2025 Investor Pack

Investment Themes
Meet the Fund Managers

January 2025

under the radar REPORT

2025 Investment Themes

A must read for anyone looking to profit in 2025 and beyond.

Some of Australia's top investors deliver their opinion on the big picture, the small picture and all that lies in between.

Meet the fund managers!

In this special report, we have some of the best fund managers in Australia showcasing Small Caps that are doing well and others they think are poised to shoot the lights out.

Every person has a different point of view, and it's always worth knowing what the professionals are thinking.

- What are the big trends for 2025 and how is your portfolio positioned to take advantage?
- Best performers: What have been your best performers in 2024 and why? Do you still own them?
- Which three companies are you most excited about in 2025?
- Dividends: What proportion of stocks in your portfolio pay consistent dividends? Which smaller stocks you own are most likely to increase dividends in 2025?

Six Top Fund Managers' tell you what they are buying and selling!

Best wishes,

Richard Hemming
Founder & Head of Investments

Under the Radar's Fund Manager Round Table

Some of Australia's top investors deliver their opinion on the big picture, the small picture and all that lies in between. A must read for anyone looking to profit in 2025 and beyond.

Sam Koch

Portfolio Manager, Wilson Asset Management

Sam joined Wilson Asset Management in 2018 and works within WAM Capital, WAM Microcap, WAM Research and WAM Active. Previously Sam was an equity analyst and dealer at IFM Investors and an accountant at Colonial First State.

Andy Gracey

Portfolio Manager, Australian Ethical Emerging Companies Fund & Australian Ethical Australian Shares Fund

Andy manages one of the most successful Small Cap ethical funds in the world. It has consistently achieved double-digit returns over the past 23 years, of which he has been in charge for the past 18. He manages about $1.9 billion and specialises in medical technology and technology stocks.

Chris Prunty

Portfolio Manager, QVG Capital

Along-side Tony Waters has had success in Small Cap Portfolio management. First at Ausbil and now with QVG, managing the Opportunities Fund and the Long Short Fund.

2025 Round Table

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Steven McCarthy

Portfolio Manager, DMX Asset Management

A qualified accountant with experience previously in corporate finance, where he was focused on company valuations and advisory, specializing in small industrials. His microcap focused fund has been running for over seven years.

Dean Fergie

Portfolio Manager, Cyan C3G Fund

Dean specialises in small-micro cap ASX listed stocks but has 30 years of experience in the funds management industry covering all major asset classes. He holds several formal qualifications including: Chartered Financial Analyst (CFA), Master of Applied Finance; and Bachelor of Engineering (Civil).

Portfolio Manager

Under the Radar Report

Under the Radar Report's Small Cap Portfolio Manager was previously a senior investment analyst for Fidelity International and has been managing director of an ASX listed company.

PART 1 – The Big Themes

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What are the big trends for 2025 and how is your portfolio positioned to take advantage?

SAM KOCH: Three themes come to mind: recovery in the New Zealand economy; the Reserve Bank easing interest rates; and a lower Australian dollar.

New Zealand companies to benefit (which we own) include Summerset (NZ:SUM), Mainfreight (NZ:MFT) and NZX (NZ:NZX).

We've positioned our portfolio to take advantage of reducing domestic rates, owning: thematic, namely: Ingenia Communities (INA), EVT Group (EVT), and Brickworks (BKW).

Stocks whose earnings improve due to a weakening Aussie dollar are those with operations offshore, but it also imports inflation, so we're monitoring the situation.

We're also aware of the underperformance of companies exposed to growth in China (for example Resources and Chinese exposed consumer staples) as government stimulus has yet to inspire confidence of a return to growth for the local economy. We are currently underweight these sectors, however should the Chinese government effect greater stimulus than expected, these sectors could outperform.

ANDY GRACEY: We continue to believe consumers will place increasingly higher value on their own health and wellbeing in the aging populations of developed economies. We are significantly over-weight small-cap healthcare, with hernia repair Aroa Biosurgury (ARX), nurse-call systems provider Austco Healthcare (AHC), eye disease drug developer Opthea (OPT) and infection control company Nanosonics (NAN) all expected to contribute positively to portfolio returns in 2025.

