

# Australia All Cap Unit Class TAMIM Fund

At 31 July 2020

July was generally a good month for equities with the small- to mid-cap stocks outperforming the larger cap ones. The ASX300 was up +0.60% and the Small Ords up +1.39%.

**We are pleased to report the TAMIM Fund: Australia All Cap portfolio had a very strong month and was up +11.34%.** We are continuing to work hard to recover the calendar year losses from the record March sell off and we are getting close to positive territory.

July saw many companies provide quarterly or unaudited full year financial result updates, and, in most cases, these were extremely positive for the businesses we own in the portfolio. **We are also seeing some M&A activity emerging which is encouraging.**

As we head into August reporting season, this year more than any other year, it is fair to say that there is more uncertainty than we have seen in a very long time. The good news is that market expectations are quite low and companies have provided regular updates in the last few months, which means fewer nasty surprises (or “land mines” as some like to call them) for investors.

**We continue to find tremendous opportunities and value in companies** that are benefiting from the current new “normal” of the Covid world. The structural shift to online shopping, electronic payments, and demand for data and connectivity for working from home has seen many companies operating in those sectors thrive and grow.

On the economic news front, GDP and unemployment data being released isn't pretty but in our mind this is all rear view mirror stuff. **Markets are forward looking and we believe governments will continue to stimulate** the economy and consumers until we have a vaccine and better treatments for Covid.

In saying this, we are expecting volatility to continue and we think that, post-August results, we will see it emerge further as investors attention will focus on the upcoming US elections and the uncertainty that will create. **Our portfolios now have some built-in market downside protection** as we mentioned last month.

Regardless, and as we always remind investors (sometimes

## Monthly Return Stream

Note: Individually Managed Account (IMA) returns will, by their nature, vary from the underlying portfolio. Should you wish to see your individual return, please log in to your account online.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2016	-	-	-	-	-	-	-	-	-	-	-	0.07%	<b>0.07%</b>
2017	0.37%	-0.94%	1.46%	2.04%	0.43%	1.46%	0.17%	-0.15%	1.58%	3.21%	3.01%	1.20%	<b>14.66%</b>
2018	-2.12%	1.98%	0.60%	1.50%	1.13%	-1.40%	-0.70%	-0.10%	0.61%	-4.23%	-1.67%	-2.72%	<b>-7.08%</b>
2019	-0.52%	4.45%	0.44%	3.26%	6.17%	1.44%	5.66%	4.55%	11.79%	0.68%	7.19%	0.71%	<b>55.78%</b>
2020	6.83%	-11.44%	-34.25%	16.54%	13.54%	1.44%	11.34%						<b>-7.13%</b>

Monthly Return Stream refers to the aggregated cumulative performance of all TAMIM Australian All Cap individually managed account portfolios since inception (31 Dec 2016) in AUD net of fees up to 31 October 2019. From 1 November 2019 the Monthly Return Stream reflects the return on the TAMIM Fund: Australia All Cap unit class. Both are managed according to the same portfolio.

Note: Portfolio returns are quoted net of fees. Returns shown for longer than 1 year (other than Inception) are annualised. Year to date (YTD) figures are accumulative. The information provided in this factsheet is intended for general use only. The information presented does not take into account the investment objectives, financial situation and advisory needs of any particular person nor does the information provided constitute investment advice. Under no circumstances should investments be based solely on the information herein. Please consider our Information Memorandum and Services Guide before investing in any of our products. Past performance is no guarantee of future returns. Returns displayed in this document are unaudited. For wholesale and sophisticated investors only.

