Australian All Cap Portfolio

Individually Managed Account

Monthly Update
October 2019

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Australian All Cap
Portfolio Update

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October is the start of a two-month period where, in most cases, companies hold their annual general meetings and provide trading updates. Over the month the markets continued their back and forth obsession on whether a US/China trade deal is upon us. In Australia, the RBA cut interest rates again as certain parts of the economy are not performing to expectations. Recently released retail spending figures have shown a pickup in spending during August and September although results were mixed across different categories.

The housing market has had a strong resurgence in the last few months with lower interest rates and a loosening of lending by the big banks seeing investors jumping back in. Auction clearance rates are up back into the mid-70s as a percentage and house prices continue to increase month on month. We don't believe this is the beginning of a new booming property market, but rather a catch-up of investors who sat on the sidelines during the year due to political and regulatory uncertainty.

We are still of the view that, once the property market settles down and with interest rates remaining at close to zero, investors will turn to equities as the best source of returns over the next few years.

During the month, the ASX Small Ords Accumulation index was down -0.50% while the ASX300 was down -0.38%.

Following our record double digit return for September, the TAMIM All Cap portfolios returned +0.68% during October. Calendar year to date the portfolios are up +44.30%. For reference, the ASX300 is up +22.4% calendar year to date.

Finally, we received a takeover offer for one of our holdings, QMS Media, during the month. ***This is the fifth company in the portfolio to be acquired in the last twelve months***. We have identified several other holdings which we believe are potential takeover targets in the near term.

We see significant upside in our current holdings in addition to some new opportunities we have recently identified. Our cash levels are low and so we see now as a perfect opportunity for investors to consider increasing their investment. Any short-term market volatility will be capitalised upon to invest further.

We provide updates on a selection of our holdings in the Portfolio Update section of the report and ***we spotlight a recent new holding in Victory Offices (VOL).***

We will provide further updates and commentary in our next monthly report.

Sincerely yours,

Ron Shamgar and the TAMIM Team.

Portfolio Updates

QMS Media (QMS.ASX)

QMS Media (QMS.ASX) is a leading digital outdoor media company with operations in Australia and New Zealand. The company has been acquisitive over the years and had a complicated ownership structure. The company is made up of three divisions, the first being QMS Sport - providing unique sporting event advertising technology and media together with talent management. The other divisions are a NZ joint venture vehicle owning Mediaworks (outdoor media, radio and TV) and a division of pure digital outdoor media assets across Australia.

We have known management and the business for years, since IPO, and ***took the opportunity to buy into the stock at 70 cents when management signalled to the market their strategy to unlock value*** within the different business units. For us it was a case of the sum of the parts being worth much more than the whole company. Our thesis was for the NZ Mediaworks vehicle to be sold, the QMS Sport division to be demerged or sold, and for the Australian digital outdoor assets to then be acquired by one of the local players.

The outdoor media in Australia has been consolidating fast over the last 2 years with several deals done between APN, JC Decaux, Ooh Media and HT1. Most deals were done on 12x EBITDA multiples. QMS was trading on 6x at the time. ***Our thesis played out successfully this past month with Quadrant Private Equity bidding a $1.23 cash offer.*** Key management figures, who own 15% of the company, have agreed to take script in the deal.

We see the ***9.4x EBITDA multiple being paid as an absolute steal.*** Although our holding is not large enough to block a deal, we believe a higher bid is very likely. If we apply recent deal multiples and roll forward EBITDA to next year, we see an ***upside valuation for a takeover in excess of $2.00***. In the meantime, we will wait and see how this develops.

PointsBet (PBH.ASX)

PointsBet (PBH.ASX) announced a $123m capital raise to help fund its growth initiatives and marketing expansion into new states in the US. The equity raise was a done at a discount to market with existing holders offered a rights issue at $3.20. Directors have participated in the offer and so will we. Post the raise, PBH will have $150m of cash to fund its launch into Indiana, Illinois, Colorado and West Virginia over the next six months. In addition, ***PBH has shown good traction in New Jersey with market share growing to almost 7%.***

The company is on track to turnover in excess of $1bn in bets during FY20. There is now a decent probability that both New York and California may legalise online sports betting in the next year. These states are the holy grail of opportunity in the US and, if that is the case, then we wouldn't be surprised if the company came back to the markets for further funds in twelve months.