We continue to invest in the software names because of the efficiencies the technology can bring. Our portfolios are positioned in Gentrack (GTK) and Hansen Technologies (HSN) on the thesis that distributed renewable energy generation will require more sophisticated billing services. We are invested into telematics software provider Eroad (ERD) where its software can generate cost savings and health & safety benefits to commercial road users.

PART 1 – The Big Themes

CHRIS PRUNTY: Domestic demand is weak, cost inflation is sticky and good people are hard to find. These attitudes are reflected in the macroeconomic data where job creation has been directly or indirectly due to government spend. To combat this we are tilting the portfolio to companies with offshore growth drivers or those that are taking market share.

STEVEN MCCARTHY: At DMX, we are genuine small-cap, under-the-radar investors with many of our positions having market caps less than $200m – a space that has been very much neglected since 2021. More recently, it has been pleasing to see some green shoots emerging among micro and nano-caps space, trading volumes picking up, broader investor interest returning, and new buyers with more confidence to bid stocks up emerging as we finish 2024.

In 2025, in what we expect to be a more 'risk-on' investing environment, we are likely to see more eyeballs and further interest return to more of these genuinely under-the-radar stocks. And when this interest returns, we believe investors will be pleasantly surprised as many of these lower-profile companies are now much better positioned in terms of earnings and cash flow and their fundamentals than they were three or so years ago, and offer attractive value particularly relative to the opportunities available amongst larger companies.

We believe that we are well positioned to take advantage of this renewed interest in small ASX companies as in recent years the departure of investors from the space has given us the opportunity to acquire and add to positions in these unloved companies at bottom of the cycle prices, in a manner that we think would be difficult to replicate in more bullish market conditions.

DEAN FERGIE: I feel it will be interesting to see how the focussed exuberance or extreme valuation gaps between marquee stocks in the Australian market plays out. The most high profile being the huge outperformance of CBA over the past year given its modest growth profile but multi-billion dollar stocks such as Pro Medicus (PME), WiseTech Global (WTC), Xero (XRO) and Hub25 (HUB) are all trading at more than 100x PE which, on traditional valuation metrics should not be sustainable. I will be interested to see if the market starts reverting to some sort of equilibrium.

PART 1 – The Big Themes

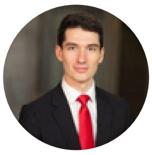
UNDER THE RADAR PORTFOLIO: The re-election of President Trump has created the dynamic of reshoring of American manufacturing back to the US, while differences in structural conditions are already leading to further appreciation of the US$.

There are a number of reasons to expect that inflation will remain sticky. The federal reserve will not reduce interest rates fast in this environment.

Basically, we've been through a (monetary) tightening cycle, where interest rates rose quickly, and now we're in a loosening cycle, which has been stalled because inflation is sticky and interest rates are not coming down at the pace previously hoped. The answer? A combination of small cap growth and blue-chip income.

The solution is simple: look at Under the Radar's our Best Buys, look at our Small Cap Dividend Portfolio, look at Blue Chip's Magnificent Seven.

1. Best performers: What have been your best performers in 2024 and why? Do you still own them?



SAM KOCH:

Regis Healthcare (REG), **Tuas (TUA)** and **SG Fleet (SGF)** were amongst our best performers in 2024, and all for different reasons. Regis is now the sole listed aged care provider in Australia, a sector that has significantly benefitted from a post COVID surge in demand, a lack of meaningful supply and increased government subsidies.

Tuas, a Singaporean based telecommunications provider, rallied as their superior customer service and value proposition captured an increasing share of the local market. SG Fleet, the fleet and novated leasing provider, surged after Pacific Equity Partners launched a takeover proposal. Whilst we continue to hold Regis and Tuas, we subsequently sold out of SG Fleet.

ANDY GRACEY:

Our stronger performers in 2024 includes wealth management software company **Bravura Solutions (BVS)**, which appreciated strongly on a quicker than expected earnings recovery in combination with capital management initiatives. We have taken profits but remain a significant shareholder.

We have been extremely pleased with the share price appreciation of investigative analytics and intelligence software company **Nuix (NXL)**. The technology incorporates a world class data processing engine and is finding its way into new use cases outside its traditional law enforcement and legal practice markets. We have reduced our holdings but remain a decent holder.

Utility billing software company **Gentrack (GTK)** has been a very strong contributor to our performance over the last 12 months. The company has generated robust revenue growth over the last 12 months, while its strong technology stack which includes Salesforce for customer relationship management, Amazon for cloud provision and Gentrack's core billing.

