Growth With Value
Your investment can make the difference

Email: alistair.cowley@growthwithvalue.com
Address: PO Box 1078 Nairne, SA 5252
Mobile: 0417 836 202

Growth With Value Investment Fund – 30 September 2021 Quarterly Report

The Growth With Value Investment Fund focuses mainly on investing in Australian listed businesses. Our concentrated portfolio will consist primarily of businesses which are able to generate strong Returns on Capital, provide solid Profit Margins, carry little or no Debt and present long-term growth prospects. We also apply an ethical perspective when investing in a business. We look for a business which respects our environment, including both flora and fauna, and cares for its people and customers. We also avoid businesses which produce or provide a service that is considered an addictive substance. Our investment decisions are based on fundamental analysis with a long-term mind set, paying little regard to short term fluctuations in the market. We choose to invest only when the business presents us with an opportunity to buy below its Intrinsic Value. You can expect, over the long term, this portfolio to outperform our benchmark, the ASX 200 Accumulation Index (XJOA).

Fund Performance Since Inception (May 2018):

GWV Investment Fund versus ASX 200 Accumulation Index – Total and Annualised Returns			
Annualised Return		**Total Return**	
GWV Fund Annualised Return	27.30%	**GWV Fund Total Return**	128.10%
Benchmark Annualised Return (XJOA)	10.29%	**Benchmark Total Return (XJOA)**	39.74%
Outperformance / (Underperformance)	17.01%	**Outperformance / (Underperformance)**	88.36%

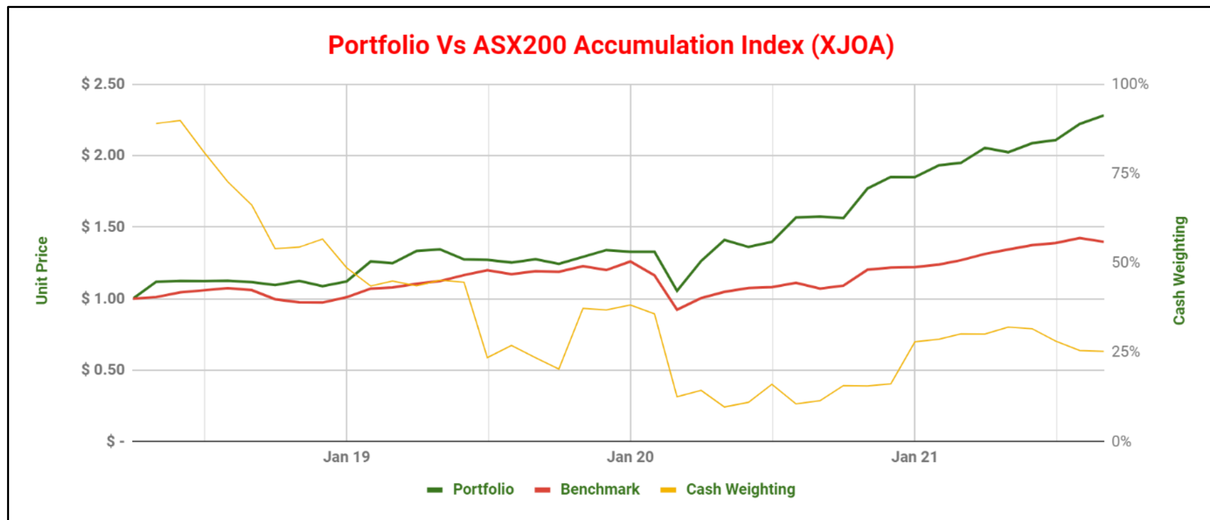
Fund Month by Month Performance Since Inception (May 2018):

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
GWV FY18	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	11.8%	0.6%	**12.5%**
XJOA FY18	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.1%	3.3%	**3.3%**
GWV FY19	(0.1%)	0.2%	(1.0%)	(1.8%)	2.7%	(3.2%)	3.0%	12.5%	(1.0%)	6.9%	0.9%	(5.3%)	**13.3%**
XJOA FY19	1.4%	1.4%	(1.3%)	(6.1%)	(2.2%)	(0.1%)	3.9%	6.0%	0.7%	2.4%	1.7%	3.7%	**11.6%**
GWV FY20	(0.2%)	(1.5%)	1.8%	(2.6%)	4.0%	3.6%	(0.9%)	(0.0%)	(20.6%)	19.8%	11.7%	3.5%	**6.9%**
XJOA FY20	2.9%	(2.4%)	1.8%	(0.4%)	3.3%	(2.2%)	5.0%	(7.7%)	(20.7%)	8.8%	4.4%	2.6%	**(7.7%)**
GWV FY21	2.6%	12.2%	0.5%	(0.7%)	13.3%	2.0%	(0.0%)	4.5%	0.8%	5.4%	(1.9%)	3.1	**53.3%**
XJOA FY21	0.5%	2.8%	(3.7%)	1.9%	10.2%	1.2%	0.3%	1.5%	2.4%	3.5%	2.3%	2.3%	**27.8%**
GWV FY22	1.0%	5.3%	2.7%										**9.3%**
XJOA FY22	1.1%	2.5%	(1.9%)										**1.7%**