## Key Facts

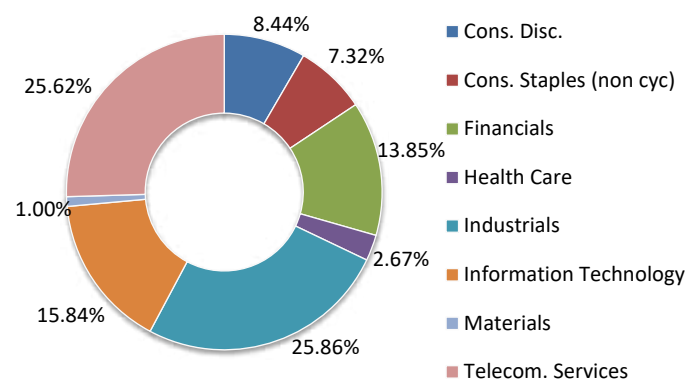
<b>Investment Structure:</b>	Unlisted unit trust
<b>Minimum investment:</b>	A\$100,000
<b>Applications:</b>	Monthly
<b>Redemptions:</b>	Monthly, with 30 days notice
<b>Unit pricing frequency:</b>	Monthly
<b>Distribution frequency:</b>	Semi-annual
<b>Management fee:</b>	1.25% p.a.
<b>Performance fee:</b>	20% of performance in excess of hurdle
<b>Hurdle:</b>	RBA Cash Rate + 2.5%
<b>Lock up period:</b>	Nil
<b>Buy/Sell Spread:</b>	+0.25%/-0.25%
<b>Exit fee:</b>	Nil
<b>Administration &amp; expense recovery fee:</b>	Up to 0.35%

## NAV

	Buy Price	Mid Price	Redemption Price
<b>AU\$</b>	\$1.0051	\$1.0025	\$1.0000

## Portfolio Allocation

<b>Equity</b>	87.40%
<b>Cash</b>	12.60%



# Australia All Cap Unit Class

## TAMIM Fund

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sounding like a broken record), **we are not here to predict the next market correction**. We are solely focused on finding companies that are growing and often overlooked by the broader market. As we head into August, we are seeing positive initial updates from some of our holdings so far and, although it is too early in the month, the portfolio is performing well.

We provide a brief update on some news flow from our holdings during the month in the Portfolio Update section and **spotlight two retail holdings in Adairs (ADH) and Redbubble (RBL)**.

Sincerely yours,

Ron Shamgar and the TAMIM Team.

### Portfolio Update:

**Cardno (CDD.ASX)** is an environmental, government and community consultancy firm which operates with over 4,400 staff globally. The company has been overlooked by the market recently as it has been in turnaround mode for the last few years and also demerged its lab testing division, Intega (ITG.ASX), more recently, making it too small for some index funds to hold. **We took advantage of this to build a position around 23 cents (\$100m market cap) recently.**

CDD released a strong trading update in July with the business not being impacted by Covid, benefitting in fact, as governments and corporates require help with community planning due to Covid restrictions. CDD is guiding to EBITDA of \$41-\$43m in FY20 and a positive net cash position. **Operating cash flows were also strong and we believe there's a good chance of dividends being reinstated.** We estimate that FY21 will see further earnings growth as management has indicated a strong backlog of work. **CDD is trading on a 6x PE multiple and we value it at 55 cents.**

**iSelect (ISU.ASX)** is a price comparison site that helps consumers compare and save on Health insurance, energy and telco bills. The company has a strong and recognisable brand along with a valuable commission **trail book worth 53 cents** a share. We have been quietly building a position in the company at the 20-cent mark as we like the new management team and their strategy to simplify the business and cut costs.

ISU announced in July that its largest shareholder and competitor, Compare the Market, has lobbed a cash takeover offer of 40 cents. Unfortunately, the companies could not agree on some clauses related to Covid, and so the bid was cancelled for the time being (even though the price was not the issue). **We think the bidder will eventually come back and may end up paying more.**

In the meantime, ISU divested its loss making iMoney Asian business which will remove \$4-5m of annual losses. During July, ISU grew profit substantially to \$1.5m EBITDA or 65% growth on July FY19. This bodes well for profitability next year which we think can be about \$15m in EBITDA. At the very least, **we think ISU is worth 40 cents with potential for much more.**

**Tesserent (TNT.ASX)** recently announced the acquisition of Canberra based cyber security firm, Seer. This now **transforms TNT into the largest cyber security firm in Canberra**. Seer services the federal government and defence department agencies and strengthens TNT capabilities to the government sector. More importantly, Seer is a high growth business that generated revenue of \$7.6m and \$2.2m in EBIT in FY20. We expect strong growth to continue next year.

In addition, TNT announced FY20 milestones of a \$40m of annualised revenue run rate and reaching cash flow positivity in

### NOTE

*Covid-19 is a situation that continues to evolve; the facts and figures are changing day by day. What applies today may not apply tomorrow. One must stay informed and have their opinions and actions evolve accordingly. Stay safe, take appropriate precautions and be sensible.*

Note: Returns are quoted net of fees. Past performance is no guarantee of future performance.

