltd	<b>5.7%</b>
Wallbay Pty Ltd	<b>5.7%</b>

(1) Entity controlled by David Lamm.

# Performance

## Growth in NTA per share

2017	2018	2019 YTD <sup>(1)</sup>	Since inception <sup>(2)</sup>	
			(p.a.)	(cum.)
26.8%	21.4%	0.2%	18.4%	50.3%

Note: Returns are before tax and net of all operating expenses.

(1) To 30 April 2019.

(2) From 30 November 2016, the date on which NGE became a LIC, to 30 April 2019.

### Tax efficient investment vehicle

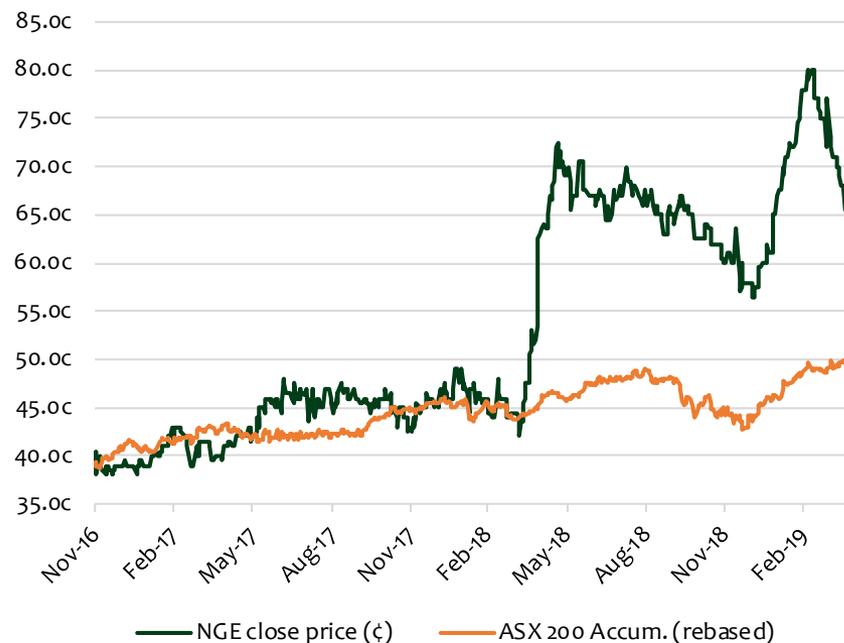
- ▶ NGE has ~\$44m of Australian unused and unrealised losses available as at 30 April 2019.
- ▶ In the aggregate these losses equate to a potential future tax benefit of ~\$12m or ~\$0.33 per share (of which only \$2m or \$0.054 per share is recognised in our after tax NTA).

## Share price performance

	2017	2018	2019 YTD <sup>(1)</sup>	Since inception <sup>(2)</sup>	
				(p.a.)	(cum.)
<b>NGE</b>	16.7%	27.5%	17.2%	25.9%	74.4%
<b>ASX 200 Accum.</b>	11.8%	-2.8%	13.5%	11.0%	28.7%

(1) To 30 April 2019.

(2) From 30 November 2016, the date on which NGE became a LIC, to 30 April 2019.

