WAM Capital, WAM Microcap, WAM Research and WAM Active FY2024 Full Year Results Q&A Webinar

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Speakers:
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Oscar Oberg:

I would like to welcome everyone dialing in today for this afternoon's call to discuss WAM Capital (ASX: WAM), WAM Microcap (ASX: WMI), WAM Research (ASX: WAX) and WAM Active's (ASX: WAA) Full Year 2024 results. My name's Oscar Oberg and with me is Tobias Yao. We're the portfolio managers of the four small cap funds that we're talking about today. And also online is Bridget Thelander who will be moderating the question-and-answer session. Before we begin, a disclaimer is displayed for you in the presentation and obviously what we discuss today is general in nature and not financial advice.

So in terms of how the call will run today, I'll talk about the year that was in 2024. I'll talk about how we're seeing things in small caps. I'll also have a few comments around the share price and net tangible assets and how we're looking there. And then I'll pass it to bias who will give an overview of reporting season. We'll then do four stocks between us that we quite like over the next 12 to 18 months or so and then Bridget will conduct the question-and-answer session. So kicking off with a review of the 2024 financial year and I'm pleased to report all four funds that we manage outperformed the market and indeed with WAM Capital and WAM Research, we're probably the two standouts with WAM Capital outperforming by 14% and WAM research by 18%. And this is against the ASX All Ordinaries Index or the broader market.

Now as we've said numerous times on these calls, the All Ordinaries Index which is our benchmark consists of around 50% of it is banks and resources companies that traditionally WAM Capital never owned because that doesn't fit our investment process. So for us we were extremely happy with our performance and that is largely because small cap companies underperformed for the third financial year in a row. And if you look at how our performance was against the small ordinary index, which Tobias and I would view as a better proxy for the stocks we invest in, we actually outperformed by 17% and 21% for WAM Capital and WAM Research respectively, which is our best performance in just over a decade. I think 2013 was the last time we had performed as good as that. So we were very, very happy with WAM Microcap. We outperformed by 12%. It was in fact the seventh year in a row that we've outperformed since the initial public offering (IPO) in 2017.

We deployed all of the proceeds from the $90 million that we raised in April and thank you again to all our shareholders that participated there. Appreciate it. And I guess the positive thing for us was the actual stocks that we invested in from that April capital raising performed very strongly through that June quarter and that was our best quarter of the year. So we're very happy with that. Now on the side, when we raised the money back in April, we told you all that we thought there'd be an influx of capital markets activity. Unfortunately that hasn't happened today. There was only one initial public offering that we invested in and it's quite frustrating for us. We want initial public offerings and more capital

markets activity at the moment because we're seeing a lot of takeover activity which we talked about at the investor roadshow. So we're seeing our investible universe deplete somewhat and some of the good companies getting taken over.

And last but not least we I'm active, we had a very good year outperforming the market or our benchmark by 26%. I think in the larger companies or larger small cap companies, we are seeing more capital markets activity, more discounted lines of stock, more acquisitions and so forth. And WAM Active has certainly been taking advantage of that with our market-driven process. Now turning onto small caps in our outlook over the medium term, let's call it and look, I must admit I've been a broken record on these calls for the last three years talking about the tide turning in small caps versus the market, the broader market. When we here back in March, we thought we were seeing that turn and indeed that was largely because we'd seen the United States signal that potentially interest rate rises had capped and we might be coming through a rate cutting cycle and from around November to March we had a really good period in small caps.

Now that's reversed since that point in time unfortunately and it has continued on into the 2025 financial year. So it is been quite frustrating. We are sitting here hoping one day that we will get at least a bit neutralized, not ahead when that would be fantastic, but we wanted to show you a chart in the pack today, which it's very simple chart where you're comparing the Australian market since the 1st of July with the United States market. And you can see in Australia that small cap companies have underperformed by around 5% since the start of July, whereas in the US on the other hand it's outperformed by 4%. Now why has that occurred? And I think that we probably find this out tomorrow when we wake up, but through that July period it became more apparent that the United States is very close to a rate cutting cycle and consequently you've seen smaller companies outperform.

You've seen the magnificent seven which has really driven the market over the last few years come back. And so when we sit back here, there's oftentimes we question ourselves is this structural, this small cap underperformance that we see now we think it's cyclical and we just think it's a simple case of investors believing it when they see it. In other words, once the interest rate cuts do occur or the Australian market is confident that they will occur, you'll see performance bounce back in the small cap sector now onto the share price. And a lot of people listening today is probably wondering why are the guys here sitting here talking about how good their performance has been when effectively the share price and we'll use WAM Capital here as an example, would be down over the last 12 months. Now certainly frustrated as shareholders as well, but similar to the underperformance of small caps, we do think this is cyclical and it's certainly something we've seen in WAM Capital over the last 25 years.

We've had cycles of excessive premiums, we've seen discounts before and we certainly think this is the case. Now we've talked about this previously but I thought it would be worth going through it once again. So we think there's broadly two reasons as to why the share price effectively is down if you look at it on your screen over the last 12 months. The first one relates to the level of net tangible assets. Now in 2020 the board made a decision to hold our dividend at 15 and a half cents per year. It's a very high dividend, but that was what the board decided at the time. And of course that's before we take into account franking. Now if you look at WAM Capital, we're trading at a fully franked dividend yield of around 10% and this compares to the market around I think 4% at the moment.

So it's a very high dividend and what that means is that our portfolio must increase over 16% each year just to stand still. Now of what's happened over since that board decision was made in 2020 is we've had two negative markets. We had 2020 with Covid and we also had 2022 with the Russia, Ukraine war and the onset of inflation. Now as you can see through our five year numbers, we've actually outperformed the market despite those headwinds yet our net tangible assets has declined by about 5% per year and that's because we've been paying out so much to our shareholders. Now on the flip side and positively in the last two years because our performance has been strong, we've actually added to the net tangible asset base and as we sit here today, we've got one and a half years of dividend coverage in relation to our profit reserve and that is a lot higher than where we were this time last year where it was only about 0.7 years coverage.

Now look finally, the other reason why the shares have fallen is the premium. Now over WAM Capital's 25 year history, we've traded an average premium I think of around 16% to our net tangible assets. Now in the back end of 2020 it got as high as 30%. And today I think if you look at the share price and our net tangible assets we're sitting at around parity or in line with our NTA. So that's a 30% move. Now that's been consistent across a number of listed investment companies and we look at one of the largest listed investment companies, I was looking at the Australian Foundation Investment Co (AFIC) update recently, they're currently trading at a 10% discount, which is their lowest level in a decade. So probably the last thing I'll say there is that if Geoff was on the call here saying today that he prefers buying a dollar of assets at 80 cents than buying $1 of assets at a $1.20, we've seen many cycles of discounts and premiums within WAM Capital and we do think in time potentially as interest rates fall, the share price may improve. So, look, I'll leave it at that, I'll pass it over now to Tobias to talk about reporting season.

Tobias Yao:

Thanks and good afternoon everyone. Look, the reporting season was quite mixed and the larger companies actually outperformed the small cap companies. If you look at the broader market for the month of August, the market was up 0.4%. However, the small cap companies was actually down 2%, so the headwind was around 2.4%. Now softer than expected guidance has been a key reason of why many of these companies underperformed. If we look at small cap companies in general, I saw pretty interesting stat, 8% of companies in the small cap index upgraded both FY2024 numbers and also upgraded their FY2025 outlook. However, on the other hand, 13% of companies did a double downgrade, which is downgrading the FY2024 numbers and also the outlook. So that gives you a sense of some of the volatility that's happening in the small cap space.

As Oscar mentioned, we're pleased with how we're going tracking broadly in line with the market despite having that two point or the headwind that we've, we've had from the small cap companies. Now the sectors that did well for us, a couple of sectors, healthcare and financial services in the healthcare space, many of these businesses have been trading at very depressed valuations post covid due to the stop start economy. However, in this reporting season we saw the volume was better than expected for many of these businesses. So we benefited from companies that went up such as Healius (ASX: HLS), which is a pathology player, Australian Clinical Labs (ASX: ACL), another pathology player, which we have in the WAM Microcap fund, Capitol Health (ASX: CAJ), which is a radiology business and also Regis Healthcare (ASX: REG), which is an aged care player. The other sector is financial services, specifically non-bank lenders. The trend we're seeing there is that the exit margin or the exit net interest margin is improving and it's better than the group margin for the business.

So the new business that these companies are winning is at a high profit and that's coming out of a couple of years of headwinds. And so companies like Judo Capital Holdings (ASX: JDO), which is a challenger bank to the big four banks in the SME space as well as AMP (ASX: AMP), which many of you will know, and also Zip Co (ASX: ZIP), which is a buy now pay later player in Australia and in the US have outperformed for us. Another area of weakness was actually New Zealand. So I think if you dial into the WAM Global (ASX: WGB) Results call, I think they talked about, as an example, a 30% decline in foot traffic in the New Zealand stores in the month of June and July. So that is very weak. However, they've had their first rate cut and we're beginning to see a little bit of green shoots in there and that's going to be an area where we're going to focus a lot of our research efforts.

Now in terms of detractors for us during reporting season, a2 Milk (ASX: A2M) was probably the biggest detractor for us having missed consensus outlook. We also had Kelsian (ASX: KLS) and Collins Foods (ASX: CKF), however, we've gone back and revisited our investment thesis and have adjusted the position size accordingly. Overall, we emerged from the reporting season with quite a few new ideas and we're very excited about how we've set up the portfolio over the next 12 months to take advantage of what we believe are these high-quality businesses that can continue to grow. Now next I'll talk about two stock ideas and I'll pass it over to Oscar. The first one is a company called HMC Capital (ASX: HMC). Now HMC is an alternative fund manager, it's a founder-led business currently has around $12 billion of funds under management. However, we believe they can grow to around $50 billion, over the medium term.

So that's four to five times their current size. The catalyst for this business would be as they continue to grow the funds under management, the operating leverage, would be immense and actually beat market analyst expectations and that should rerate the share price over time. The other stock is a company called Service Stream (ASX: SSM). Now they are a maintenance services provider for critical assets in Australia. So think NBN fixed wireless towers or the metres you have at home. So, Service Stream has come out of what we'll say an integration period post the acquisition, and now we believe their pipeline is very full. They're also enjoying the tailwind of having labor wage inflation coming off. So, for the first time in a couple of years, whether that's not a headwind for them. We believe the catalyst for Service Stream over the next few years is margin expansion, which should beat market expectations.

Oscar Oberg:

Yeah, thanks Tobias. The two stocks I've chosen are contrarian ideas and the first one I'll talk about is a company called Smartpay (ASX: SMP), which is listed in New Zealand and also Australia. We own about 12% of the company or so Smartpay has actually been quite a disappointing stock for us. If you have a look at the share price over the last 12 to 18 months, and the reasons for that has been effectively that you've had a softening in the Australian and New Zealand consumer market. And I should say what these guys do is they provide terminals. So, you see them at the cafes or restaurant when you tap your card and it's been a softening consumer environment which has impacted their top line. You've also had a new competitor come into the Australian market in particular that's coming in right now, which will potentially take some of their terminals.

Now we think this is factored into the share price and analyst expectations now anyway, but it has created uncertainty into the share price. But the real reason why we own this stock other than at some point getting the benefit of an economic recovery is what they've been doing in New Zealand. So in New Zealand they are the dominant payments provider, payment terminal provider and they have 40,000 terminals. They only have 20,000 in Australia over the last two years they have been investing in the

New Zealand business to change the economics. So it's in line with Australia now if you actually have a look at that, a recent announcement showing the management long-term incentives and if you have a look at that, it's actually anticipating a tripling of earnings over the next two years because that investment that they've been making in New Zealand completes as is pretty much finished in October.