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June. The company is now well funded with a newly established debt facility to acquire more cyber security firms in the short term. We expect at least one “bolt on” during August and a larger one thereafter. The shares reacted favourably since the deal was announced and TNT has now officially made us 5x our money since we bought the stock at 5 cents last year. We have taken some profits but still retain a sensible position.

**Spirit Telecom (ST1.ASX)** is a modern national telco provider to businesses. **The company has been transformed by their new CEO, Sol Lukatsky**, who joined last year. They have blossomed from a sleepy fixed wireless infrastructure provider to an aggressive, high growth and modern national telco. **ST1 has made several successive acquisitions over the last twelve months** in order to offer not just a fast internet service, but also other IT services such as cloud and cyber security services, virtual hosting and IT hardware and support.

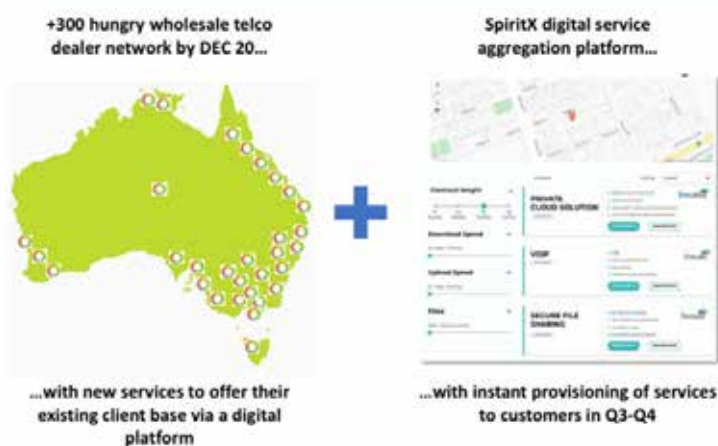
**The company’s strategy revolves around their SpiritX platform** which allows both business customers and telco dealers to use the online platform and see which is the best data connection for their location. ST1 offers not just its own fixed wireless network but also NBN and other provider’s fibre services. Overall, this **increases the market size opportunity for ST1** and has resulted in strong growth.

FY20 2H revenues grew 80% to \$22.4m, with 14% revenue growth from Q3 to Q4. The recurring revenue base of B2B customers grew 82% in 2H. EBITDA for FY20 is approximately \$3.8m. The company also recently made an acquisition of VPD which will add further growth in FY21. We see SpiritX as a strong lead generation tool with 12,000 addresses qualified through the platform in 2H. **This provides visibility on customer demand and is valuable IP that the company is building.**



Source: ST1 company filings

## Outlook Q1 & Q2: Execution Reaching Scale Quickly



Source: ST1 company filings

We expect ST1 to continue their acquisition of other providers in order to ensure national coverage and access to 300 telco dealers across Australia. We envisage ST1 to have an exit run rate in FY21 of over \$100m in revenues and \$15m of EBITDA. **ST1 is currently our largest holding.** We took our position at 21 cents and we believe that ST1 is worth 45 cents in the short term but potentially double that on successful execution of their acquisition strategy by management.

