

## FUNDIES' FAVOURITES

### Small-cap managers give Tony Featherstone their picks.

Leading small-cap fund managers have taken part in only a handful of IPOs this year and received far less stock than sought. Several told *Smart Investor Weekend* that IPO prices have risen too far.

"High-quality, undervalued IPOs have been few and far between," says NAOS Asset Management chief investment officer Sebastian Evans. "On average, about one in 40 IPOs we have looked at offered strong value. There's been some extraordinary valuations in IPOs and hype in the backdoor listings market."

Small-cap managers were asked to nominate their preferred IPOs or backdoor listings in the past 12 months, or upcoming floats. Here are their selections.

**TONY WATERS**  
portfolio manager  
**Ausbil Microcap Fund**  
The fund invested in **PWR Holdings**, a provider of engine coolants used in NASCAR, Formula 1, V8 Supercars and other high-performance cars.

PWR raised \$81.8 million at \$1.50 a share and listed on the ASX on November 18. It opened at \$2.52 on debut.

"PWR is a unique business," Waters says. "It dominates its category in high-performance racing and has several emerging opportunities to expand

into other markets and grow overseas."

The fund also invested in **Costa Group Holdings**, which raised \$550 million at \$2.25 a share and listed in July. After a slow start, Costa has rallied to \$2.62 amid rising interest in agribusiness stocks.

Waters says Costa has latent value in its technology. "On first impressions, Costa

looks like it has low bargaining power because it relies predominantly on supermarket chains. But its intellectual property in growing strains of berries is a significant competitive advantage that drives strong annual revenue growth in its

key categories and positions Costa to expand its international sales."

Waters also rates **IDP Education**, which listed this week, and the property company **McGrath Holding Company**, expected to list in early December.

**KARL SIEGLING**  
managing director  
**Cadence Capital**  
Siegling favours **Pepper Group** and **Eclix Group**, a fleet management and leasing company. Eclix raised \$253 million at \$2.30 a share, listed in April, and has rallied to \$3.41.

Eclix's executive team is well regarded. CEO Doc Klotz was head of global operations at financial services provider FlexiGroup and deputy CEO Garry McLennan was FlexiGroup's chief financial officer. "You are essentially backing a proven management team that has invested their own money in the opportunity, and private equity that is backing Eclix," Siegling says. "The business is performing strongly and is well placed to capitalise on demand for motor-vehicle financing."

Siegling says one of Cadence's favoured floats in the past 12 months, the intellectual property firm, **IPH**, has outstanding prospects. After raising

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\$79 million at \$2.10 in late November 2014, IPH has soared to \$7.90, making it one of the best-performing floats in years.

"IPOs as strong as IPH don't come along very often," he says. "We took a position in the float and added to it after listing. Unlike most law firms, IPH gets paid within seven days of doing the work, or in advance, and is in a stable, growing market."

IPH's success helped drive strong interest in **Xenith IP Group**, another intellectual property company that listed last week. Its \$2.72 issued shares have jumped to \$3.29. Cadence took a small allocation in the float.

**MICHAEL GLENNON**  
chief investment officer  
**Glennon Capital**  
Glennon Capital, itself a recent IPO, favours **BWX**. The Melbourne-based company owns, makes and distributes skin and hair care brands, and manufactures others for third parties. After raising \$39.3 million at \$1.50 a share and listing this month, **BWX** has raced to \$2.80.

Glennon Capital, a listed investment company, invested in the **BWX** float and was willing to buy stock up to \$1.80. "BWX is due for a breather at the current price, but has solid long-term prospects," Michael Glennon says. "Its key brands have excellent market recognition, good profit margins and are efficient to make. We see **BWX** entering other markets here and overseas."

Glennon says the upcoming micro-cap IPO, **Total Face Group**, has interesting prospects. The

surgical medical aesthetics company is raising \$6 million to develop anti-ageing and body-sculpting treatments. Its strategy involves acquiring and consolidating smaller clinics that provide Botox and other services. "This is a long-term growth industry that is fragmented with lots of small operators."

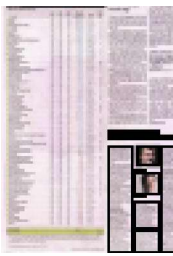
**FRANK VILLANTE**  
chief investment officer  
**Celeste Funds Management**  
After analysing 26 IPOs in 2015, Celeste invested in one: **Adairs**. The homeware chain raised \$218 million, listed in June, and trades just above its issue price at \$2.51.

Over two years, Celeste has invested in the IPOs of **Regis Healthcare**, **Beacon Lighting**, **Huon Aquaculture**, **Monash IVF** and **Virtus Health**.

Villante says Beacon Lighting, one of the market's best-performed retail stocks this year, was a higher-quality IPO. "It has a long operating history and modest market share with considerable scope to grow organically and via acquisition."

**ROB HOPKINS**  
managing director  
**SmallCo Investment Fund**  
The leading small-cap fund invested in **CBL Corporation**, a niche provider of insurance. CBL raised \$114 million at \$1.41 a share and listed in October. It has rallied to \$1.80.

The New Zealand company's key product is builders' warranty insurance in France. The cover indemnifies home owners against non-completion by the builder and protects against the cost of repairs. "CBL has a very effective strategy," Hopkins says. "To minimise risk, its insurance focuses on smaller builders



who construct no more than three houses a year. CBL also provides quotes much faster than their nearest competitor, and management is strong for a company of CBL's size."

SmallCo also invested in **Pepper Group**. After raising \$144 million at \$2.60 a share and listing in late July, Pepper trades at \$3.41.

Hopkins rates Pepper's prospects in servicing mortgage portfolios in Europe. "Pepper is in an interesting space. The big banks are cleaning up their balance sheets and selling off mortgage books to special-situation investment funds. They, in turn, are using

Pepper to service the mortgage portfolio and paying on a fee-for-service basis and through performance bonuses. Pepper also has impressive management who are large shareholders in the business."

Hopkins continues to favour **OH! Media** and **APN Outdoor Group**, two IPOs from late 2014. "Both are ideally positioned to benefit as outdoor advertising continues to increase its share of the total advertising market and digital outdoor advertising creates opportunities."

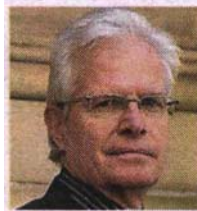
**SEBASTIAN EVANS**  
chief investment officer  
**NAOS Asset Management**  
Evans says **Dubber Corporation**, a provider of cloud-based call-recording

and audio asset management services, has good long-term prospects. Dubber raised \$4.6 million at 20¢ a share and was reinstated to the ASX in March 2015, through a backdoor listing involving **Crucible Gold**. Dubber has raced to 74¢.

"There is rising demand for call-recording systems as banks and other large organisations invest more in their compliance systems," Evans says. "Cloud-based solutions are important because the amount of data to store is significant. Dubber has leading software and can expand without huge extra investment."

Evans also rates **Updater Inc**, a United States-based company that helps home movers organise and complete relocation tasks. Updater, seeking \$22 million through an IPO at 20¢ a share, is expected to list on the ASX in early December. "The National Association of Realtors in the US has invested in Updater and it has good support from real estate agents there. The market for relocation support is very fragmented."

Updater plans to increase its market share of all household moves in the US from 2 per cent to 5 per cent by December 2016.



From top:  
Michael Glennon,  
Frank Villante,  
Rob Hopkins and  
Sebastian Evans.



Karl Siegling



Tony Waters