And this is the real reason why we own the stock. So we are very bullish on that change. We're very bullish on the management team. The shares haven't done well, we acknowledge that, but it's at a very cheap valuation and we're backing the team to deliver. So we really like that one. And the final stock I'll talk about, which is a bit odd because we don't actually own it, but we're about to own it and it's called Integral Diagnostics (ASX: IDX) and it's a healthcare company. Now the reason why I'm talking about is we own one of their competitors called Capitol Health. And again, we own a lot of this company. I think we're about 12% as well. They're in the radiology sector now. Integral Diagnostics is taking over Capitol Health and we'll go from a 12% holding in Capitol Health to probably around a 4.5% holding in Integral Diagnostics.

Now we think this merger is being done right at the bottom of the weakness that we've seen in the healthcare space, in particular radiology. We also think that the valuation of Integral Diagnostics is going to be shown to be quite cheap because the second largest player in Healius (ASX: HLS) is in the process of selling their radiology business. And we think it'll get a higher valuation than what Integral Diagnostics is currently trading at. But there's significant synergies in this merger and the management team's quoted $10 million from Integral Diagnostics and we think it's more. So, when we add in the acquisition of Capitol Health into Integral Diagnostics, the valuation's around 13 times earnings on a price to earnings multiple basis in the 2027 financial year when the merger is complete. If we go back prior to Covid, Integral Diagnostics used to trade it at a 22 times valuation. So, if they get the merger right, we think there's 40 to 50% upside there. Hopefully we've given you a good flavor of what we're seeing at the moment, but I'll pass it over to Bridget who will do the Q&A session.

Bridget Thelander:

Thanks Oscar. And we'll start with a few questions that have come through to the info inbox this morning. The first question is from Jill. She said, did WAM Capital manage to exit Megaport (ASX: MP1), prior to the disappointing results announcement.

Tobias Yao:

We managed to exit around 60 to 70% of the holding, I think at around 12 to $13. We still had a small position going into the results, so still was detracted, but we did sell, I think it would be 70% of the entire holding at a much high price.

Oscar Oberg:

And I think it's worth noting what we did talk about at the roadshow at length. Nothing really has changed on the actual thematic at all. In fact, they're massive beneficiary of what's going on in artificial intelligence. What the mistake that we made was they're in the turnaround phase and they're investing into their sales team over the last 12 to 18 months. And that's all done now, but I think what's happened is the softer consumer environment has actually hit a lot of their existing customers and they've seen some churn and that took us, us and the market by surprise. So as Tobias said, we did our work, we sent something was up, we did reduce our holding relative to where we were in May when we were talking

to you all, but it's still hurt us over reporting season and we still own a little bit. We're still backing management and the company to get through this.

Bridget Thelander:

Perfect, thank you. And the next question's from Howard, and I think Tobias, you touched on Kelsian earlier, but he says, I understand that Kelsian's one of your holdings, given the significant decline in the share price, is the market concerned about its future at all?

Oscar Oberg:

Yeah it was one of our holdings that was probably the most disappointing result we had over reporting season. To be frank, look, again, we are contrarian investors in heart and the stock was trading very cheaply. I think the frustrating thing on this one is again, management and the board has probably misread what the market really wanted to see and that was capital discipline and they haven't shown any discipline really versus their capital expenditures. So look, that's why the shares got thumped and probably rightfully so. Now in terms of the viability of the company, no, it is a good business, it's a dependable business management. And the board look clearly I'm disappointed, but they are good people. They'll fix it up, they know what to do, so it's fine and it is one of those stocks where it would not surprise me if a private equity bid takeover bid happened at some point. So look, we did exit the stock. It was a small weighting, but look, given that we're in the stock very sizes over the last three or four years, it was a very disappointing result. So yeah, so frustrating one for us.

Bridget Thelander:

Perfect. And the next one's from Karen, she said if you had Tabcorp Holdings (ASX: TAH), would you continue to hold it or sell it at a loss?

Oscar Oberg:

I obviously can't give you advice. All I can say is we were lucky enough to meet Gillon McLachlan, who's the new CEO and for those who follow a FL, he's the ex head of the A Ffl and he's one of the tallest people I've ever met. And I'll tell you what, he's got one of the longest pauses I've ever met from someone who when he talks, goes to like 10 seconds, but when he talks you go, well, he talks with authority. So I would say Dylan, if anyone is to fix that company, it would be him. I think it'll take time, this'll be, it'll take a lot of time. Look, the balance sheet probably needs fixing in our view. It looks like it's stretched at over two times leverage, but it's a very strong dominant business. There is just so much value that could be created from that business if it was run properly. But we think Gillon's the person to do it. So I can't tell you whether buy or sell it. We've got a very, very, very small holding. Our opinion is they'll raise capital and if they do, we would gladly participate there.

Bridget Thelander:

Fantastic. And the next question's from Graham. He says, will you be buying shares in the Lotto Corp (ASX: TLC)?

Oscar Oberg:

No, because that's a large cap stock. I feel like we're only talking about negatives so far in the question, but we did own Jumbo Interactive (ASX: JIN), which is their key reseller online. And again, that was a tough result over reporting season, so that has been reduced, but again, it's got a very strong balance sheet and the reason why it fell effectively is they're looking to branch out into another segment and

that underperformed a little bit versus expectations and it was harshly sold off at our view. So we're still holders there.

Bridget Thelander:

Thanks Oscar. And another one from Graham. Will you be investing in companies such as Charter Hall (ASX: CHC) Biome Australia (ASX: BIO) and Southern Cross Gold (ASX: SXG)?

Oscar Oberg:

No. In summary, we view ourselves as industrial investors and that's largely the vast majority of everything we're investing in undervalued growth companies. In saying that we're looking at Charter Hall unfortunately it has rallied, but our play there in that space would be Ingenia Communities Group (ASX: INA) and also HomeCo Daily Needs REIT (ASX: HDN) as Tobias pointed out.

Bridget Thelander:

Perfect. And Oscar, we'll stay with you. A few questions on your stock pick if you don't mind touching on this again on Smartpay. Mark has asked what are your views on SMP with regard to the government's review into surcharging? Mark notes that WAM has been increasing its position.

Oscar Oberg:

We have and like anything, and so just for context here, I think I say this, most conference calls be very careful when you watch where our substantials are, just because we've gone over 5% of the company doesn't mean that it is our largest position in the portfolio. That's very, very important. Often our largest positions, we might be 2% or 3% of the company, but it's a very large company. So it's very, very important in saying that Smartpay is a big position. Look, we've done a lot of work on that. The focus seems to be all on Smart Pay and the other here is also Tyro Payments (ASX: TYR), but when it comes down to it, someone's got to pay for the service and these guys aren't rotting the consumer, it's actually, it's the retailer or it's the end user of it who are putting on the surcharge.

It's not Smartpay or Tyro that are putting on the surcharge. Now all they can do is monitor those small businesses that they're providing services to make sure they're doing the right thing. And if they don't then they can pull their services. So, in our view, the review is right. Interestingly enough, The Reserve Bank of Australia (RBA) looked at it, I think it was about three years ago and they actually wanted surcharging. So, look, there's clearly been some players out there that have been taking advantage of the rules and that needs to be regulated. But I think the easy, as I said, it's a contrarian stock pick that we have. The easy thing to say is, oh, the payments providers, they're screwed, sell them. And that's quite frankly what's happened. But as I said earlier, the Australian business has been very important and still will be for Smartpay, but what's really going to drive the earnings of Smart Pay in the next three to five years is New Zealand and getting New Zealand to the same economics as Australia, if you have a look at the management incentives, it'll triple the earnings in two or three years and that's why we own the business.

Bridget Thelander:

Thanks Oscar. And we'll stay with Mark because he has just one more question. Do you think BSA (ASX: BSA) is a logical acquisition target for Service Stream?

Tobias Yao:

Yeah, so I mean it's hard for us to comment on what they're looking at exactly. I guess from an organic versus inorganic perspective, we think that Service Stream will be focusing on the organic side, which is potentially winning work in the defense space. From an acquisition perspective, they're probably looking at areas where they're not currently in that can diversify the revenue base. I mean that's sort what we can comment on in terms of whether, so the areas that they could be looking at from an mergers and acquisitions perspective.

Oscar Oberg:

They also compete quite heavily against each other in telecommunications. So there might be some customers that have issues or synergies you'd call it if they were to merge BSA was an interesting result actually it was probably the best result it has had in a long, long time. So it's a very cheap stock, so it might be one worth having a lookout for the WAM Microcap fund.

Bridget Thelander:

Great. And then Michael and George have similar questions. They said are you still positive on EML Payments (ASX: EML)? And Jeremy has also asked, did you view the result from EML payments as positive and are you increasing your shareholding?

Oscar Oberg:

At least everyone knows on the call that we're not changing the questions to suit because I think every question's been weighted to the negative.

Tobias Yao:

mean the original reason we invested in EML was they had new management come in. They had a problematic business in the UK and they had a business called Centennial, which they were paid for. And so the thesis or the strategy of the original management was to come in under the board to come in to stand the losses or to exit the UK business and to sell the US business and then focus back on their core business, which is digit payments and the cars which EML has been known for since prior to FY2019. If you look at a track record, the board actually did exactly that and actually did it in a very short period of time, which to us was actually surprised us to the upside.

Unfortunately what happened at the result was prior to the new CEO coming into his position, the board has provided some, I guess margin targets or outlook targets on FY2026 numbers. The new CEO rightly I guess having come into the business is now assessing those numbers and trying to work out what are the numbers that he believes to be I guess the correct numbers. And for FY2026 we think it's probably going to be there or thereabouts, but obviously he has next couple of months to figure it out and come out and I think October, November at the AGM to provide more colour on these longer term targets. So it is disappointing for us. However, we think we probably turn the corner, we are getting there slowly, but it's probably taken nine months longer than we thought.

Oscar Oberg:

But I think context of everything at the start of January, I remember Tobias and I were having a good look at EML and we were also having a good look at ZIP and payment sector at that point had been smashed, let's be frank. And then I think we went to 1% of the portfolio and EML and yes, it comes up as

a substantial holding but it's only 1% in the portfolio. But we also went to 2% in Zip Co at I think around 60, 70 cents, something like that. And ZIP today is over $2. So yes, we've got EML wrong but ZIP we've gone more than right. And yes, it hurts that we get E wrong trying to get everything right as we can, but that decision we'd make every day of the week given how well ZIP's done. So yeah, it's a frustrating one. Management and board have done everything right over the last 12 months. It's a hard market for companies that have a low market cap.

Bridget Thelander:

Thanks Oscar. And then Jamie has said, you mentioned Nick Scali's (ASX: NCK) result. Where do you see it on the quality scale versus the other retailers?

Oscar Oberg:

Very much so on the high quality. So I mean it's a founder-led business balance sheet's, excellent. It's got property on the balance sheet, minimal debt, it's a great play on if you think interest rates are going to fall and housing turnover will increase it as a result. And what we've found over this reporting season, just generally over the last few years, I think any retailer that's got scale has generally outperformed because there's a lot of smaller players that just don't have the balance sheet to compete. And certainly Nick Scali's done that and become a category killer in its space. But from here to take the business from $15 share price to over $20, you've got to be bullish on what they're doing in the United Kingdom. We think they've bought that business very well. I think the week after they bought it, the largest player called DFS downgraded their earnings expectations by about 50%. And then about two months later the central bank in England actually cut rates. So we think they've bought out of the perfect time, they've got a great balance sheet, they'll expand the rollout, they'll get buying synergies across the portfolio. So yeah, Anthony and the team is certainly a company we'd like to back, so I'd definitely put it at the top end of the quality scale in the retail sector.