As we have said before, ***opportunities like this only come once in a lifetime*** and both us and other investors backing the company understand the need for capital in the early land grab stage. Management is confident of capturing 10% market share over the next 3-5 years which ***translates to an estimated $750m in revenues***. Exciting times ahead.

Viva Leisure (VVA.ASX)

Viva Leisure (VVA.ASX) had a busy month, announcing their entry into the Queensland market with the acquisition of eight Healthworks clubs. VVA will pay $2.7m and, following upgrades to the clubs, rebranding and centralised back office synergies, ***management***

expects a $1.35m EBITDA contribution. The new locations will add an additional 10,000 members to the group.

VVA has also secured an acquisition debt facility with the CBA bank for up to $15m. The facility, together with our estimate of a net cash balance of $10m, should provide ample capacity for further deals. ***Based on historical acquisition multiples, VVA at full deployment could increase EBITDA by 50%***. The deal takes VVA's number of operating locations to 52 with a further thirteen locations at various stages of development. The member base has now grown 8% since June 30 to over 58,000 and, with the Healthworks deal, we expect ***member numbers to exceed 70,000 by Christmas time.***

We forecast VVA to generate $13.5m EBITDA this year and ***potentially $20m EBITDA in FY21*** assuming the company deployed its acquisition capacity. This places VVA on FY21 multiples of about 14x PE and EV/EBITDA of 7x which we think is cheap. We bought into VVA at $1.25 and, due to the stock appreciating over 100%, we took some profits during October for rebalancing purposes. ***VVA is still a top three holding in the All Cap portfolios. Our valuation is now in excess of $3.25.***

Stock Spotlight - Victory Offices (VOL.ASX)

This Stock Spotlight was originally published on 30 October 2019.

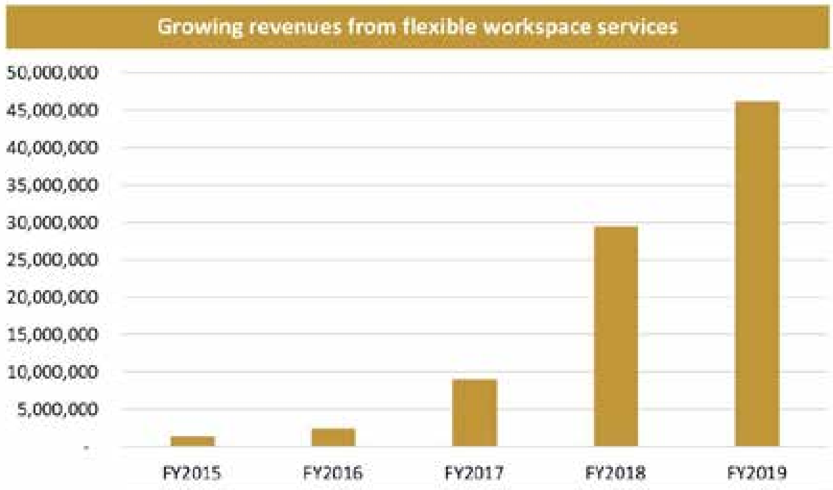
Victory Offices (VOL.ASX) is a premium serviced office operator. The company was founded in 2013 and has grown rapidly since to become the second largest operator in Australia by locations. VOL offers a premium service to its customers and is focused on the co-working or flexible workspace environment for business professionals and smaller sized companies.