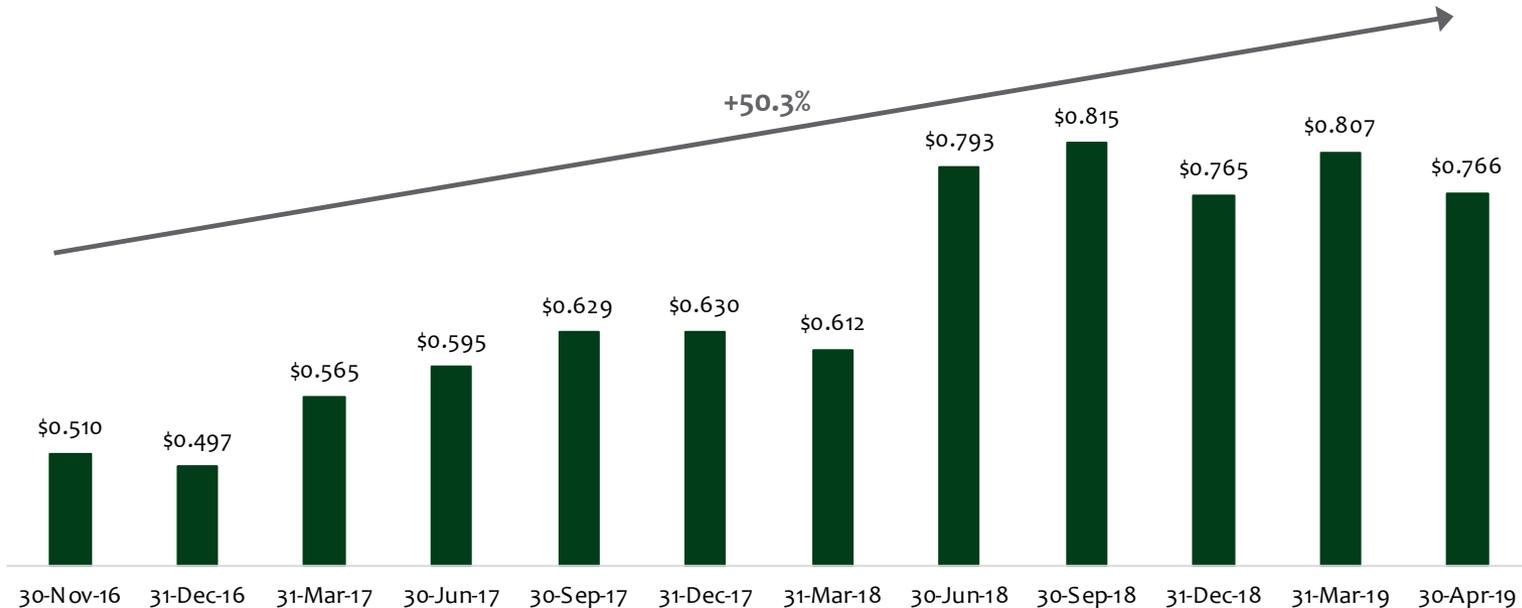


# A top performing LIC

- ▶ NGE has been one of the best performing LICs on the ASX since inception (30 November 2016).

## Total portfolio return since inception – NGE

(NTA per share before tax, net of all operating expenses)



## 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, market dynamics.

# 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

# NGE portfolio

## Top holdings – 30 April 2019

United Company RUSAL	HKE:0486	24.9%
Karoon Energy	ASX:KAR	15.4%
Yellow Cake plc	LSE:YCA	14.7%
Horizon Oil	ASX:HZN	8.8%
Warrior Met Coal	NYS:HCC	7.2%
Base Resources	ASX:BSE	6.9%
Powerwrap	ASX:PWL <sup>(1)</sup>	6.1% <sup>(2)</sup>
Eureka Group Holdings	ASX:EGH	2.9%
Millennium Services Group	ASX:MIL	1.7%
Net cash and other		11.4% <sup>(2)</sup>

(1) Powerwrap listed on 23 May 2019.

(2) Pro forma for sell down under the Powerwrap IPO Share Sale facility.

# Portfolio holding: RUSAL

## United Company RUSAL plc (HKE:0486)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Vertically integrated aluminium producer, responsible for ~6% of global aluminium supply.</li> <li>▶ Operates 12 aluminium smelters (4mtpa capacity), 10 alumina refineries (10.5mtpa capacity) and 8 bauxite mines (17.5mtpa capacity).</li> <li>▶ Also has a strategic 27.8% stake in listed nickel producer MMC Norilsk Nickel PJSC (Nornickel).</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ NGE invested after the OFAC slapped sanctions on RUSAL, its major shareholder En+ and En+ major shareholder Oleg Deripaska, with the expectation that the sanctions would be lifted.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ Early on, the US Dept of Treasury softened its stance, inviting the possibility of lifting the sanctions if Deripaska relinquished control.</li> <li>▶ OFAC extended the deadline on many occasions for trading in the company's securities and winding up dealings with the company.</li> <li>▶ RUSAL's importance to global aluminium supply, the US' position as the world's largest aluminium importer (~7mtpa), and the 28% increase in the cash price in response to the sanctions suggested that there would be an appetite to find a solution.</li> <li>▶ <b>Sanctions were lifted on 28 January after the company agreed to significant restructuring and governance changes.</b></li> </ul>