Bridget Thelander:

Fantastic. And then the next one we've got Adam, he said you mentioned Collins Foods. Do you think that the market has overreacted to the latest results announcement and do you think you'd compare this stock to Guzman Y Gomez (ASX: GYG)?

Oscar Oberg:

I was about to use that analogy too. So yeah, a hundred percent. I mean look what we're seeing in the market just generally, and it is frustrating because it doesn't fit into our investment philosophy and we've talked about quite a few stocks that have gone wrong at the start of the call, but I think that gives you a flavor of what we're trying to do here. There's a lot of value in the market right now. Now what's happening is that a lot of those companies that are very, very cheap, they might be missing by a little bit and they get slammed by the market. Now on the reverse, any company that's got is big and is still outperforming, just keeps seeing the share price go up. Commonwealth Bank (ASX: CBA), great example. And look, it's not something that we don't own. It's a fantastic business, but I think it's trading at 25 times earnings right now it's the most expensive bank in the world by some margin and it will probably keep going up for all we know.

So I guess what we're trying to do is we're trying to find undervalued growth companies. So for context, Collins Foods I think today trades at a price to earnings, multiple valuation of around 12. I think looking forward GYG doesn't even make a profit. So I guess for us we would buy Collins Foods every day of the

week and that's what we did. Now, unfortunately, they missed expectations by a little bit and the stock got smoked and it's down 15%, but we've been buying it because effectively it's all short term. Nothing's changed in the medium to longer term. Now the market, other investors won't buy the company until they visibly see earnings be upgraded. And we don't think that's probably going to happen probably for another six to 12 months, but that's okay, we'll sit there accumulating stocks. So we think the stock is very cheap. Again, very good business, very dependable business, generates very strong cashflow, a catalyst for why we didn't sell it was because we think they're going to make acquisitions, which all these franchisees globally really have really struggled. Look at Dominos (ASX: DMP), Yum! Brands (NYSE: YUM) struggled as did restaurant brands in New Zealand. So it's a great time for the big player to be acquiring and that's why we're still staying with them. So the answer Bridget, is yes, look, I mean it's materially cheaper than GYG and that's why we're focused there.

Bridget Thelander:

Fantastic. And now we'll turn to biotech stocks. Joseph has asked, will your team start looking into biotech stocks like Dimerix Ltd (ASX: DXB), which will have its product in the latest phase of trialing soon.

Tobias Yao:

We're very selective in looking at biotech stocks. We have companies like Telix (ASX: TLX) typically we're looking at these businesses after they have started to generate revenue. And so it's really de-risked from the FDA perspective in many of these cases. We don't have the exact domain expertise so often it's very selective for us and we don't have a huge part of the portfolio. In fact, we're only very small part of the portfolio in biotech stocks.

Bridget Thelander:

Fantastic Tobias, and we'll stay with you. Is Tuas (ASX: TUA) still good value at its current level?

Tobias Yao:

Yeah, we believe so. So Tuas still remains as our largest position. I actually went to Singapore on a research trip a few weeks ago. I mean the key thing I learned over there was the fact that the three incumbents, so Tuas is the fourth player that's challenging a winning share from Singtel star hub and M1. The three players actually have a capital core scenario where they have to pay additional money to the Singapore government for spectrum payments, which is the wireless spectrum payments which they needed committed to in 2017, I think 2018. And so between the three players, they need to pay around 900 million of Singapore dollars to the government for those spectrum. And I think that's coming up over the next six to 12 months. And so if you are one of the big players to offset the hit to your balance sheet and the hit to your earnings, which is extra interest cost, I think a reasonable move is to put prices up for the mobile plans that they have. And so that is an advantage for someone like Tuas who's challenging the market and disrupting the market on price and winning on value. So we're still very bullish to us. They've recently launched their broadband plan of 10 gigabytes for around $30 a month versus many of their peers. They're at much slower speed and it's I think when I last checked was around $60 to $80. So again, disrupting now the fixed broadband space, which is very attractive and a very profitable part of telco space as well.

Bridget Thelander:

Thanks Tobias. And a few questions have come through on dividends. I think from those who've just joined. Oscar, could you please address the dividends and franking again, the questions are around will

WAM and WAX return to fully frank dividends? And is there any chance of the WAM dividend increasing once inflation has been brought into a more manageable position?

Oscar Oberg:

So I'll probably spend a bit of time here. So first thing I would say is this is a board decision, so it's not something I'm not on the board so that it's their decision to make on the dividend and the franking, but I'll talk to why, what's happened over this period. So it's hard to do with our diagram, so I'll try and do it in my hand. So if we go back in time and we go back to 2020, I think the shares might've been trading at $2.30, $2.40, but our NTA was $2 at that point in time and that's our net tangible assets. What are our assets worth today? Now at that point in time, the board decided to hold the dividends, right? And then 2020 we had Covid-19, which means the value of the assets fell right. We then paid, kept paying you the dividend, the 15 and a half cents they fell again, but you guys get back.

So just remember when you're looking at the share price, you must add back the dividends to look at the total shareholder return. 2021 occurred, it was a very positive time in the market portfolio went up, but then we just kept paying a dividends so it went down a little bit, but net tangible assets went higher. Then in 2022 we had another sell off, but we kept paying you the same dividends. So sell off portfolio falls dividends and our NTA gets to these levels. Now since those last two years, as I talked about at the beginning, our performance has been really good and our performance effectively has offset the dividend. So our NTA has gone up a little bit and then last year's gone up and for context, if we hadn't outperformed the dividend would've been cut about a year ago. So I think that's very important.

Now I'll come to franking. And in terms of the franking, there is a mismatch between the franking that we pay out and also our dividend. And the franking is largely due to the realised profits. So when we buy shares at a hundred and we sell them at 200, we physically sell them that profit that we make we can pass on because we pay tax, physically pay tax, we can then pass that onto you with franking credits. Right now, the fact that we dropped it from a hundred percent and the board dropped it from a hundred percent to 60% back in, I think it was, was it February last year? February this year. I think it was February this year. Apologies if it wasn't. So that should have given you a flavour as to how close we were in terms of cutting the dividend. And if you can remember, last year the United States came out around November, December saying effectively the interest rates had peaked and the market went up and we went above the market in that period.

So I've put it this way, I think it, it's very lucky that the dividends didn't get cut to be fair because we were sitting here thinking they would be. And then we had a really good December, really good January, really good end to 2024, added to the profit reserve again in July and August. So effectively that's that now. So hopefully that's answered the franking. Now the last thing the board would want to do is increase the franking and then decrease it again. We still need, and as I said earlier, we've only got one and a half years of dividend coverage. We had 0.7 this time last year, we've got one and a half, which means we can pay the next dividend in October, we can pay the April dividend and we can probably pay half the October, 2025 dividend. So clearly if we get more coverage, the market goes up, we perform in line with the market.

If we get more coverage, that means more dividend certainty and it probably means more frankly. But we're not there at that stage yet. So hopefully that gives you that answer. Now on the actual, if interest

rates fall, would the dividend go up? No, the answer is, look, I can't answer for the board, but all I can say is we are paying a very, very high dividend, extremely high dividend. Some may argue unsustainably too high dividend, it's at a 10% fully franked dividend yield after franking 60%, it's about 12% to 13%. It's very high. I think the broader market is 4%. I think Commonwealth Bank is 4%, we pay 10%. So it's got to come out from somewhere. And as I said at the start of the call, just to stand still, as I said, we've got our net tangible assets at the start of the year, it has to go up 16% to offset the dividend that gets the 15 and a half percent that gets paid.

The net tangible assets will only increase if it goes beyond 16%. So look, I can't speak for the board, but I think it's from my end, I think it's probably highly unlikely that the dividend will be increased. I think what potentially could happen, and I don't know, but it could in my view, I think it's not just us across WAM Capital, it's across the whole sector, the listed investment company sector. I think that period from 2010 to 2021 when interest rates were effectively zero, it was a very positive sector because you were getting fully frank dividend yields of 5%, 6%, 7%, 8%. Now we've seen interest rates and term deposits go up to 4%, 5%, 6%. And there is effectively competition that wasn't there over that period. So for me, if I look at the actual universe of list investment companies, if we do go into a rate cutting cycle, potentially that could be better for the share price as a list investment company. So look, there was a massive answer to that question. And look if you've got any other questions, I'm only a phone call away and the team's a phone call away, so please call if I get it. It's complex. It's hard to answer, but I've tried to do it as simply as I can. But if you have any more questions, please call in.

Bridget Thelander:

No, that was a great explanation Oscar. And we've been telling shareholders as well to read the WAM Capital annual report, the Chairman's letter, and the Lead Portfolio Manager update as well for a detailed sort of visual representation of that. So thanks Oscar. This is sort of a leading question from Claire. If the dividend is going to continue to reduce the NTA, should the board cut the dividend to allow for capital growth?

Oscar Oberg:

It's a great question. Again, I'm speaking for the board, the decision, if we go back to 2020, the decision, and I'm just giving my view, so please this might be completely different from Geoff or the other board, but I'll give you my view. I actually think it was the right decision back in 2020 to hold the dividend. Now what has actually hurt the share price and the net tangible assets, let's call it was the 2022 sell off, which I think we all were sort of blindsided by because Covid fell so much the share price, the market fell so much, we got the rebound and I think we're all pretty positive at that point. And then this mass inflation hit and that really hurt the market. And we had a bad year that year in WAM Capital if you can remember. So I think, look, that's the reason why the net tangible assets have really fallen was the 2022 year and we kept paying the 15.5 cents.

And then of course the premium, which we've always said, Geoff has always said consistently over the years you'd rather buy $1 of assets at 80 cents than $1.20. Now effectively you'll buying $1 of assets of WAM Capital at $1.20, at $1.30. And unfortunately it was unsustainable and we are frustrated as all hell around where the share price is. But that's unfortunately it's come back to our net tangible assets. So to answer your question on the dividend per se, the board needs to have a balance between capital growth and of course dividends. And clearly it's not in balance at the moment, it's in favour of dividends. So

look, while we've got the franking and while we've got the profit reserve, the board and speaking for the board here, so the decision will be that we will keep paying out as much as we can.

I mean Geoff said that publicly, but at some point it is inevitable and hopefully it's not, but our view is it will be inevitable that the dividend might get cut. And that's clearly one of the reasons we've gone from a 30% premium to trading at NTA. Now I gave the AFIC example, we've fallen that premium to NTA 30% has fallen more than what AFIC has. And I think a lot of that is because our investors are looking forward and saying they've only got one and a half years of dividend coverage. How certain can I be in that dividend coverage? Now I can tell you we're more certain now than what we were a year ago, which is fantastic, and we are more bullish the market and we are bullish on small caps. So if we have a positive market and small caps get back that 20% under performance, that certainly around the dividend can change very, very quickly. So look, hopefully I've answered your question, Claire, it's a good question. But yeah, again, if you need anything, please dial in.

Bridget Thelander:

Thanks Oscar. The next question's from Nigel, he says, as a dividend investor, which of your funds is the best long-term and has the safest profit reserve for possible global unrest?