Growth With Value
Your investment can make the difference

Email: alistair.cowley@growthwithvalue.com
Address: PO Box 1078 Nairne, SA 5252
Mobile: 0417 836 202

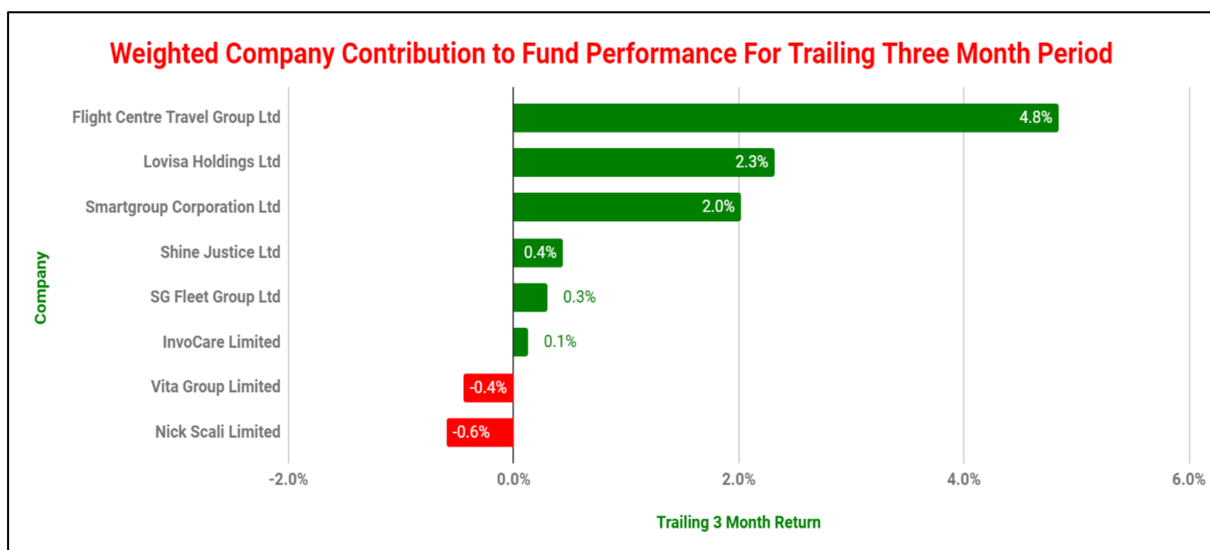
Fund versus Benchmark:



Portfolio:

Company	Initial Purchase Date	Ave. Purchase Price	Annualised Return*	Portfolio Weighting
Cash			3.4%	26.5%
Nick Scali	05/07/2018	$ 4.48	45.1%	20.1%
Flight Centre	16/03/2020	$ 13.04	25.1%	14.5%
Lovisa	25/03/2020	$ 2.86	234.2%	10.5%
SG Fleet	27/07/2019	$ 2.48	9.0%	8.4%
Smart Group	20/02/2020	$ 5.90	38.3%	7.6%
InvoCare	02/05/2018	$ 10.47	6.5%	7.1%
Shine Corporate	25/07/2019	$ 0.73	34.5%	2.8%
Vita Group	31/08/2018	$ 1.09	(0.6%)	2.6%