## Snapshot

Ticker		<b>HKE:0486</b>
Price (30 Apr 2019)	HKD	<b>3.360</b>
Market cap	US\$m	<b>6,508</b>
Net debt	US\$m	<b>7,555</b>
EV	US\$m	<b>14,063</b>
Nornickel stake	US\$m	<b>9,864</b>
EV adj	US\$m	<b>4,199</b>
EV adj / EBITDA (FY19E)	x	<b>2.0</b>
P/E (FY19E)	x	<b>3.4</b>
NGE position size	%	<b>24.9%</b>

### Cheap even prior to sanctions

- ▶ Even at a share price of HK\$4.64 prior to the sanctions RUSAL looked cheap back then, trading on an EV/FY18E EBITDA multiple (adjusted for Nornickel) of ~3.7x versus Alcoa at ~4.2x, aluminium peers at ~6.8x, and global diversified miners at ~5.3x.
- ▶ NGE invested at around half that price averaging in initially at ~HK\$2.26. We increased our stake slightly in December at ~HK\$2.60.

# Portfolio holding: Karoon Energy



## Karoon Energy Ltd (ASX:KAR)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Oil and gas explorer with operations in Australia, Brazil and Peru.</li> <li>▶ Key asset is its cash balance of ~A\$322m (~\$1.31 per share), of which ~95% is held in USD.</li> <li>▶ Retains deferred milestone payments of up to US\$200m following asset sale in August 2014.</li> </ul>
<b>Situation</b>	▶ NGE invested in a large line of stock at \$0.88 per share, equating to ~67c in the dollar of cash held by the company.
<b>Assessment</b>	<p>▶ Karoon's current strategy is to:</p> <ul style="list-style-type: none"> <li>▶ Acquire a tier 1 producing asset to put the company on a sustainable financial footing, preferably offshore Brazil;</li> <li>▶ Develop its Brazilian offshore oil discoveries in the Santos Basin, in conjunction with a farm-in partner; and</li> <li>▶ Conduct "high impact" exploration, with a current focus on its permit in the Tumbes Basin, offshore Peru.</li> </ul> <p>▶ Market appears sceptical of management's ability to execute on its strategy.</p> <p>▶ By purchasing at a significant discount to cash and asset backing, we believe we have an adequate margin of safety.</p>

## Snapshot

Ticker		<b>ASX:KAR</b>
Price (30 Apr 2019)	\$	<b>0.955</b>
Market cap	\$m	<b>235</b>
EV	\$m	<b>-86</b>
NGE position size	%	<b>15.4%</b>

## Sum-of-the-parts valuation

	Book value	Valuation	
	A\$m	A\$m	A\$ per share
Cash balance	\$322	\$322	\$1.31
Neon (Echidna) development	\$109	?	?
Peru exploration	\$69	?	?
Australian exploration	\$29	?	?
Other net assets and liabilities	\$14	?	?
PV Poseidon contingent payments	\$0	\$0-\$175	\$0-\$0.71
<b>Total</b>	<b>\$543</b>	<b>\$322-\$497+</b>	<b>\$1.31-\$2.02+</b>
<b>NGE entry price</b>			<b>\$0.88</b>
<b>Upside</b>			<b>49%+</b>

Note: Book value as at 31 December 2018, except cash balance which is as at 31 March 2019.