Oscar Oberg:

For global unrest? So on that, and this is not just us. So when you are looking to invest in listed investment company, you should be looking at probably three things. The first one is their performance. Historically, has it been good or not? Is it trading at a premium or a discount to its net tangible assets? But thirdly, and I think most importantly is their ability to keep funding dividends. So when to pay a dividend, you must generate profit if you generate a loss and everyone sort of goes, well, what's a loss? All the loss is if the market is down 20% one month and say our portfolio is down 5%, we've outperformed by 15%. So as sitting here, Tobias and I are very, very happy, but that's a loss. So we don't have any profit to push into our what's called our profit reserve to keep building these dividends up.

So that's effectively what that is. So when you're looking at a company for dividends for this investment company, you need to be sure that they've got a big reserve that can continue to keep paying that rate of dividends or potentially increase. So if we look at WAM global, for instance, WAM Global (ASX: WGB) similar to us, has had the impact of small caps underperforming that's turned in the United States in particular in the last few months, which is positive for them. They're trading at a discount. They also have a large profit reserve and have been steadily increasing the dividends. And you're talking about how to manage global unrest and so forth. Well, they're generally in the larger companies in globally and very, very liquid companies, so they can buy and sell quite easily. So if there was a big event, chances are they could probably go to cash pretty quickly.

And the same goes for WAM Leaders (ASX: WLE) who also have a very big profit reserve and have been steadily increasing the dividends over the last few years. Us on the other hand, we saw in 2022 when you have a combination of a war in Ukraine, inflation and also Covid lingering on, there's only so much we can do because we are in small companies, limited liquidity, they're generally exposed to the economy in some point. They're not a big bank, they're not BHP Group (ASX: BHP), they're not Woodside (ASX: WDS), so they get sold off more than what large cap companies do. So hopefully that answered the question.

Bridget Thelander:

Yeah, definitely. The next question is from James and he's asked about the profits reserve and we often get this question, he said, is this money that's set aside somewhere or is the money embedded in the NTA? He's just looking for a further explanation of how it works.

Oscar Oberg:

And this is the complexity of it and it's very, very difficult. And don't get me wrong, I find it difficult half the time too, and we are in the game, but just think of the profit reserve as simply this. So it starts at the beginning of every financial year and finishes at the end. So if we are, let's say we were this year, I think we were positive maybe 3.5% for July, think of that 3.5% is banked away. It's not cash that's banked away, it's just an accounting term, let's call it that. 3.5% is banked away. We put it to the reserve. And as I said to you earlier, we need our portfolio to go up over 16% a year just to stand still. So think of it as we need 16% to pay a dividend and we've just got three point a half, so therefore we've got 12.5% remaining to fully fund those dividends.

And now if you have a really big year like we did in 2021, say I think we're up 35%, right? And we need 16%, and clearly we've got this excess buffer, which is great. Now we haven't had that since that point in time. We've got that excess buffer. Now we don't just in that scenario, just increase your dividend as high as possible because who knows the next year might be a negative year, but that will create more buffer in your reserve where you can then keep paying dividends for a longer period of time. So it's just an accounting adjustment. Now what the complexity of it is as, I'll give you an example. Say that we did positive 3.5% for July, that gets taken away the reserve. Then the next month we are negative 4%, right? So that's a loss. So to actually build onto that reserve September or the following months need to go above 4% and beyond that amount needs to go to the profitable reserve.

That's the only way it can occur. So look, the reality is that it is complex. Just watch, you can work it out at every NTA, just work out how much every monthly NTA that's released on the ASX, how much has that NTA gone up or down for a month. You can compare it to the market whether we're outperforming or underperforming. And that should give you a flavour as to what we've taken to the profit reserve and how much more we need to get to that sort of call it 16% level to stand still. So again, hopefully answer that question I'm trying to do as simply as I can.

Bridget Thelander:

Yeah, absolutely. Thanks Oscar. And the next question is from Greg. He said, why did WAM Capital do all of the acquisitions instead of some of the other LICs?

Oscar Oberg:

So this is in a period, so you're referring to, and this is a while ago, so Euroz, Wealth Defender and a few others. Now, at that time we were trading at a premium to our net tangible assets and quite a substantial premium, 20%, 30%. And the listed investment companies that we were acquiring may have been trading at below their net tangible assets. So what this means is, and we do this all the time when we are buying businesses, we want to see what's called an earnings accretive acquisition. It's a key catalyst, and it's the same thing in the list investment company industry. Effectively, if you are trading at a premium and you are buying this investment company at a discount, it actually adds to your net tangible assets. It's positive. So net tangible assets increase. So therefore if the share price holds and the

premium to NTA at the time holds, the share price should increase. Now, when we were doing those acquisitions, we had sufficient profit reserve to do them. We had a premium. Today we don't necessarily have that. So acquisitions were accretive to shareholders. If we were to do something today, it's likely it probably wouldn't be. So it's not something we're certainly the board would be. Again, I feel I'm on the board, but I'm not, it's not something that would be talking about in my view.

Bridget Thelander:

Yeah, perfect. And Joseph has, if a takeover happens to one of your holdings, what does the team do and how do your team assess an initial public offering (IPO) to determine whether it's worth investing in or not?

Oscar Oberg:

When you get takeovers, they're great. When they happen. To be fair, and there was one, the best one we've had probably I reckon was that Estia Health (ASX: EHE) one, which in hindsight we probably shouldn't have sold because its peer Regis has gone up a lot, but we actually got the money and then we put it straight into Regis Healthcare, which is the other player that's listed. And we've actually made more money off Regis than we have on this year. But look, as a fund manager that we invest in a lot of companies, we have good ones, we have bad ones. I think generally when you have a takeover, it's pretty random and out of the blue and you know down the track, you will have a bad stock. So I think the view is if you've got a takeover and it's a 50% premium to the share price that we had a few of them last year and the shares might go up 30% because there's still risk of the deal not happening given the way we invest, you'd be mad not to take some profits at that point because who knows, the takeover might not happen.

Tobias Yao:

I'll say we're pretty pragmatic as an investment team. So for us, we back ourselves to deploy the capital into other ideas. Yeah, that's a good point. And maybe in terms of the other part of the question, in terms of the IPO, a lot of it, it's actually just understanding the management team. I think initially we need to be able to buy in into the strategy, buy into the management team. We're really backing founders and these teams to deliver for us. And so for IPOs, I think a very large part of making a decision on whether we want to invest or not is actually the management team.

Oscar Oberg:

And a lot of the IPOs that one we invested in Tasmea (ASX: TEA), which is a mining services company. I would say it's probably mining services companies, a tough company, they trade low valuations. I'd say I'm selling it short, but it is a lower quality industry, let's call it. But on that one, the management team didn't sell down on IPO and in fact the founder shares on market in the first couple of days of it listing and to us, that's a great sign and that's what you want to see. Too often we see IPOs as a way for a founder just to exit and it shouldn't be like that. And this is one of the reasons why IPOs just haven't come back to the market because a lot of our investors and peers have had such a bad experience with them.

Bridget Thelander:

Yeah, that's interesting. And sorry, we're going back to Pro Medicus again. Tobias touched on this, but do you think that the current share price is reasonable and are you still bullish on its future?

Tobias Yao:

Yeah, so Pro Medicus is actually one of my all time favorite stocks. If you look at the track record of Sam, who's the CEO and the founder and what's his delivered over the last 10 years, it actually, I think it's actually ranks one of the top companies in the world being able to grow the top line by 30% and still banking 50% earnings margins. So it is a favourite stock of ours. We are shareholders. We're very bullish where it's heading. I think what gives us a lot of confidence is the fact that they're currently 7% of the market in the US just in their core radiology software side of the business and the addressable market or serviceable addressable market for them is actually 85% of the market in the US. And this excludes the cardiology product and the AI product that's going to come out. I don't think touch wood, they've ever lost a customer in the last 20 years. And so the customers are very embedded. They have a pretty good lead on their competitors with their they cloud offering. So it's a very, very high quality company and yet we still shareholders and are positive on the stock.

Bridget Thelander:

Great. Next one's from Jamie. She says, given the upcoming rate cutting cycle, have you got a view on Vulcan Steel (ASX: VLS)?

Oscar Oberg:

It should massively benefit if it actually happens. And New Zealand's a very fascinating market at the moment, just generally, and I think I talked about this back in March, and it gives you a flavour of what potentially could happen. I mean I think after the call we did in March, Shaun and I went to New Zealand and it was apparent that things were really coming off. Companies were meeting Vulcan was one of them. Started talking about all this cost inflation, we're starting to see people being retrenched and employment's really freed up and cost inflation with input costs are starting to come down. But then I came back, I think we wrote an article in Livewire, didn't we say, oh buying New Zealand stocks, they're so cheap and came back and I think Tobias looking at me going, what were you smoking over there?

I think the Reserve Bank of New Zealand, the Central Bank just said, that their interest rates are on hold. They're going to be high for longer. ANZ, analysts or the economists over there said, that the next move will be a rate hike, not a rate cut. And I think Tobias was looking at Shaun and I as if we were completely wrong. Next thing we knew, two months later they're cutting rates and it shows you that really we're all in the dark here as to what's happening, but it can happen really, really quickly. And New Zealand was, Tobias gave you the Nick Scali example, but every company talked about how bad New Zealand was. And I'll tell you what, it was a close second Victoria that was almost as worse than New Zealand. It probably will become worse. So to answer your question in a long way, Vulcan, you couldn't get a worse environment for Vulcan right now, just generally economy, it's very, it's highly exposed to the economy in New Zealand and Australia.

You've got China as well, that's where you're seeing steel prices coming off too. But this is the perfect time to buy the business because effectively once you get the upturn, what generally happens is the share prices will start to rally before the earnings come through. And in fact, Vulcan did a big earnings downgrade at the result and I think the shares are flat since it did that, which is a very, very, very good sign. So we own a small position in Vulcan. We also own Steel and Tube (NZX: STU), which is the number two player in the WAM Microcap fund. We actually have quite a big holding in a number of New Zealand companies think the market looks really cheap and like I said, the United States has outperformed in terms of small caps versus the market by around 5% since the start of July. And that's exactly what's

happened in New Zealand as well. So that gives you a flavour of what might happen in Australia if we get an interest rate cut. And to be fair from our end, we think that will happen in February and March. Certainly the companies, when we spoke to them over reporting season things were definitely softening.

Tobias Yao:

In general, we're happy to be early on stocks as long as the investment thesis doesn't change. I think for us it's just to size the positions accordingly to take advantage of the eventual uplift in share price.

Bridget Thelander:

Perfect. The next question is from Colin. He says, how would you evaluate the intrinsic value of a growth company like Telix Pharmaceuticals (ASX: TLX)?

Tobias Yao:

Telix is a great example I think for us from our catalyst driven investment approach. So for many of these businesses, as you know, our investment process is to identify catalysts that could rerate the share price. And Telix is I think an example where we believe there are catalysts coming predominantly I think to build the Telix platform. They're looking for acquisitions, accretive acquisitions, and that's sort of the catalyst for us that when they do deploy the capital to buy something and add to the Telix platform, the share price will get rerated. So it's an example of how we pick stocks in the active side of the portfolio where it focuses on catalyst that could eventuate.

Bridget Thelander:

Perfect. And this one's for Oscar. This next one James has asked if you're still excited about Austin Engineering (ASX: ANG)?