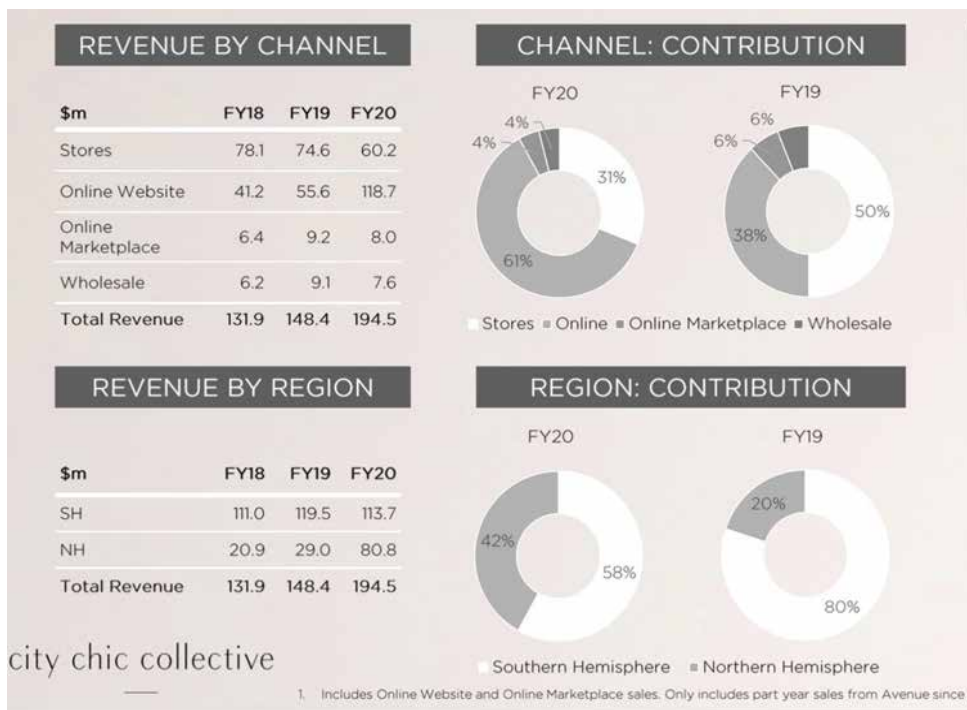


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City Chic (CCX.ASX) is a leading online plus size women's retailer. During July CCX announced the acquisition of the e-commerce assets of US based plus size retailer Catherines from bankruptcy proceedings. **The deal, when successful, should add up to \$90m in online sales in the US.** To support the acquisition, which we estimate will cost \$30m, CCX raised \$90m in new equity. We have participated in this at \$3.05 a share.

Management also provided FY20 financial results of 30% growth in revenues, to \$195m, and about \$29m in underlying EBITDA. The company finished the year with a net cash position and, together with the proceeds of the raise, should have over \$60m to deploy on future deals. **We expect 80% of group sales next year to come from online.** The global opportunity in North America and Europe provides CCX a long runway for growth and management are astute in their opportunistic buying of other businesses. **We value CCX at over \$4.00.**



Source: CCX company filings

## Retail Stock Spotlight: Redbubble (RBL.ASX) & Adairs (ADH.ASX)

### Redbubble (RBL.ASX)

RBL is an online marketplace that connects artists around the globe with customers in Europe, North America and Australia. Customers can choose from a large selection of artwork and get it printed on over 115 different product categories. RBL works with over forty global fulfillers who print to order and ship out to customers.

RBL benefits from the network effect as more available artwork and artists on the platform provide a huge content library which in turn attracts customers to their website. RBL doesn't hold any inventory and thus benefits from a very **favourable working capital cycle which aids cash flows.**

The company turned profitable last year and has managed to triple its market place revenues since listing six years ago. **We believe the business is on the cusp of inflection points in both revenue and earnings growth,** as more consumers look to shop online.

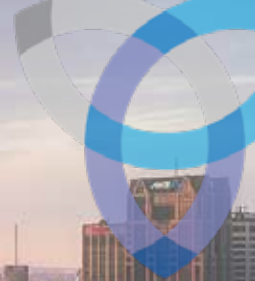
For FY20 RBL reported market place revenues of \$368m with Q4 revenues of \$122m. The recent update to July FY21 shows revenues up over 130%, to \$49m, driven by strong demand for the face mask category. We estimate that RBL generated EBITDA of \$6m in July and, if this trend continues, **RBL can potentially earn \$600m of revenues and \$70m of EBITDA. Net cash is estimated at \$70m.**



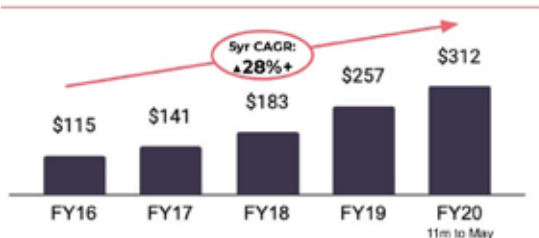
Source: RBL company filings

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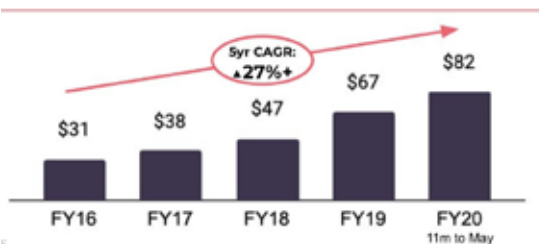
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## Marketplace Revenue<sup>2</sup> (A\$m)