# Portfolio holding: Yellow Cake

## Yellow Cake plc (LSE:YCA)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Listed investment company whose strategy is to buy and hold physical uranium for the long-term.</li> <li>▶ Currently holds 9.6mmlbs of “natural uranium” in the form of U<sub>3</sub>O<sub>8</sub>, also known as yellow cake.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ Company offers exposure to the uranium price without the risks typically borne by companies which explore for, develop and mine uranium.</li> <li>▶ Uranium price yet to recover from prolonged bear market.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ Uranium price recovery forecast for following reasons:             <ul style="list-style-type: none"> <li>▶ Uranium price near historic lows, despite solid run in 2018 – prices peaked at US\$143/lb in May 2007, suggesting significant potential upside from spot;</li> <li>▶ Nuclear power demand expected to grow, led by China and India;</li> <li>▶ Higher priced LT contracts which have shielded producers from low spot prices are expected to roll off over 2019-2022;</li> <li>▶ Up to 60% of global production has total costs above spot price, an unsustainable situation;</li> <li>▶ Major producers have significantly curtailed production in response to low price environment; and</li> <li>▶ Current supply deficit forecast to grow due to production cuts, underinvestment in new mine development and growing demand.</li> </ul> </li> </ul>

## NAV as at 30 Apr 2019

Uranium holdings	mmlb	9.62
Spot price	US\$/lb	25.25
<b>Fair value of uranium</b>	<b>US\$m</b>	<b>242.8</b>
Cash <sup>(1)</sup>	US\$m	10.2
Other net assets / (liabilities)	US\$m	-3.0
<b>Net Asset Value</b>	<b>US\$m</b>	<b>250.0</b>
FX rate	GBP:USD	0.7673
<b>Net Asset Value</b>	<b>£m</b>	<b>191.9</b>
Shares out.	m	88.2
<b>NAV per share</b>	<b>£</b>	<b>2.17</b>
Share price	£	2.15
Discount to NAV	%	-0.9%
NGE position size	%	14.7%

(1) NGE estimate.

### The big unknown: inventories

- ▶ There are widely varying estimates of the global level of inventories, which represent many years’ consumption, however the counter-argument is that the “saleable” inventory is much lower.
- ▶ Theory yet to be tested.

# Portfolio holding: Horizon Oil



## Horizon Oil Limited (ASX:HZN)

<b>Description</b>	<ul style="list-style-type: none"> <li>Oil and gas producer, with a 26.95% interest in producing assets in the Beibu Gulf, offshore China, a 26% interest in the producing Maari/Manaia fields in offshore New Zealand, and a strategic interest in a PNG LNG development project.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>Market values the producing assets conservatively and ascribes no value to the PNG LNG project.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li><b>Cheap on a sum-of-the-parts valuation:</b> we value Horizon's producing assets at ~21c (~25c less net debt of ~4c) based on spot oil price of ~US\$70.</li> <li><b>Highly leveraged to oil price:</b> a 14% increase in the spot price to US\$80 leads to a 26% increase in valuation (of course this works in reverse too!)</li> <li><b>PNG LNG Project a potential value kicker:</b> potential for partial sell-down of stake, as well as cash payment due on FID which combined could be worth ~10c on a present value basis.</li> <li>In June 2018 the PNG Petroleum Minister gave the JV partners a notice of intention to cancel PDL 10, one of the key gas fields that underpins the PNG LNG project, frustrated at a perceived lack of progress. We think it is possible that Repsol is allowed to proceed with its stake sale, on condition that the acquirer commits to a more aggressive development schedule.</li> </ul>

## Snapshot

Ticker		<b>ASX:HZN</b>
Price (30 Apr 2019)	\$	<b>0.120</b>
Market cap <sup>(1)</sup>	\$m	<b>206</b>
EV <sup>(1)</sup>	\$m	<b>279</b>
EV / EBITDAX (FY19E) <sup>(2)</sup>	x	<b>2.5</b>
NGE position size	%	<b>8.8%</b>

(1) Diluted and adjusted for IMC options and in-the-money SARS.

(2) Based on assumed average achieved Brent oil price of ~US\$65/bbl for FY2019E.