Oscar Oberg:

Yeah, still excited. Very much so. It had a really good result. Sometimes we often see this with companies as frustrating. A couple of the analysts had put their numbers way too high in the market and the company did the right thing and guided and got them down, but the company had high expectations going into it. So we've seen the share price fall as a result, but it's been one of our best performing stocks in the last 12 months or so. And it's still very cheap net cash, it means cash is higher than the amount of debt that it has got a great outlook, production exposed. So it has fallen a little bit more since the result given commodity prices have fallen as well. But we do think it's partly insulated, but it has the potential to make an acquisition, which is what we like. So it's a key catalyst. So still like the business still a big holder in it.

Bridget Thelander:

Great. And we're having a few questions come through on some large cap stocks such as Qantas (ASX: QAN) Star Entertainment Group (ASX: SGR), AGL Energy (ASX: AGL), and Woodside. Oscar, maybe this is a good time to remind listeners just where you invest. To everyone watching, we do have the WAM Leaders (ASX: WLE) webinar coming up next Tuesday who will be discussing these stocks I'm sure in great detail.

Oscar Oberg:

Yeah, and I'm pretty sure remind to us. I think WAM Leaders guys own all for them. So yeah, definitely go into the call next week, but I mean maybe this is a good opportunity just to explain to investors what we invest in. So I touched on it in my opening remarks, but within the ASX All Ordinaries Index, which is our benchmark, you've got the biggest exposures to the All Ordinaries Index are banks, the four banks and BHP, Rio Tinto (ASX: RIO) Fortescue (ASX: FMG) and probably Woodside, that's probably around 50% off the top of my head of the market and CSL (ASX: CSL) as well. It's 50% of the market. We don't own those companies and we never have, we focus on undervalued small cap companies largely in the industrial space. We don't generally do resources and real estate, investment trusts or energy companies. We focus on industrial companies. That's been very consistent since Geoff started the business 25 years ago.

And so yeah, look, that's what we invest in. If you have a look at our net tangible assets, it shows you the percentage of companies that we own across the ASX or the All Ordinaries Index and you'll see zero in the top 50 stocks. I think it's maybe like 6% or 7% potentially off the top of my head from the ASX top 50 to 100. But then the vast majority are between the ASX 100 and the ASX 300. So call it between the top 100 and the top 300 stocks in Australia. That's our sweet spot and we focus on industrial companies there.

Bridget Thelander:

Great. Thanks Oscar. The next question's from Cam and he's asked why do you hold such small weights in your top 20 stocks in WAM Microcap.

Oscar Oberg:

I'd say that's the way we invest always has been, but WAM Research has probably got the highest weights and that's because of the way we manage WAM Research, which is effectively if there's 1% in WAM Capital, there's 2% in WAM research. But I would say on the whole lot with WAM Microcap, they're much higher weighting than what they are in WAM Capital. And largely the reason why we outperformed last year was because in WAM Microcap, other than some takeovers was effectively TPG Telecom (ASX: TPG), Regis Healthcare, Service Stream, were the larger weights in the portfolio. So I'd say yeah, look on the whole Microcap would have a greater weight than what WAM Capital does, but just generally us versus other fund managers, we are a lot more spread in our portfolio, which is why, as I said earlier, it's a danger to be looking at our substantial shareholder notices and just assuming that because we own 12% of Smart Pay, that doesn’t mean we're a material owner of Smart Pay in our portfolio. That's not the case. So just be mindful of that.

Bridget Thelander:

Great. The next one's from David. He's asked for your view on Fiducian Group (ASX: FID).

Tobias Yao:

It's one we haven't looked at for a while, partly because of liquidity, even for micro-caps, even for WAM Microcap, it is relatively illiquid. I understand it's a founder led business, the financial services space, a vertically integrated financial, I guess planning arm with products. It is one where I think liquidity probably prevented us from doing more work, more work on Fiducian.

Bridget Thelander:

Fantastic. And the next question is from Bernie and George. They both have asked about G8 Education (ASX: GEM). They say the share price fell on its results announcement, did it meet your expectations or disappoint? And then George has also asked, what is your view on Embark Early Education (ASX:?

Oscar Oberg:

Yeah, GA eight we're really bullish on, so I was contemplating to do it on the call today, but we did it in March. But what you saw in G8 at the result was a classic. We see this all the time. The share price started to rally into the result and it rallied very strongly would've been one of the best stocks in the market really in small cap market leading into the result. So it went from about a $1.15 to $1.40 really quickly. And what happened was they slightly disappointed. They actually beat earnings expectations for the first half, but unfortunately the June and July occupancy levels in the centres had declined and they had delivered a pretty soft outlook for the top line into the second half. Now it didn't change any earnings numbers, but we were this close from the stock really taking off and it needed a very, very good result to go beyond that $1.40 because it rallied very strongly in it.

Now has anything changed from our end? No, not at all. It is a tough consumer environment out there, there's no doubt about it. To my earlier points, it just gives us more confidence that rates will be cut at some point in Australia in the next sort of six to 12 months and they're really at the pointy end of that. But as Tobias said, we want to be early in companies and the real reason to own this stock is that it feels like childcare's become political in the same way that aged care has. And we'd really well out of Estia and Regis Healthcare because effectively we own the stocks and then the government said they were going to fund the wage increases in the industry and then as it panned out post Royal Commission, they worked out that a lot of the aged care centres weren't making profits and need to be propped up and actually needed more funding.

Childcare is exactly the same. They've just gone from, they've had an ACCC review into the sector, they've had a productivity commission review into the sector. If you have a look at those reports, the conclusions are that a lot of the providers aren't meeting their cost of capital. You've just had the government come out of the budget and there was recent announcement about a month ago saying they're looking to fund the wage increases of the staff in the centres and that's massive for operators in particular company like G8, which is the number one scale operator in the market, probably the first time we've seen a number of years that any sort of revenue increase really should drop to the bottom line. So all we need to see, we saw evidence of that and the result in the first half, unfortunately June slipped away and so did July.

But all that means is we've just got to wait another six months. We feel that if we get another interest rate cut and who knows, maybe this is what we're seeing with the government funding wages, maybe that they actually support the sector through other means, whether it be subsidies and so forth because it has become political, so in favour of the sector. So yes, it's a big weighting of ours. We also own Evolve Education (ASX: EVO). We're a substantial shareholder there and that's in our Microcap portfolio. So both stocks, we're playing it in WAM Capital, we're playing in WAM Microcap, so we're bullish on the sector. We just need that occupancy. If we get that occupancy growth, it's going to be very positive for both those companies.

Bridget Thelander:

Perfect, thank you. And then James has asked, do you have a view on Tyro Payments (ASX: TYR)?

Tobias Yao:

Yep. No, we're bullish on Tyro, look, the management team that has actually done a really good job, during this reporting season, they took the feedback from many of their shareholders and actually came out with numbers that surprised us to the upside, particularly down the earnings part of the business. It's a bit like Smart Pay, obviously more focused in Australia. There's a few verticals like health that's growing really strongly and so that's sort of the key area that we believe could actually increase the time to value (TTV) over the next few years as they grow the verticals that they're strong in and continue to expand the market there. So Tyro is one where we think the valuation is under demanding and so we're still bullish on Tyro.

Bridget Thelander:

Fantastic. Next one's from Michael. He says, do you still see more upside in Bravura's (ASX: BVS) recovery?

Oscar Oberg:

Yeah, we do. I think management, the board there has done an awesome job. They're returning money back to shareholders, they're doing a buyback, all the right things that you want to see look like any turnaround. It does take time. And for context, if we were here, I think a year ago, a lot of people were saying they needed to raise equity and now there was something they're giving capital back. So the turnaround, I've never seen a quicker turnaround to be frank. Now the shares have gone up because of that, which is great, but now the market's simply just got to see some revenue growth, see some new contract wins. If we get that, that's a $2 share price really quickly. Currently trading at $1.30. So yeah, it's a big holding for us in WAM Research, WAM Capital and WAM Microcap.

Bridget Thelander:

Perfect. The next one's from John. He says, do you hold Johns Lyng Group (ASX: JLG)? He can't understand why the share price has been whacked so much even after reading all of the broker's reports and he still can't see a clear answer. Can you share your view?

Oscar Oberg:

Yeah, we can very simply. So we don't own it. It used to be a big holding of ours. It was probably one of our biggest holdings, probably top five around two years ago. And the reason why we sold it was because firstly management sold a lot of stock and they're really good guys. We like them, they'll get it right, but at that time the shares for context were like $7 a share or something. And so they obviously sold at the highs and you always worry about companies like that when it comes down to it is this services company almost a construction company that was trading at a huge valuation over 30 times, which is a big number. And the second reason is, is that they started to go a little bit off strategy and that to us is always a bit of a red flag.

So it was always a very simple story about Australia and effectively increasing their market share. Being the largest player there with all the insurers, there was obviously a lot of natural disasters, so they benefited from that. But then they went into the United States and then we went over to the US to

check it out again. We just thought it'd take a little bit longer there. And then they bought I think a smoke alarm business and something else. And I think for us it was just the story was becoming a little bit complicated and in the back of the minds we're like, well, if management and the board have been selling shares at $7, that probably should be a sign for ourselves. And so we exited the business, I think probably around $6.50, $6.60, something like that. Now if you go to the result, the result, the outlook was weak and then expectations, the cashflow conversion was weak and the business traditionally had been in net cash, so it has more cash than it's debt and had looked like it was going into a deposition. So that's why it's been whacked really harshly.

Now on the flip side, management's been buying back stock over the last couple of weeks or so since the result, which is again a positive sign. So Johns Lyng will be a business that we really like the guys, they're a great bunch of people. Again, founder-led business, which we always love. So we'll be meeting them over the next call a couple of months to see whether it's an opportunity because whenever you're seeing management buying back stock, that's usually a good sign. So hopefully that gave you a good summary.

Bridget Thelander:

Perfect. The next question is from Ian. He says, do you have any cover in place for movements in the New Zealand Dollar to AUD exchange rate?

Oscar Oberg:

No, we don't.

Tobias Yao:

There are companies like a2 Milk that's traded both in Australia and in New Zealand. So we would be buying in most cases the ASX traded stock.

Bridget Thelander:

Another question from Greg, he said that all the acquisitions with WAM Capital have diluted the share value with over a billion shares on issue. Can you comment on this and you did sort of earlier?

Oscar Oberg:

Okay. So if we go back and have a look at the acquisitions, a lot of them were very small. Then we did Euroz, which was Westoz and Ozgrowth and that completed in April, 2022. Now at the time when we announced, I think it was the backend of 2021, it was highly accretive to shareholders because they were trading at a discount and we were trading at a big premium. Then what happened was we had the Russia, Ukraine war in March, the market fell and certainly our portfolio fell. And if you go back and have a look at the director's interest notices, I think you'll see that Geoff sold some stock back in March, I think it was around that time, which might've given you sort of shareholders if they'd noticed it, sort of a feeling as to how he was feeling about the share price, which is overvalued given he sold some.

And then of course we completed the merger and the shares on issue increased. And there's no question that the additional shares and the Euroz and Westoz and Ozgrowth shareholders probably sold the stock. So it probably magnified the selling and the share price losses that we saw from that point over that period. Call it, there might've been a three to six month period, it was a decent sized

acquisition. So to answer your question, and I feel like I'm talking like I'm on the board, I think in hindsight, look it was probably a tough acquisition let's it the market changed at the point in time when we got the portfolio, but in reality we would never do the acquisition if it wasn't accretive to the net tangible assets. And when we did the acquisition, even after a close, it was accretive to net tangible assets. So it's positive for shareholders.