1. Best performers: What have been your best performers in 2024 and why? Do you still own them? continued..

CHRIS PRUNTY:

Life360 (360) and **HUB24 (HUB)** were the two best performers in 2024 and we still own both. Loses included **Johns Lyng (JLG)** and **IDP Education (IEL)**. We also own these two but at lower weights than we did at the start of the year. So what did we get wrong?

Turns out we were over-capitalising a couple of years of extreme weather conditions into Johns Lyng's earnings. As insurance-builders JLG benefit from rain, hail and storms. A dryer period in 2H25 and the loss of a customer saw earnings expectations come down.

IDP has been impacted by much publicised student migration policies in their key destination markets of Canada and Australia.

STEVEN MCCARTHY:

Indian ATM and digital payment business, **Findi (FND)**, was our strongest performer for the year. This was driven by strong FY24 profits and the acquisition of a white-label ATM operator which should build their EBITDA run rate to over $50 million in FY26.

We remain positive that further upside exists, with the key catalyst being the planned Indian IPO in late 2026. We have been trimming Findi throughout the year, however it remains a top-five position in the DMX portfolios.

Verbrec (VBC) provides engineering, asset management, infrastructure services, and training, with a focus on electrification and energy storage projects, as well as the gas market transition—key growth areas supported by strong energy transition tailwinds. We participated in a recapitalisation in late 2023.

The company is benefitting from a leadership change, with a new CEO refocusing the business, improving margins, and driving stronger profits from its significant revenue base. In FY24, Verbrec transitioned from being loss-making to profitable.

We have not sold any shares and are comfortable with it remaining a key position in our portfolios, as we are confident profits will continue to grow in FY25 and beyond.

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Top stocks for 2025

under the radar REPORT

1. Best performers: What have been your best performers in 2024 and why? Do you still own them? continued..

DEAN FERGIE:

Many of our best performers have been due to corporate plays. **Schrole** was taken over at a 100%+ premium during the year, **Silk Logistics (SLH)** was bid at a 40% premium and **Quickstep (QHL)** was bid for at a 100% premium, although the stock had slipped during the year (ED note, the stock has now more than doubled after an increased bid).

Music business consolidator Vinyl, which is backed by **WiseTech (WTC)** founder Richard White has had an extremely active year acquiring four businesses and has risen more than 50%.

UNDER THE RADAR PORTFOLIO:

Our best performer in large caps has been AMP, where the discount to tangible asset value was very significant earlier this year, and AMP had been written off after 20+ disappointing years on the stock market since demutualising.

Tuas (TUA) has been a 10 bagger in three years, **Gentrack (GTK)** has also delivered many multiples for subscribers.

In the Under the Radar Report portfolio, **Superloop (SLC)**, **Southern Cross Electrical (SXE)**, **Austal (ASB)** and **Evolution (EVN)** delivered well.

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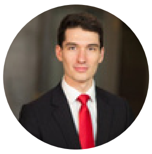
2. Which three companies are you most excited about in 2025?



SAM KOCH:

G8 Education (GEM), **Service Stream (SSM)** and **A2 Milk (A2M)**.

We believe that the fortunes for G8 Education, one of Australia's largest childcare operators, has turned around. New management are divesting underperforming centres, streamlining head office costs, and striving for occupancy growth. Similar to the aged care sector in 2023/24, a suite of proposed policies from the Federal Government should be a tailwind for the sector.

Service Stream is a contractor to the telecommunication, utilities and transport sectors, with a leading share of the nbn services contract. We believe that Service Stream is well positioned to grow within existing and new verticals, especially in light of recent ACCC issues plaguing their competitors **Ventia (VNT)** and **Downer (DOW)**.

A2 Milk is the leading provider of infant formula and A2 protein milk products. We believe A2's premium brand will continue to drive market share gains in the Chinese market, and underwrite their success in entering adjacent markets.

As we enter CY2025, any Chinese fiscal policy that drives domestic consumption and birth rates will be a tailwind for the whole sector. For these reasons we believe that A2 is well positioned to grow into their $2bln revenue target and deliver EBITDA margin expansion.

ANDY GRACEY:

We are super excited about telematics software provider **Eroad (ERD)** which trades around one times sales for 2025, which is a traditional buy signal for software investment.