## DCF valuation of production assets (WACC 10%)

		Brent oil price (US\$/bbl)				
		Spot				
		\$50.00	\$60.00	\$70.00	\$80.00	\$90.00
<u>Possible</u>	\$0.00	\$0.100	\$0.153	\$0.206	\$0.259	\$0.312
<u>values of</u>	\$0.10	\$0.200	\$0.253	\$0.306	\$0.359	\$0.412
<u>PNG LNG</u>	\$0.20	\$0.300	\$0.353	\$0.406	\$0.459	\$0.512

**At the current share price of \$0.12, we are getting the PNG LNG stake for free**

# Portfolio holding: Warrior Met Coal



## Warrior Met Coal (NYS:HCC)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Producer and exporter of metallurgical coal from two underground mines located in Alabama.</li> <li>▶ Operational capacity to mine ~8 million short tons (~7.25m Mt) per year from reserves of ~101m St.</li> <li>▶ Also has 103m St of undeveloped reserves at the Company's Blue Creek Energy Mine.</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ Strong focus on returning capital to shareholders, having paid out gross dividends of US\$22.51 since we acquired our initial stake at US\$27.50.</li> <li>▶ In the past 6 months Warrior has paid a special dividend of US\$4.41, bought back 1.13m shares for ~US\$26m, repurchased US\$132m of Senior Debt, and announced a further US\$70m buyback.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ HCC typically receives a slim ~2% discount to benchmark due to its high quality coal product.</li> <li>▶ Simple, pure-play met coal business that is highly cash generative.</li> <li>▶ At spot met coal prices of ~US\$200/t, Warrior should generate EBITDA of ~US\$635m and FCF of ~US\$495m.</li> <li>▶ Assuming a FY19E coal price of US\$185/t, and LT (2020E+) price of US\$160/t, we value Warrior's operations at ~US\$34 per share (net of net debt). Management believes Blue Creek could be worth ~US\$16-34 per share; we currently ascribe a value of ~US\$4 per share.</li> </ul>

## Snapshot

Ticker		NYS:HCC
Price (30 Apr 2019) <sup>(1)</sup>	US\$	26.84
Market cap	US\$m	1,384
EV <sup>(2)</sup>	US\$m	1,807
EV / EBITDA (FY19E) <sup>(3)</sup>	x	3.5
P / E (FY19E) <sup>(3)</sup>	x	3.7
NGE position size	%	7.2%

(1) Share price adjusted for special dividend of US\$4.41 paid on 14 May 2019.

(2) Adjusted for payment of special dividend and repurchase of Senior Debt.

(3) Based on assumed FY19E met coal price of US\$185/t (vs spot price ~US\$200/t).

## Sum-of-the-parts valuation

	Valuation US\$m	Per share US\$
DCF - operating mines (10% WACC) <sup>(1)</sup>	\$2,153	\$41.77
Blue Creek (undeveloped)	\$200	\$3.88
Net debt	-\$423	-\$8.20
<b>Total equity valuation</b>	<b>\$1,931</b>	<b>\$37.45</b>
<b>Upside</b>		<b>40%</b>

(1) Assumes FY19E met coal price of US\$185/t; LT price US\$160/t.

**Warrior continues to return capital to shareholders**

# Portfolio holding: Base Resources

## Base Resources Limited (ASX:BSE)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Owns and operates the Kwale Mineral Sands Project in Kenya, which produces zircon, ilmenite and rutile.</li> <li>▶ Owns 85% (with option to purchase remaining stake) of the Toliara development project, Madagascar.</li> </ul>
<b>Situation</b>	▶ Market is ascribing no value to the Toliara Project.
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ <b>Cheap on sum-of-the-parts valuation:</b> we value Kwale at ~\$0.38 per share (net of net debt). Toliara valued at an additional ~\$0.19 per share (net of capex) on a risked basis (~\$0.76 per share unrisked).</li> <li>▶ <b>Strong cash flow generation:</b> at spot prices, Kwale should generate ~US\$89m of free cash in FY19E.</li> <li>▶ <b>Toliara is a world class project:</b> PFS values the project at US\$671m (10% WACC, post-tax) with upfront capex requirement of US\$439m.</li> <li>▶ <b>Kwale upside from North Dune:</b> recently completed drill program resulted in estimated mineral resource of 171Mt at average HM grade of 1.5%.</li> <li>▶ Despite some recent softening in zircon market, demand for high quality rutile feedstock from pigment producers remains strong.</li> <li>▶ Medium term outlook for zircon market looks tight.</li> </ul>