So look whether or not the board, if they had their time again, would've done the acquisition. I don't know. I guess from my end, what I can say is we've had this question numerous times over the years. That acquisition probably did add to the selling that we saw from sort of April to June, July of that year in a bad market. But for the most part that was all washed out now long gone. So just as I said, we're just hopefully that a better market for small caps and interest rates potentially. Maybe we see the share price rally in time because of that.

Tobias Yao:

And just to clarify, other WAM LICs have done acquisitions as well, so it's just not WAM Capital. So WAM Global and WAM Leaders have acquired other LICs as well.

Bridget Thelander:

Thank you. Now we have a couple of questions that are fairly similar. So first off, David has said, when do you think the WA capital share price will reach $2 again? And Donald says that he had or he has fought a 57,000 WA Capital shares having acquired them through the West OS acquisition and he's been waiting for the WAM shares to recover to its former glory of around $2.35. Can you see an improvement in the share price in the future?

Oscar Oberg:

Yeah, so David, unfortunately, and again I sort of touched on it before, when we made the acquisition we were trading at $2.35. That was a massive premium to our net tangible assets. And if you go back and have a look, it took about one or two months really for the share price to fall, even though our portfolio was falling when the war occurred and obviously inflation started. So there was a lag and that was in that lag when the acquisition occurred. So today we're sort of at a $1.60, so that was in April, 2022. Since that point you've received quite a lot of dividends and franking, so I won't bother calculating the franking, but the $1.60 you do today, you've got to add 15 and a half cents times three so 46 and a half cents. So look, we're not going to sit here and say that that's a great outcome.

Yes, you're down from that $2.35, but you do need to take into account the dividends that you have received and look clearly from Tobias and I'S perspective. We would love to see the share price back to where it was at some point, but we'd also like to see it back at that point, probably not at the premium it was back then because it was so unsustainably high at that point. And I'll go back to, as I said at the start, Geoff's on this call, he's saying he likes buying $1 of assets at 80 cents. He doesn't like buying a $1 of assets at $1.20. And so you've just got to be mindful of that. So anyway, hopefully that answered your question there.

Tobias Yao:

And we are all shareholders of our LICs in the team as well. So we do want the share post to be higher than where it is.

Bridget Thelander:

Perfect. And this one's from Mark. He says, do you think Generation Development (ASX: GDG) will or should drop their push into annuities and focus on the investment bond and Lonsec businesses?

Oscar Oberg:

So I'm glad someone has pointed out a company we own above 5%, that's actually done well. So finally I feel like we've gone through the ones that have all been bad. We do have a few that have gone well, that's one that's gone well. We toss it up with them all the time. Look, we feel that you get two scenarios here. It's a $3.5 million to $4 million investment and currently I think this year post the Lonsec acquisition, probably going to do $20 million of profit, let's call it. So clearly if you just stop the investment tomorrow there's $4 million extra profit, which is fantastic. That's a 20% upgrade to earnings. So in that scenario, that's probably positive. Now the second scenario is that they're successful. Now, let's say they're successful then that's a third pillar to this business that probably no one's putting any value at all and probably putting negative value on right now.

So for us, we're happy to let management and the board do what they need to do. I've got to say full credit to them and I'll be the first person to put my hand up. I wasn't happy with the Lonsec acquisition. We've owned GDG since 2017 and we had a lot of it and then they did their Lonsec acquisition. This is when they took 40% of it. And we didn't like it very much because we were waiting for this acquisition and we're like, oh you haven't taken a controlling stake of this business. The market won't value it properly. And so we actually sold quite a hefty amount of the stock. Turns out we were completely wrong and Lonsec has just been this behemoth and we bought back, which is great and it's been a great stock for us and we still think there's more to go there. So point I'm making here is the management and board have made some great decisions. We think buying the remaining holding of Lonsec that they don't own has been a tremendous acquisition and the potential to be even better. So you'd back them to get the annuities right.

Bridget Thelander:

Thanks Oscar. And we've touched on this before, but just so it's really clear for shareholders, Robert has asked about WAM Research in particular. He says WAX is down over 30% over the last three years. Why?

Oscar Oberg:

Okay. So very similar to WAM Capital. And that 30% you're calculating there. I think if you just looked at the share price, I think it got to a high of $1.70. Does that sound right? About 40% premium, that was no, I think it was high. It was over a 40% premium it could've even been 60%, which is crazy. Anyway, so unfortunately that has now fallen. Now we're still at a premium in WAM Research. I think today it's about a 10% premium today.

Oscar Oberg:

So if you look at it, today's share price of $1.12, I think. So again, you need to add back the dividends that you have received, which I think is 5 cents every half. So call it that three year period, another 30 cents. So you're sitting there back at, call it $1.40 or so once you add back dividends. But yes, you're down. And the simple reason is the premium has shrunk. So you've gone from a 50% premium or so to the assets to now a 10% premium to the assets. And that's a big reason why unfortunately the shares have fallen.

Bridget Thelander:

Thanks for that Oscar. And then a question from Chris, he says that performance could improve if there were greater transparency in the actual composition of the portfolio. So similar to what AFIC does, can you please comment on this.

Oscar Oberg:

Performance in the share price? Look on the stocks that we hold, we do give the top 20 at the half year report and the annual report, you can see the weightings of these holdings. A number of years ago, I think it was like 2017 or 2018, we used to tell you the percentage of the fund in these holdings. But the reality is we invest in small cap companies. We're generally a very large investor in these companies. We're a big fund and if we give the weightings every month, we're sort of telling our if a weighting goes from say 2% to one point a half percent, then all the investment banks, we'll look at that and they'll go, oh, WAM's been selling that company. So that was something we didn't want to do and that's, we took those weightings out of the portfolio, but you get it every half in the reports if you want to see the weightings. But look, generally the top 20 weightings of the portfolio within WAM Microcap and WAM Capital are probably around 35% to 40%, let's call it, of the portfolio. So if generally, if that top 20 is going well, then we're going well.

Bridget Thelander:

Perfect. The next one's from Ian. He says, when the Integral Diagnostics and Capitol Health merger completes what will happen to Healius?

Oscar Oberg:

So we own Healius. It's been a good one for us. This year wasn't good one last year, so I've got to put that in perspective. But the sale of their radiology business is imminent probably in the next few weeks and we do get the feeling it's going to be a pretty good valuation. So that hopefully should be good for Integral Diagnostics, particularly if it's a high valuation, than what it is trading at the moment. For Context, Healius is the second largest operator in Australia following the acquisition of Capitol Health. Integral Diagnostics will be the third and will be the only with, Sonic Healthcare (ASX: SHL), call it the only pure play, let's call it radiology player in the market given Sonic has a much larger pathology business. So we think once the merger completes, manage will give an update of where the synergies are. Assuming that the momentum these guys have had, particularly in the last half of last financial year continues, we think that a bigger company that's listed as a small cap company in Australia will have a large share price rerating. And so we think it'll be quite positive for the company.

Bridget Thelander:

Fantastic. And the next one's from George. He says, given the state of the Australian airline industry, are you still holding Alliance Aviation (ASX: AQZ)?

Oscar Oberg:

We are. Own it in the Microcap portfolio. Again, a small waiting. I've actually been lucky enough to read their book, which sometimes you get lucky when you get close to management. They started their own beer on the plane and they said, do you want to have one and have a try? And we did. And then they said, oh, we just published this book on the business and I read it and it was an awesome book and it basically showed you how entrepreneurial these guys are and they started the business after September 11 happened.

And then in the GFC when a lot of planes were grounded and they built the business up like that. During COVID was obviously planes were grounded and they took that opportunity to use their balance sheet and buy some planes from some struggling airlines. And at the same time, Qantas owned 20% of their register. And so effectively what they're doing now is supplying these planes into Qantas and Qantas uses own brands. Alliance will actually operate the aircraft. It's good for Qantas because it means that they don't have to spend money on planes. It's Alliance that's doing that. But Alliance has been doing this for the last couple of years and the peak level of expenditure will occur I think by about Christmas this year.

So the debt levels have been increasing. So the reason why we own it is we think in a small way, but it probably will be a big position hopefully next year, is that your debt levels are going like this and suddenly they're coming down like this at the same time the planes start going up like this, which will increase your earnings. And so you get that beautiful scenario where your debt's coming down. That's the first catalyst. And the second catalyst is earnings upgrade. So we like that one. Yeah, the airline industry is tough, but a lot of these guys', customers are BHP and mining customers. They need it for flying fly out operation. So it's very much a recurring service. So yeah, we are positive on Alliance.

Bridget Thelander:

Great. And the next one's from Russell, he says, do you have any exposure to Mineral Resources (ASX: MIN) and what do you think of their new airline? I haven't heard of that one.

Oscar Oberg:

They pulled the airline, didn't they? I think when a resources company's telling you that they're going to invest in an airline, that's the top. But look, I shouldn't say that because Chris Ellison is a gun. He's a very good operator. We don't own shares in it, as it is in free fall at the moment because of on all prices and weakness in China and lithium prices as well. And what you always see in resources in cycles, they get overbought and then they get oversold. So that is a really good business, really well operated, founder led everything that we'd like in a company. So we are keeping an eye on it. So we don't own it at the moment. We definitely could in the near term if things get silly.

Bridget Thelander:

Great. And another one from Jamie, she says you own Service Stream. Have you got a view on competitor Ventia (ASX: VNT)?

Tobias Yao:

Yeah, so Ventia is the largest competitor to Service Stream. We actually want Ventia to do really well. Ventia trades at a significant premium to Service Stream. I think it's around 30% to 40%. So our view is that Service Stream over time should get rerated up as well. So yeah, I mean they are experiencing very similar macroeconomic benefits or tailwinds from the amount of work that's coming to them. I guess the difference is they have a large part of the portfolio that's in defence. A lot of these defence contracts are coming up for renewal and service stream very much like a few other players are trying to go after that sort of pot of contract. So for us, we have Service Stream. We think if they do win a defence contract it's positive. If they don't, they can focus back on the current telco and utilities business. So for us it's a bit more of an asymmetrical payoff for us in Service Stream.

Bridget Thelander:

Perfect. And then Tobias, what is your view on Nanosonics (ASX: NAN)? Is it held in the WAM Microcap portfolio?

Tobias Yao:

Yeah, so Nanosonics is a company that I think we debate every six months in the heydays. It has a very good product, which they have rolled out extensively overseas, and they are looking to launch another product, which is the first big product at the backend of this financial year. And so the reason we debated this is we are just trying to work out what are the catalysts to invest in Nanosonics, but the product's good, the momentum has come back a little bit at this result. We are monitoring Nanosonics pretty closely and just trying to work out I guess the best time to enter the stock.

Bridget Thelander:

Great. And the next one's from Neil. He says, do you have opinions on Acusensus (ASX: ACE) and Trajan Group Holdings (ASX: TRJ)?

Tobias Yao:

Probably no strong views there.

Bridget Thelander:

Perfect. And the next one's from Greg. He says, do you have a view on social media company Life360 (ASX: 360)?