Source: Company filings

VOL ticks many of the investment characteristics we look for when investing in a company, including:

- ***Founder led and owned***. Managing Director and founder, Dan Baxter, owns 63% and there was no sell down at the IPO.
- The company is profitable and ***generates significant amounts of free cash*** which is currently reinvested for growth.
- ***Recurring revenue and forward visibility*** with customers paying monthly by direct debit and the average contracted tenancy at fourteen months.
- The business operates at the premium end of the market which is less price sensitive.
- ***Customer-centric*** and a focus on transparency with emphasis on fewer hidden costs than some of their competitors.
- ***Industry tailwinds*** with commercial office vacancy at near historical lows and demand for flexible co-working office space continuing to grow.
- ***Significant pipeline of new locations*** to provide earnings growth for the next three years.
- We expect the company to ***begin paying dividends in 2021.***

Summary metrics	FY2019 ($'million)	FY2018 ($'million)
Revenue from flexible workspace services	$47.0	$29.4
Net profit after tax	$9.6	$5.7
Operating cash flows	$27.9	$18.9
Net assets	$44.7	$6.9
Average total occupancy	93%	85%



	FY2015	FY2016	FY2017	FY2018	FY2019
Number of locations	2	2	6	11	19
Locations opened	2	-	4	5	8
Total square metres	2,432	2,432	8,378	17,044	26,204

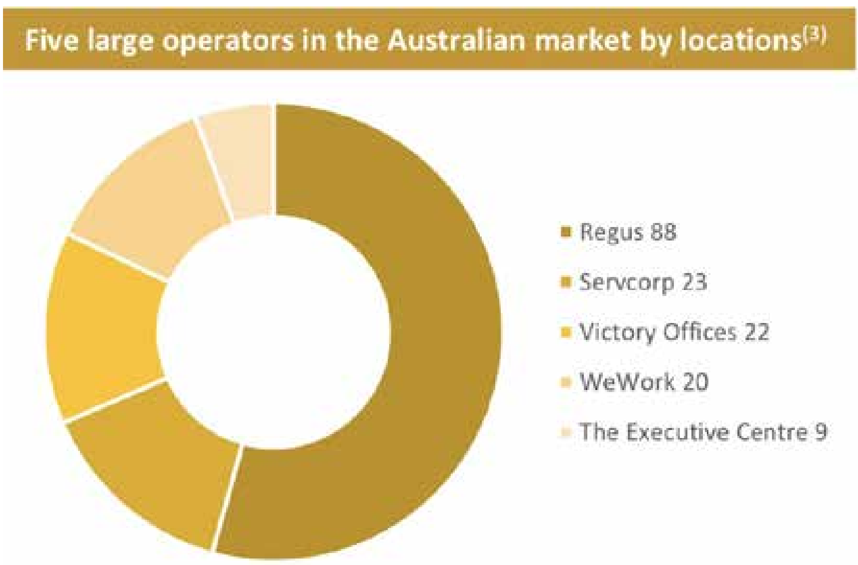
Source: Company filings

In our mind VOL differentiates itself from the competition by focusing on customer service with a tailored, local, and personalised approach. The MD founded VOL following his own disappointing experience with some of VOL's main competitors in the space. ***We believe their competitors' very basic level of customer service and opaque approach to pricing is the key reason for VOL's success to date.*** VOL provides complete transparency in their pricing model.

Last year VOL added well respected Chief Financial Officer Geoff Hollis, who we know and followed over the years, to their management team. Geoff previously served as the CFO of ASX listed Lifestyle Communities (LIC), a retirement village operator. During his eight year tenure between 2010 and 2018, the stock went from 50 cents to $6.00. ***We see Geoff as a conservative and safe pair of hands for the CFO role.***

We are attracted by the way management carefully approaches and plans new locations which is showing with the group ***average occupancy rate sitting at 93%***. An example of this is the new location in Barangaroo, Darling Harbour. At the time of launch, Barangaroo had pre-commitments of 25% occupancy and reached over 90% within 6 months. This was done through marketing to existing customers in nearby locations and other marketing channels.

VOL is growing fast and forecasting eight new locations in FY20, taking the total number of locations to 27 by the end of the year. So far the company is on track having opened a location in St Kilda Rd in Melbourne and executed four lease agreements for new locations in North Sydney, the Sydney CBD, Cremorne in Melbourne and Fortitude Valley in QLD.