## Snapshot

Ticker		ASX:BSE
Price (30 Apr 2019)	\$	0.270
Market cap <sup>(1)</sup>	\$m	328
EV	\$m	326
EV / EBITDA (FY19E)	x	2.1
EV / FCF (FY19E)	x	2.6
NGE position size	%	6.9%

(1) Diluted for performance rights.

## Sum-of-the-parts valuation

	Per share	Valuation	
	A\$	A\$m	US\$m
DCF - Kwale Project (10% WACC)	\$0.38	461.1	325.1
Net cash	\$0.00	2.6	1.8
<b>Current operations equity valuation</b>	<b>\$0.38</b>	<b>463.6</b>	<b>326.9</b>
<b>Upside</b>	<b>41%</b>		
Toliara upfront (DFS, 15% stake)	-\$0.02	-22.7	-16.0
Toliara NPV	\$1.30	1,574.2	1,110.0
Toliara capex	-\$0.51	-622.6	-439.0
<b>Toliara equity valuation (unrisked)</b>	<b>\$0.76</b>	<b>928.9</b>	<b>655.0</b>
Risk factor	25%	25%	25%
<b>Toliara equity valuation (risked)</b>	<b>\$0.19</b>	<b>232.2</b>	<b>163.7</b>
<b>Total equity valuation</b>	<b>\$0.57</b>	<b>695.9</b>	<b>490.7</b>
<b>Upside</b>	<b>112%</b>		

**Currently no value ascribed to Toliara Project**

# Portfolio holding: Powerwrap

## Powerwrap Limited (ASX:PWL)

<b>Description</b>	<ul style="list-style-type: none"> <li>▶ Powerwrap provides investment portfolio administration services.</li> <li>▶ Powerwrap has ~\$7.6bn in funds under administration (FUA).</li> </ul>
<b>Situation</b>	<ul style="list-style-type: none"> <li>▶ NGE invested in June 2017 at a price of \$0.30 per share in a pre-IPO raise.</li> <li>▶ Company listed on ASX via IPO on 23 May 2019, at an offer price of \$0.35 per share.</li> </ul>
<b>Assessment</b>	<ul style="list-style-type: none"> <li>▶ Powerwrap operates in a very attractive market supporting independent financial advisors in managing their clients' wealth.</li> <li>▶ Company is not yet profitable, but growing rapidly.</li> <li>▶ Industry fundamentals look strong with increasing number of advisors leaving large financial institutions (e.g. big banks, AMP, IOOF) to set up independently or join smaller groups.</li> <li>▶ Peers include listed companies Netwealth (ASX:NWL), Hub24 (ASX:HUB), and Praemium (ASX:PPS) which trade on high earnings multiples.</li> <li>▶ We sold ~60% of our holding via the Share Sale facility as part of the IPO in order to derisk our investment.</li> </ul>

## Snapshot

Ticker		<b>ASX:PWL</b>
Price (30 Apr 2019) <sup>(1)</sup>	\$	<b>0.350</b>
Market cap	\$m	<b>72</b>
EV	\$m	<b>49</b>
EV / Revenue (FY19E)	x	<b>3.1</b>
FUA	\$bn	<b>7.6</b>
NGE position size <sup>(2)</sup>	%	<b>6.1%</b>

(1) Represents IPO offer price.

(2) Pro forma for sell down under the Powerwrap IPO Share Sale facility.

# 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.
- ▶ Portfolio Manager 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.

# 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](mailto:investments@ngecapital.com.au)



NGE Capital Limited