Tobias Yao:

Yep, definitely a strong view there, which is we are positive on Life360. I think the thing that's really changed over the last 12 month has been the advertising platform that they're looking to launch and they had some news flow overnight on the partnership with Uber. I think one of the things that we realised with Life 360, firstly it's a founder, their business, but also the penetration rates for many of the states that they're in in the us once it reaches a certain point, it sort of just goes on autopilot and the growth actually accelerates as they get to critical scale within different states. And so that's actually given them a massive tailwind of subscribers growth or a member's growth over the last period. And we believe that can continue as they're sort of coming out of critical scale. For many of the states in the United States, the ad platform is a game changer. They're bringing on partners that value the data that they have. And so I think with the Uber partnership, think you have a Life 360 app, you land in the Los Angeles airport, Uber gets that data, they know you've landed and then they'll serve you an ad going, Hey, would you like to book an Uber? You've just landed? So there's a lot of value, inherent value, intrinsic value in the data and we believe that the business can benefit from being able to monetise that data.

Bridget Thelander:

Yeah, that's really interesting. The next one's from Jeremy, what's your view on Appen (ASX: APX) and are you a shareholder?

Tobias Yao:

A very small shareholder. Appin was a stock we used to own quite a bit. I guess it was the pre AI era where the business was effectively helping Google and other search engine companies improve and optimise the data by overlaying a human interpretation element to the data. Then they went through I guess a few years, a very tough period because a lot of the contracts that are pulled and with ChatGPT, if you think about 12 or more than 12 months ago now, the thought process was that, hey look, the human interpretation of the data is unnecessary because guess what? The AI can actually effectively do what the humans were doing. I think fast forward to now, the last few months, they've actually begun to get a lot of the AI, large language model work that's coming through. I think more and more companies are realising, hey actually we do need an element of that human interpretation.

So think about app as a business with a platform with a lot of people signed up that is ready to do interpretation work and get paid. So a software or an AI company will engage Appen to find a thousand people around the world to interpret specific languages or models and that the result of that data goes back into the software company to optimise their own AI software. So we think that's coming back. We are not completely sure yet, so we're doing a bit more work just to understand whether that is the case and how sustainable is the business. They have typically I think three months of visibility forward visibility on their revenue. So for them it's not a contract that they sign for the next 12 months and that gives them the ability to see forward 12 months. So that's something we're always a bit wary about that things can turn for the better or for the worse or for the worse very, very quickly.

Bridget Thelander:

Fantastic, thanks Tobias. The next one is from David. He says Bank of Queensland (ASX: BOQ) seems to have bottomed and is recovering from its longer term woes. Is this your view?

Oscar Oberg:

So Bank of Queensland is a large cap company, one for the WAM Leaders guys. One thing I will say is that the stock has recovered as has Bendigo and Adelaide Bank (ASX: BEN). And as I'm sure a number of listeners will know, the bank sector generally has been very, very good over the last year, year and a half. AMP has a bank in it that I think everyone's forgotten about. We actually see a positive outlook for the AMP bank that's probably not factored in it at all from analyst numbers or expectations in the market. So we actually, that's another reason why we're positive on AMP. But yeah, on Bank of Queensland, no views.

Bridget Thelander:

The next one's from Jeremy, he says, do you have a view on Idp Education (ASX: IEL)? Are the regulatory risks currently priced into the share price?

Oscar Oberg:

Well, getting close, it's a stop we don't want to miss because we know it really well. We don't own it.

Tobias Yao:

It's very hard with two elections. It's political and it's very political and it's really hard to ascertain exactly what's going to happen and it's going to be a lot of political noise. So it's one that gets debated a lot. It's very hard to, I guess give a firm answer on whether that's completely being priced in.

Oscar Oberg:

With that company. I think what we haven't seen since it spun off, was that Canada, UK and Australia are all saying the same thing, which is impacting effectively international students. And that's very unusual. Usually it's the opposite. You have the complete reverse coming out of Covid. So we need that political atmosphere, let's call it, to swing back the other way. And I think once one of them does that, then I think that would be very positive for the sector. But like we see with all these government intervention and regulatory change, they always go too hard. We've been impacted for one of our companies last year that was a bad one called Nexted (ASX: NXD) that's been impacted massively sort aged care coming out of the Royal Commission. So the financial services industry coming out of the Royal Commission. So look, we think they've gone too far and ultimately we do think that at some point the restrictions will be lessened and that will benefit Idp, but we just think it's not now.

Bridget Thelander:

Great. The next question's from Joseph. He says, what's the team's view on the data centre industry after the big news in the market the last few days with Air Trunk Blackstone deal?

Tobias Yao:

Look, we're very bullish. The data centre space, so the company we've had in the portfolio for probably two years now is Nextdc (ASX: NXT) which is the listed player. And Australia is a key strategic geographic location for AI and data centre compute. The amount of contracts that's going around that these guys are bidding on the very large, it used to be single digit megawatts. Then the last few contracts are demonstrated it's around 20 to 30 megawatt per contract and we think the next contract will be closer to a hundred megawatts or even higher. And so Nextdc has very strategic locations around Australia and they've also gone into Malaysia, they've gone into Japan and potentially Thailand to over time become a regional data centre operator. And then they have a very strict or a very disciplined approach to return on investor capital, which has meant that they've been, I guess more slow and steady in how they've progressed and build data centres than won contracts from the hyperscale guys like Microsoft, Amazon, Google, et cetera. So we are very bullish. The data centre space, we think demand still far outstrips supply and the beneficiaries are those with current assets in the ground that can actually receive the demand. So Nextdc is the stock we have in the portfolio.

Bridget Thelander:

Thanks Tobias. Tony has said, do you hold either Mesoblast (ASX: MSB) or Imugene (ASX: IMU)? Do you see either of those on a similar trajectory as Telix?

Oscar Oberg:

We don't own them. Yeah, I'd say Mesoblast unlikely on Telix. It's just, I mean who knows with that's company, it's a blood box.

Tobias Yao:

No strong views on Imugene either. So we have PYC in Microcap and again, spoke about this earlier. We actually pretty selective in this space, so we are very specific, so we're looking for shorter term catalysts to decide when to enter these businesses. It's very selective when we do participate in the biotech space.

Bridget Thelander:

Thanks Tobias. And Anthony has asked, when do you believe that the WAM Microcap shares will recover and reach a $1.80 per share?

Oscar Oberg:

This is very similar to the WAM Capital question. Obviously Tobias and I, there's only so much we can do on the performance and we are massively, we're big shareholders across all the funds, so we're frustrated too and we want the share price to be as high as high as it can. But WAM Microcap, similar to WAM Capital, we are paying out a lot of profits in dividends. And yes, the performance has been good, but effectively that dividend is impacting the capital base and it's one of the big reasons why we've held the dividends constant despite having quite a substantial profit reserve. So look, we hopefully with a different interest rate environment, a better market for small caps, who knows? But yeah, obviously everything, we massively motivated to work as hard as we can for those share prices to go up, but I think we need a few other factors to go our way to see that happen.

Bridget Thelander:

Agree. And then Graham has asked on WAM Microcap again, it has 4.2 years of dividend coverage. Why so much isn't three years cover sufficient?

Oscar Oberg:

Three years coverage is sufficient. So then the next question would be, well, why don't you increase the dividend? Well, the reason why, speaking for the board, again, the reason why we haven't increased the board hasn't increased the dividend and is we don't want an issue like WAM Capital where we keep depleting our net tangible assets every year because we're paying out such a big dividend. And I think where WAM Microcap is on a fully franked dividend yield before franking of 7%. I mean Commonwealth Bank is on 4% I think. So it's paying a very good yield and that's before I take into account, we take into account franking. So if we increase the dividend, yes, your dividend yield will increase, that's great, but then it's potential, the share price will decrease because the capital base is decreasing to pay that dividend. So it's about finding the right balance and we feel like with WAM Microcap at the moment, it's probably at the right balance. So yeah, so look, I'm speaking for the board again, but look, I think as it stands today, I think dividends are probably about right.

Bridget Thelander:

Yep. Great. And another question from Jamie. We've had a few from Jamie, do you own NIB Insurance (ASX: NIB)? I think that one's potentially for the large cap team as well.

Tobias Yao:

We don't have NIB insurance.

Oscar Oberg:

I think generally that private health space probably has benefited through Covid because they weren't seeing many claims. And so we did own it for a period and did quite well out of it. We haven't owned it for about a couple of years, but it got to about $9 a share I think. And we sold it largely because it was trading a big valuation and our view was, well, it's got artificially high profits and margin because you're not seeing claims from Covid because people weren't going to hospitals. So that's done in reverse now.

And yeah, I think the share prices has been hurt as a result, but it's not one we've looked at for a while, so it might've gone down from other factors.

Bridget Thelander:

Perfect. And the next one's from Michael, do you have a view on Stealth Group (ASX: SGI)?

Tobias Yao:

We don't. The business is quite small. I think one of our directors is actually a director on Stealth Group. So we've talked about it briefly in the past, but not something, it is a very micro-cap company and it's a very small even for WAM Microcap.

Bridget Thelander:

Great. And Geoff said, since you mentioned it, Oscar, what's your view on NextEd?

Oscar Oberg:

Oh, thanks Geoff. Need to be reminded of that one. Oh look, sometimes you get some things wrong and we got them wrong. And now in saying that, it looks interesting here. It's been so bad it went from about a market cap of 200 at the high or maybe even higher than that. And it was a great stock for us in the 2023 financial year. Now what happened was what exactly the same as Idp Education was, the government basically put a cap on international students and these guys do English language teaching and also do vocational courses for people coming into Australia. And of course that handbrake got put on and their revenues effectively disintegrated in that period. And although I will say it was magnified by some of the managements and the board's actions through that process, but that's another story. But the share price has been hit so hard that I think before its result it was trading at a its market cap was I think $25 million, which is crazy.

And they came out the result and they actually beat earnings expectations. It did $15 million of earnings before interest tax and depreciation amortisation, and it had $20 million of cash. So their shares been up a lot. But lo and behold, they've been drifting since, which is always what we see in micro-cap stocks. And that's why we're very proud of her performance over the last couple of years because it's been such a hard sector. If you get something wrong, they get smashed. So anyway, but look at the moment, this next year should be the worst year. It should recover from here.

I think given it was trading so low before the result, there was probably a feeling out there that had balance sheet problems. Appears they don't now, which is great. So it's up to the management team and board to get it right and to really prepare themselves for when the market settles because if they have a good balance sheet and if they have to get their earnings right, then it might give them opportunities to buy acquisitions and at a very discounted price and be better for it as they come out of it. So look, I can't sit here today until say we're very positive on the stock. We're not, but at least it feels like it's the worst is behind it. I think it would be the conclusion.

Bridget Thelander:

Great. And then we've had another question from Peter on Megaport and IPH (ASX: IPH). He might've joined late. You were able to provide a quick update on your view on those two stocks?

Tobias Yao:

Yeah, so echoing what Oscar was saying in terms of Megaport, the CEO and the management team, we still rate very highly, we still rate the business very highly, have some short-term issues with the back book or the base business that they need to address. We believe they've put in place the strategies to address these issues. So the next six months for Megaport is quite critical to see whether the base business can get back to its previous momentum. And just to clarify, the base business didn't go backwards. It just wasn't growing as quickly as what it used to grow in the past due to decisions made a couple years ago when they had to try to get to profitability as quickly as possible to stave off a potential capital raise. So some of those, I guess, drastic measures have impacted the base business, which previously was just on autopilot and growing at around 115% that's probably come back around to about 105%.