Source: Company filings

VOL FY19 financials met prospectus forecasts and ***we are expecting strong growth in FY20.*** It is important to note that due to the new AASB16 accounting treatment of operating leases, VOL profit margins seem inflated as the lease costs are removed from the expense line in the P&L. We prefer to value the company on a normalized EPS basis before the new accounting changes.

Source: Company filings

VOL's main comparable on the ASX is Servcorp (SRV.ASX). Servcorp is a much larger global company with a long but mixed track record. Although ***VOL now has more locations domestically than SRV,*** we feel SRV deserves a slightly higher multiple than VOL due to its geographical diversity and history. In saying that, VOL is growing much faster than SRV. SRV is trading on a 16x forward PE. Both companies are cashed up. ***We forecast VOL, on a normalised accounting basis, to earn 26 cents and 34 cents EPS in FY20 and FY21***. This compares favourably to the current share price of $2.40 (single digit PE!)

Applying a discount to SRV and a conservative multiple ***we value VOL at $3.60*** based on next year's earnings. We expect the shares to re-rate as the company continues to announce new locations and establishes a medium-term track record of earnings growth and dividends.

We see VOL as a potential takeover candidate in future, as the industry begins the consolidation phase following the emergence of new entrants in the last few years.

Overview

The TAMIM Australian All Cap IMA uses a value based approach to identifying companies that meet our fundamentals based investment process. We aim to generate long term capital growth by targeting companies exhibiting strong financial capabilities of growing earnings, cash generation and industry tailwinds.

Key Facts

Investment Structure:	Individually Managed Account (only available to wholesale or sophisticated investors)
Minimum investment:	A$250,000
Pricing & Reporting:	Daily
Investment horizon:	3-5+ years
Management fee:	1.50% p.a.
Expense recovery fee:	Nil
Performance fee:	20% of performance in excess of hurdle
Hurdle:	RBA Cash Rate + 2.5%
Admistration fee:	Nil
Exit fee:	1% if exit within 12 months
Single security limit:	10% (typical)
Benchmark	ASX 300
Target number of holdings:	10-40
Portfolio turnover:	< 25% p.a.
Investable universe:	ASX
Cash level (typical):	0-100% (10-40%)

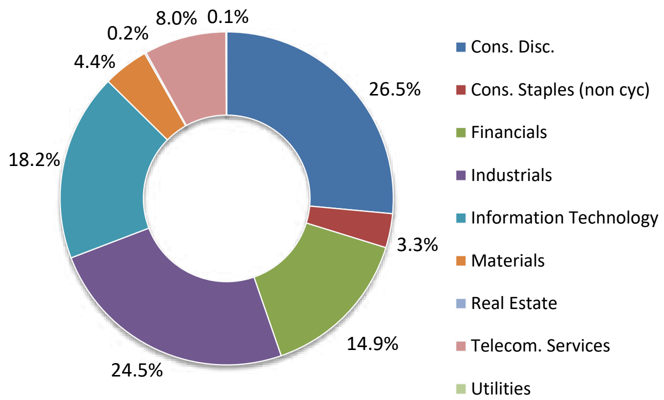
Selection of 5 Holdings

Stock	Code
Viva Leisure	VVA
Money3	MNY
EML Payments	EML
Resimac	RMC
Noni B Group	NBL

Portfolio Profile

Equities	83.2%
Cash	16.8%

Sector Allocation



Monthly Return Stream

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2016	-	-	-	-	-	-	-	-	-	-	-	0.07%	**0.07%**
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%	**14.66%**
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%	**-7.08%**
2019	-0.52%	4.45%	0.44%	3.26%	6.17%	1.44%	5.66%	4.55%	11.79%	0.68%			**44.30%**

Monthly Return Stream refers to the aggragated cumulative performance of all TAMIM Australian All Cap individually managed account portfolios since inception (31 Dec 2016) in AUD net of fees.

Note: Portfolio returns are quoted net of fees. The ASX 300 refers to the S&P/ASX 300 Accumulation Index. 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.

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