The company has disappointed investors over recent years, but we anticipate investor confidence will return as the company delivers free cashflow in 2025 while growing its software-as-a service revenue.

We like the investment opportunity in non-bank lender Pepper Money (PPM), which the wider market struggles valuing. Pepper Money trades on lowly price to earnings multiple with a generous dividend yield and below its NTA/Share.

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2. Which three companies are you most excited about in 2025? continued..

ANDY GRACEY: continued

We see the securitization market as more supportive for non-bank lenders in 2025 and are hopeful the wider investment market will get more comfortable with non-bank lending business models.

Dentistry fitted sleep apnoea company **SomnoMed (SOM)** had a torrid 2024, however it is now on a more stable footing going into 2025, with more than $100 million revenue anticipated, yet the company still trades at a lowly one times revenue. We anticipate a share price rating when the company can demonstrate it is generating free cashflow.

CHRIS PRUNTY:

Life360 (360) Maas Group (MGH) HUB24 (HUB) Block and **Hansen Technologies (HSN)** are our 5 largest holdings.

We are excited about all 5 as they're above market growers, generate high or improving returns on capital and are all led by founders with a long-term vision for their companies.

STEVEN MCCARTHY:

Through the early part of 2024 we were becoming increasingly enthused about the prospects for **EDU Australia (EDU)**, due to the success of its higher education business scaling its flagship Bachelor of Early Childcare Education course and related qualifications.

Enrolments in the year to date in its key Ikon business are up over 100%, with its most recent trimester intake +363%. As these are long duration courses, the enrolments provide strong visibility over future earnings, locking in high margin revenue across the three-to-four-year courses.

Our enthusiasm here, however, was very much tempered when the government proposed its capping regime. This immediate threat has now passed, and we expect the market will now focus on what should be strong earnings in FY25 as we get the full year benefit of the 2024 enrolments.

RPM Automotive (RPM) own a number of automotive businesses with a substantial national footprint, including 26 retail locations and 11 distribution centres, generating revenues of over $130 million. The company sells wheels, tyres, accessories, and apparel products to both wholesale and retail customers. Tyre sales account for 70% of RPM's business.

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STEVEN MCCARTHY: continued

The opportunity to leverage its tyre distribution network and expand into tyre recycling gives RPM a compelling growth profile. With a new tyre recycling facility set to go live in 2024, RPM has transformed tyre recycling from a cost centre into a new revenue stream.

If this recycling model proves successful and can be replicated across multiple states, the earnings profile is likely to accelerate which has the potential to attract a new cohort of investors interested in participating in the circular economy.

Structural Monitoring Systems (SMN) is on the verge of securing approval for its Comparative Vacuum Monitoring technology, a smart structural monitoring system initially designed for the Aft Pressure Bulkhead on 737 aircraft.

This innovative technology significantly reduces aircraft maintenance downtime. SMN has been collaborating with Delta to gain FAA approval for several years, with the company indicating that approval is expected in early 2025.

This milestone will unlock revenue from Delta, and, when combined with their Avionics business, is anticipated to drive strong profits for SMN in FY25 and beyond as the technology is rolled out to other airlines.

DEAN FERGIE:

Top of the pile is **Acusensus (ACE)** which manufactures and operates smart traffic cameras that detect, speed, seatbelt and mobile phone compliance. Additionally, it has a new line of business that assists with road worker safety.

The company is profitable, cashed up and growing rapidly, both in Australia and overseas. It has just announced a large contract in NZ and a big contract extension in QLD. It's effectively and commercially addressing a topical social problem and I think this will be a great performer in 2025.

Micro-investing platform Raiz (RZI) has been disappointing investment for the last few years being distracted with an unsuccessful international expansion.

However, the core Australian business is a real gem with 300t active clients and over $1.5bn in funds under management, which produces over $20m in recurring revenue.

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DEAN FERGIE: continued

The company is well funded with a recent capital raise and has huge potential if we see a renewed board and increased depth in management. There has been some significant corporate activity in the space with takeovers of both Spaceship Investors and Selfweath so that is another possible avenue to unlock value.

Lastly, I see further upside in aerospace and defence company **Quickstep Holdings (QHL)**. The company has received a takeover offer at 40 cents but has made significant progress in restructuring its operations including closing down previously unprofitable business lines.