So it's still growing, it's just not growing as quickly. The product is really good. They have scale and as the largest player, largest independent player, they do have leverage in the economies of scale to what they do and it's very hard for competitors to come up and compete with them. So for them it's really just putting in the right pricing, the right products, the right sales guys on the ground to execute. And so the next six months I guess will be the key period for them to see whether they can actually come out the other end a much stronger business and we will back the CEO to achieve this. His background is quite good at a Thousand Eyes, which is a CISCO subsidiary, IPH was a company that did quite well for us during reporting season. They did do a cap raise to buy another business in Canada to complete the picture in Canada.

For us, we think the business is severely undervalued. It used to be a market darling for a very long time, has an Australian business, had an Asia business which had to go through a period of, I guess a pretty tough macroeconomic backdrop. However, the Canadian business and something they've expanded to into the last few years is actually doing really well. And that's the second and largest part of the business. So it's a very diversified business. Now. The Australian PCT filings, we believe it's pretty much close to bottoming and so we should see that come out the other end next calendar year or if not the year afterwards, which provides the business with a tailwind. And then you have the Canadian growth story, you have the synergies that they can achieve from integrating three businesses in Canada and potentially over time expanding to other regions. And the management team has actually done pretty well given the headwind they've faced. So IPH is a stock that we have in the fund and we're positive on.

Bridget Thelander:

Great. Thank you Tobias. We've got a few more stock questions coming in. The next one's from Warren on Money Me (ASX: MME). What's your view on the stock?

Oscar Oberg:

Oh, no real view, but in that sector we really like Humm Group (ASX: HUM), which had a really good result and that's been, it's undiscovered, well, it's stuff that's been around for a long time, it's been completely forgotten about. It's very, very cheap. So we really like that one. And also, well, we talked about Judo I think earlier as well in the WAM Capital, so they're probably our two exposures there.

Bridget Thelander:

Great. And Laurie is asking for your view on Clinuvel Pharmaceuticals (ASX: CUV).

Oscar Oberg:

Oh no real view. Sorry, Laurie. Yeah, we don't view biotechs as our wheelhouse.

Bridget Thelander:

Yep, perfect. Eden has asked for your view on Duratec (ASX: DUR).

Oscar Oberg:

Look, it's cheap. It's had a tough year. It had a really good year a couple of years ago. Look, we probably should see them. We haven't seen them for a while. It's definitely a takeover target, certainly given this exposed to a sector that certainly Service Stream and Ventia want to be in, which is defence, so potentially looking interesting. So yeah, we should go and see them. It's very cheap at the moment.

Bridget Thelander:

Great. And then Anthony has asked for your view on Adairs (ASX: ADH)?

Oscar Oberg:

Yeah, look, I mean it was an okay result and Mark Ronan, who we really respect and always liked, who's the CEO has actually resigned. He'd been there for 17 years, really good guy. So it's probably going through a period where has a bit of management change and who knows what's happening there. So I think there's probably better retail exposures at this point. We like Harvey Norman (ASX: HVN), Temple and Webster (ASX: TPW), Nick Scali, so yeah, we're out of Adairs. But yeah, we like it. There's nothing wrong with it. Pays a good dividend, it's a good suite of businesses. So yeah, who knows, we might be back there again at some point.

Bridget Thelander:

Great. And the next question is from George. He said, what has been your worst stock investment ever and what did you learn?

Tobias Yao:

I'll go first. I reckon my worst stock investment is company called Bubs (ASX: BUB), it was a baby formula business. The reason we went invested into Bubs was in the US one of the key info formula providers had an issue. They ran out of stock and because the US was quite a closed market, they had to effectively air freight Bubs formula into the us which gave them, I guess, footing to be able to expand into the us. So I guess from the mistake I made was thinking that Advantage or I guess the luck component is strong enough to allow them to expand as quickly as quickly. What did I learn? Management is everything. If you don't have the right management, even if you have a bit of luck, you still can't actually monetise it. You can't benefit from the luck, in fact. So they actually executed and the share price went down I think 40%. And it was quite funny. I think the three previous capital raises, we've never participated because I was unsure about management term and I thought, oh, maybe with a bit of luck in the US and that might change it. So there was probably the worst stock for me.

Oscar Oberg:

Well I think probably NextED is up there for me and probably my lesson there was probably got when it started going and was doing really well, got a bit too greedy and didn't sell enough. Although I will say it was pretty random what happened to them, like with the government changing the rules. But I think

there's probably not one we've had at Wilson Asset Management in my time. But I think my biggest lesson definitely when I was an analyst and I joined WAM in 2016, I was an analyst at a previous investment bank for five years before that. And fortuitously, I think really from the benefit of where I'm at today, I followed a lot of the rollup companies and these are the acquisition heavy companies and two of those companies involved Slater and Gordon (ASX: SGH) and Vocation (ASX: VET). And I was positive on Vocation. That was the first one, which thankfully taught me for Slater and Gordon to go negative at a given point in time.

But the biggest lesson there was if your cashflow doesn't match your earnings, that's a massive red flag. And every year we've only really got two chances a year being the results to evaluate management and whether their cashflow matches up with their earnings. And usually you give them the benefit of the doubt once because they always say the same thing. They'll go, oh yeah, our receivables increase because a large customer didn't pay us on the 30th of June. They paid us on the 5th of July. They always say that, but if it happens again the second time, that's a massive red flag and something you've got to be massively conscious of. So look, that's cashflow conversion is massive for me. And certainly Slater and Gordon and Vocation, they both effectively went to zero. That's evidence of what can happen if they don't match up.

Bridget Thelander:

Perfect. And a few more stocks from Joseph and Michael, what's your view on Harvey Norman, Hub24 (ASX: HUB) and Judo Capital?

Oscar Oberg:

I'll do Harvey Norman. Toby and I we're big fans of Jerry and Katie. We think they're excellent. We were lucky. We went over to Auburn at the Superstore, which is a great store at Harvey Norman, Jerry, how old is he? He plays tennis every day. He's a legend. He is very energetic. He's on the tools. So yeah, we like Harvey Norman and at $4.50 you're paying pretty much a dollar a share for the retail business, which isn't much because their property's worth $3.50 a share approximately. But the big reason why we like it, you've got a potential replacement cycle and laptops from all the laptops that were bought in 2020, they're five years old now.

They need to be replaced and they've got AI features, so they should get replaced at a higher price point. That's number one. Number two is they're quite big in New Zealand. New Zealand's been diabolical for them. That's a good thing because you know that over the next two or three years, if they drop interest rates in New Zealand, they're probably going to have positive numbers coming out of New Zealand. And the third thing is that over the last really, because we owned it years ago, probably around 2018 for this. And the problem is it's been hidden by Covid and investment in the store rollout. But they've actually, and most people don't know this, but they have quite a substantial network of stores offshore and in particular in Malaysia and Singapore. I think Malaysia's going to what is 80 stores? 80 stores in Malaysia in the country. So that's been going on for the last five or six years. The stores should be maturing now and they've come out of a tough retail environment. So we think Australia will improve with the laptop replacement cycle. New Zealand will improve. And we also think this Malaysian Singapore offshore rollout could potentially be the spice in the stock to finally give it the rerating that it probably deserves given the asset backing. So we like Harvey Norman.

Tobias Yao:

Hub24, another great business. It's amazing, amazing success story. If you look at the share price of HUB over the last 10 years, it's done incredibly well. We have quite a large position in Hub24 and it's continued to just displace many of the incumbents in terms of the platform. They were early. The superiority of their platform or wealth management platform continues to, continues to yield them a larger market share than the current market share that they have. So the market share they have on flows is quite a bit larger on the market share they have in total funds under administration. And so over time the two should converge together. So Hub24, another stock we like. I think the other one is Judo. I mean what's changed at this result is the fact that exit net interest margin is high. The advantage that the big banks have on the TFF side, we finally coming to the end of that and a challenger bank such as Judo should now benefit from the growth in their books.

And the longer term thesis for Judo is that once they get to scale, which is now very next few years, the operating profits should be growing at a much faster rate. So the operating leverage is quite significant. They've managed the arrears and bat there pretty well. So it's a business that we think the winning share. We think potentially someone like CBA is pivoting more to mortgages and I guess focusing less on business banking, which is where Judo is in. And so yeah, it's a company that we quite like and management team's. Great. And yeah, so we are looking for the catalyst being earning upgrades over the next few years.

Bridget Thelander:

Great. And we've got just a couple of more stocks coming through. Tim would like your view on XRF Scientific (ASX: XRF)?

Oscar Oberg:

We don't own it. We think there's a bit of risk around exploration at the moment given where commodity prices are heading and when there's general macroeconomic uncertainty, you generally see these companies get hit hard. So that's one we're probably staying away from at this point in time, but we haven't owned it for a while. It's quite a small company.

Bridget Thelander:

Great. And this is the last question. So we've just ticked over two hours Oscar, I think you've lost your bet. I have. But Anthony has asked, could you please give me your view on Dicker Data (ASX: DDR)?

Tobias Yao:

Yeah. So DDR is, I would say it's a pretty in the market. It's a very polarising stock to Oscar's point on the AI replacement cycle, they're actually pretty well placed to benefit from that as well. So we look at DDR in the context of DDR and Data#3 (ASX: DTL). For us we just need to identify the catalyst to buy the stock and we are doing the work on it. I think we've gone to a couple of group meetings and this is on the list of things to do, but it's something that we're still working on

Bridget Thelander:

Questions. Last one just for you, Eden, do you have a view on Cleanaway Waste Management (ASX: CWY)?

Oscar Oberg:

Great company. I don’t know if the valuation's up there for us, although in saying that it's a lot of their global peers trade on higher valuations than them. So look, we're not there. If we saw a slip up, we probably would be. We do have a company exposed to waste management in Lgi (ASX: LGI), which is effectively a play on renewable energy and drilling out the landfill gas and selling it into the grid. And that's been a good company for us over the last four months.

Bridget Thelander:

Fantastic. Look one more. Sorry Nigel. Listen, one more question. Nigel says, what's your view on DUG Technology (ASX: DUG)?

Tobias Yao:

DUG is actually in a very interesting space. I went to see them in Malaysia last month. It's a bit like a data centre, so they have to invest ahead of the curve. So just take a step back. DUG provides effectively supercomputing for exploration companies in the oil and gas industry. They have these, I guess the hardware or the computers and I went to actually see one of their, I guess mini data centres that computes and just churns and analyses seismic data to be able to provide these oil and gas producers and explorers to find where the deposits are. And they're in a very interesting space. The opportunity is quite immense. The technology appears to be a lot better than their peers. And by being better than their peers, it's just more accurate. So if you use their technology to run the old data or the seismic data of a certain area, for example, you can actually see better data and perhaps give you a high chance of success of striking oil. So we do like the stock. It is in a way, it's a bit like a data centre. They had to invest ahead of the curve. So you have to believe that the demand is there to sustain the initial capital investment, but it's a family led business. The technology is great and yes, it's a position we have in the WAM Microcap fund.

Bridget Thelander:

Fantastic, thanks. And I think that was the last question.

Oscar Oberg:

That's good to pick up the kids from school. Anyway, look, thank you very much to everyone. Thanks Bridget for hosting. Thank you Tobias, thanks to all the support from all our shareholders. We really appreciate it. And I guess, yeah, probably the next time we chat will be February, next February, March next year. But please, I know there's a lot of questions on share price, premiums, discounts, dividends and so forth. I just saw question 96. Yes, we do like Somerset its, a big holding in the fund play on New Zealand property market. So know we like that one. That's a good one. But yeah, if you've got any questions, please call through. We've got a great team, they'll answer them. And obviously if you want to speak Tobias and I, anytime you can do that too. So thanks a lot for your time and have a good weekend. Thank you.