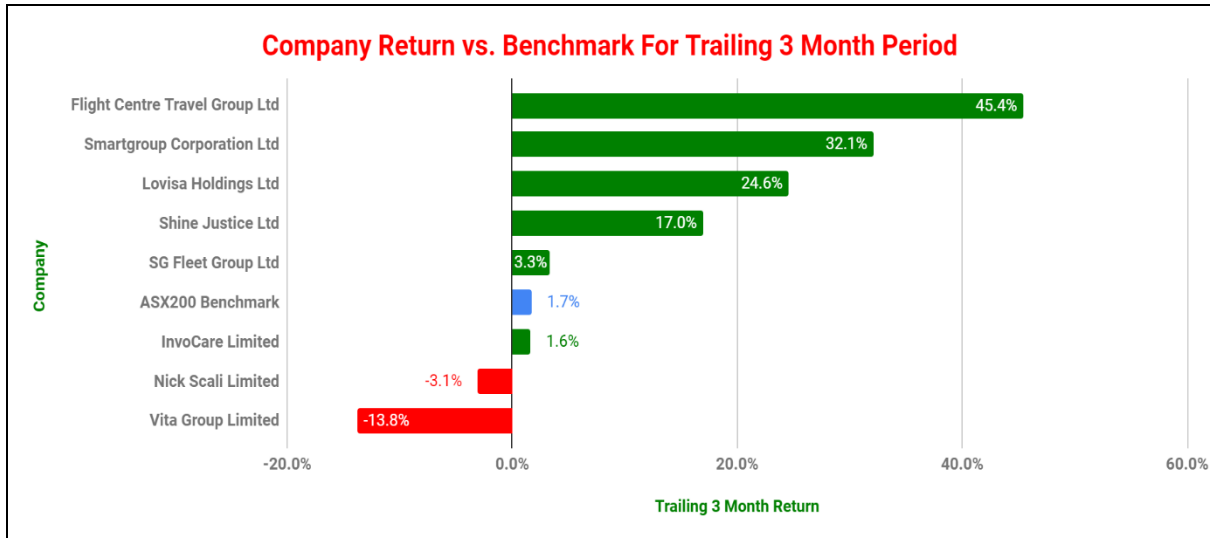
Note: For companies held for less than 12 months, the Annualised Return has been substituted with Total Return.