## GPAPA (A\$m)

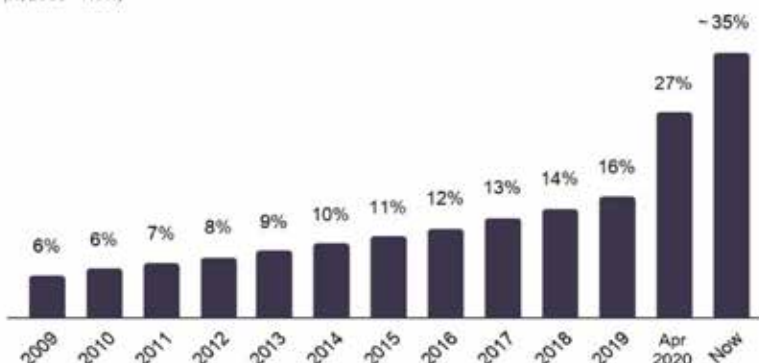


Source: RBL company filings

We believe RBL can capitalise on this acceleration of the structural shift to online shopping and expand its product categories further (they currently have 115 products) and look to enter Asian markets. **Regardless, the opportunity in North America alone is enormous.**

## Accelerating momentum in retail online penetration during COVID

US retail online penetration (%; 2009 - Now)



Source: RBL company filings

Historically, investors and analysts were hesitant in ascribing RBL a high multiple as the company had a history of volatile trading between quarters. We think, as the company has now reached scale, volatility will reduce and we should see continued growth quarter on quarter.

RBL is currently trading on a revenue multiple of less than 2x, compared to a 3-4x multiple for their closest ASX listed peers, Kogan (KGN.ASX) and Temple&Webster (TPW.ASX), and 10x for global peer Etsy. **We view the market consensus as too low** for this year and next and we see analysts playing catch-up as the company provides further updates. A combination of consensus upgrades and a multiple expansion is the perfect recipe for significant valuation upside in the next twelve months. **We value RBL at about \$5.00.**

## Adairs (ADH.ASX)

ADH is a homeware and accessories retailer under the Adairs name and a baby furniture and homewares brand via the online only Mocka. Historically, the market priced Adairs as a bricks and mortar retailer with an online store. But with the ongoing shift to online and the acquisition of Mocka, ADH now boasts 35% of group sales from the online space.



We believe ADH will continue to benefit from consumers staying at home more as Covid-19 lingers (wear masks where appropriate people!) and, in some cases, are forced to stay home as with the Victorian lockdowns. Recent trends suggest that those cocooned consumers spend more on their homes and ADH is a direct beneficiary. The **shift toward online sales has been mentioned and it is worth mentioning that 30% of online sales during lockdowns came from new customers.** This suggests that ADH is winning market share from physical retail store operators.

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## Mocka

Adairs acquired Mocka in December 2019.

Mocka is:

- online pure-play
- vertically integrated
- home and living products designer and retailer
- operating in Australia and New Zealand

FY20:

- > 880k website visits / 6.4m page impressions
- > 185k active customers / 415k email subscribers

- > Exclusive product offering
- > In-house design / Coordinated signature look
- > Full pricing control / Full supply chain control

Delivers

With a history of ...

1 Attractive sales growth (NZ\$m)<sup>1</sup>



2 Strong Gross Margins<sup>1</sup>



3 Superior EBIT margins<sup>2</sup>



COVID-19 has accelerated Mocka's brand recognition and growth rate, particularly in Australia where website visits and sales have doubled since April and have remained elevated

Note 1. Mocka information is annual unaudited. Adairs acquired Mocka in December 2019.

Source: ADH company filings

adairs 11

FY20 results exceeded expectations with revenues up 13% to \$390m but both EBIT and NPAT significantly exceeding expectations by 20%, with \$63m EBIT and \$35m NPAT. Online sales were up 110%, with Adairs sales up 60% and Mocka sales up 30%. **Pleasingly, FY21 has started strongly** with the first five weeks showing group sales up 32%, online sales up 103% and like for like store sales up 16%.

ADH has negligible debt and is well positioned to grow and pay higher dividends next year. **We estimate FY21 EBIT of \$70m with EPS of 26 cents and a fully franked dividend yield of 5%.** We think investors will gradually price ADH on an online retailer multiple rather than a more traditional brick and mortar one. **We value ADH at \$3.60.**



Source: ADH company filings