We expect its profitability to improve significantly in FY25. The valuation looks exceptional, $80m in revenue and a market cap of only $30m.

The company is currently working through a business valuation and we expect this release to unlock further stock value in expectation of an increased bid or counteroffer.

UNDER THE RADAR PORTFOLIO:

In our smaller companies portfolio, we have introduced a couple of new positions, and we are hopeful that one or two will catch a wave in 2025. These include **Hansen Technologies (HSN)**, where a European acquisition has dragged on earnings, but FY25 should see a reversal towards positive earnings.

We have also been nibbling away at **Omni Bridgeway (OBL)**, which has much more risk, but which is poorly understood and unloved in the market. These are situations where we can potentially add value, but we are not sure why or when sentiment may change.

Another stock where we have bought more recently is **Alliance Aviation (AQZ)**. The company has spent substantial capital expenditure on new planes over the last few years, and should derive significant cash flow from those new assets after investing in pilots' training and maintenance facilities.

We are also particularly excited about stocks we've been initiating coverage on recently, like **Intelligent Monitoring Services (IMB)** and **Vysarn (VYS)** as well as stocks we've promoted into our Best Buys, like **Integrated Research (IRI)** which is trading at a deep discount to our valuation.

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Top stocks for 2025

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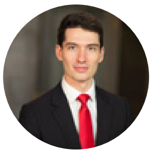
3. Dividends: What proportion of stocks in your portfolio pay consistent dividends? Which smaller stocks you own are most likely to increase dividends in 2025?



SAM KOCH:
70% of the stocks within our portfolio pay consistent dividends. A stream of consistent dividends rewards shareholders and is a sign of confidence from management in the earnings trajectory of the business.

Three stocks within our portfolio that should increase dividends in 2025 will be: **Bravura Solutions (BVS)**, **Supply Network (SNL)** and **Sigma Pharmaceuticals (SIG)**.

ANDY GRACEY: Our primary reason for investing into emerging companies remains capital growth, however we are partial to dividends and capital returns.

We have around 40% of the portfolio in dividend paying companies.

We anticipate some dividend uplift from non-bank lenders of **Pepper Money (PPM)** and **Australian Finance Group (AFG)** in 2025.

CHRIS PRUNTY:
We generate most of our returns from capital gains. If our companies are generating high returns on incremental capital we'd much prefer them to retain that capital and spend it on value-creating projects.

Historically the dividend yield on our portfolio would be less than 2% but that hasn't stopped us producing mid-teen total returns after fees.

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STEVEN MCCARTHY:

Approximately a third of our portfolio (by weight) pay dividends, and we would expect most of these dividends to increase in 2025, in line with anticipated earnings growth. However, we are particularly enthused about two positions that we expect will pay their inaugural dividends this financial year, **Advanced Braking (ABV)** and **Verbrec (VBC)**.

Advanced Braking, a provider of fail-safe braking technology has now delivered several years of bottom line profit growth, while engineering and maintenance contractor Verbrec is in the final stages of a significant financial turnaround and on the back of strong cash flow generation is expected to pay dividends in 2025.

We like to celebrate inaugural dividends as it typically represents great validation of an emerging company's growth and maturity.

DEAN FERGIE:

Less than a quarter of our companies pay dividends. Small-micro caps are typically attractive due to their growth profiles and growth requires capital. Any free cash flow is always better allocated to internal growth that providing external income.

The beauty of a listed business is that investors can manufacture their own income, by selling a small proportion of their shares each year. If the business is growing strongly, the capital appreciation with outweigh the decrease in shares.

UNDER THE RADAR PORTFOLIO:

As we reported in Issue 630, dividend income for the Under the Radar Report portfolio has reduced as some smaller companies have chosen to invest to deliver growth plans, and kept gearing under control in a higher interest rate environment by cutting or eliminating their dividend.

Companies like this include **Austal (ASB)** and **Capral (CAA)**. For stocks likely to increase dividends, we are reluctant to put a jynx on any one stock, but perhaps HSN, **Integrated Research (IRI)** or **ARN Media (A1N)** may be able to increase dividends from increased earnings.

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SMALL CAPS

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99% of all financial news relates to the 40 to 50 biggest companies.
So what about the rest? They're Under the Radar.

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Telephone 1300 100 343 Email radar@undertheradarreport.com

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Website www.undertheradarreport.com.au