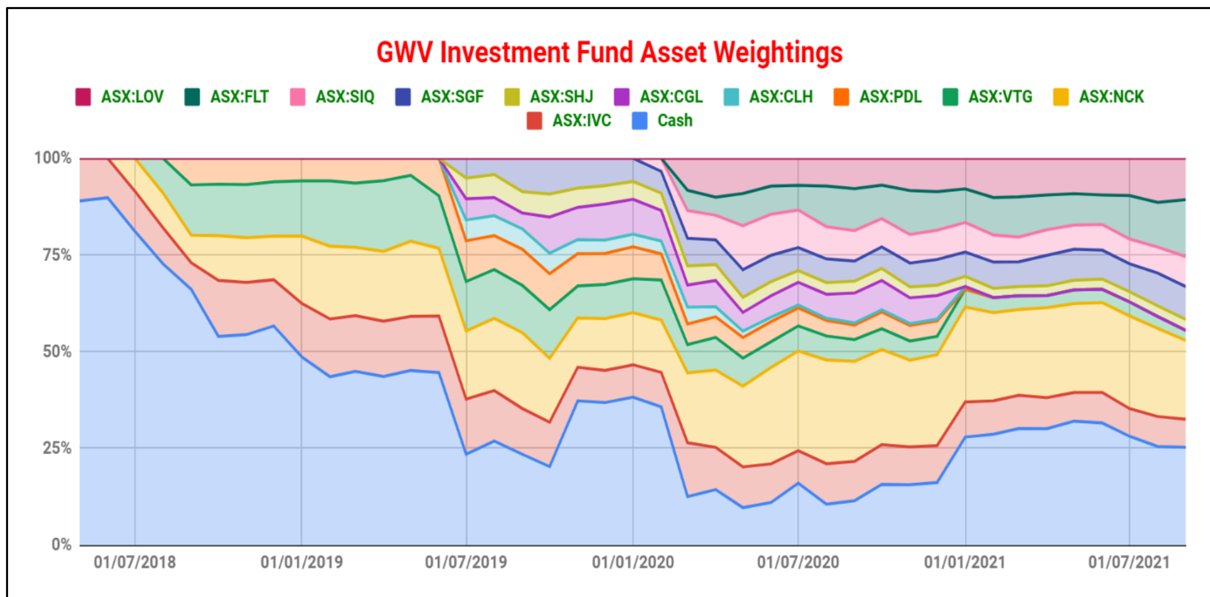


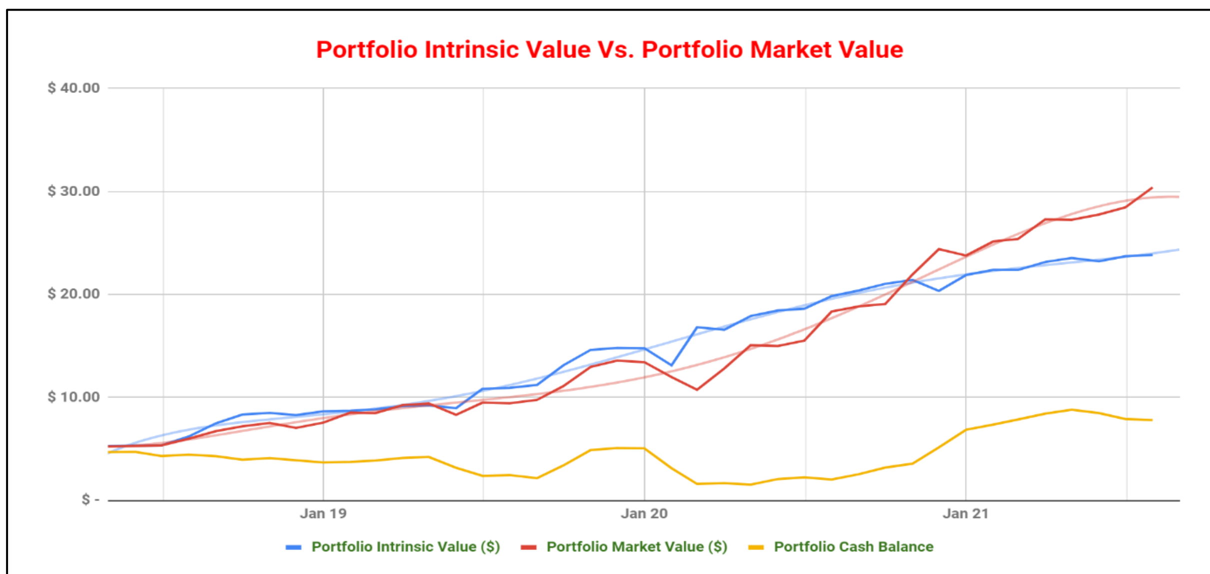
Growth With Value

Your investment can make the difference

Email: alistair.cowley@growthwithvalue.com
Address: PO Box 1078 Nairne, SA 5252
Mobile: 0417 836 202



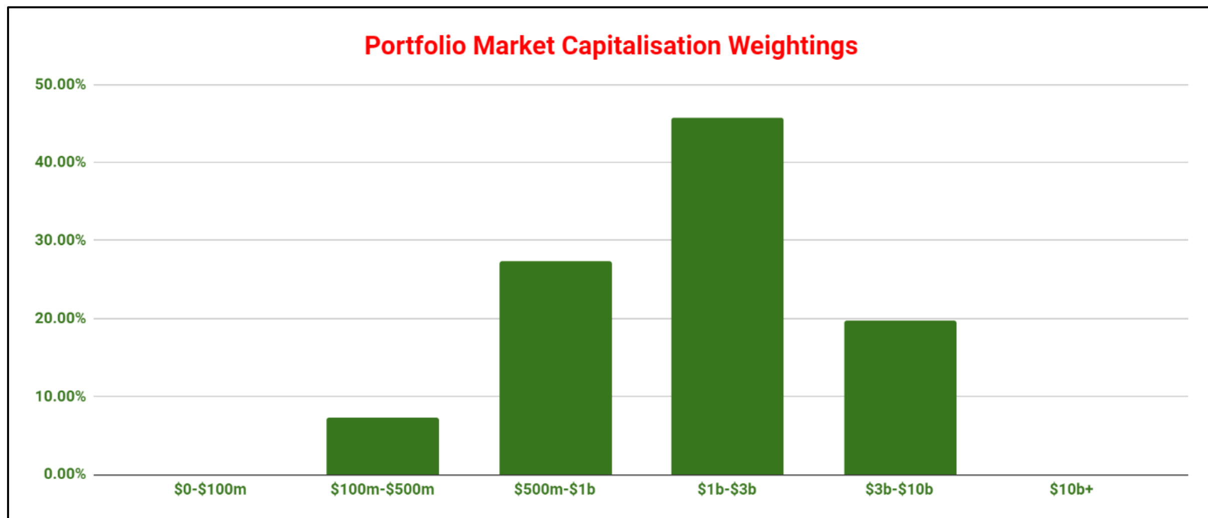




Growth With Value

Your investment can make the difference

Email: alistair.cowley@growthwithvalue.com
Address: PO Box 1078 Nairne, SA 5252
Mobile: 0417 836 202



Median Market Capitalisation:	1,144 M
Weighted Average Market Capitalisation:	1,813 M

Performance:

For the quarter ended September 2021, the Growth With Value Investment Fund returned 2.7% versus negative 1.9% for our Benchmark, the ASX 200 Accumulation Index (XJOA). This is an outperformance of 4.6%. At the end of this period, we held 26.5% in cash and had eight open positions. We did not make any sales during the period.

Since its inception, the Fund has provided an annualised return of 27.3%, resulting in a total return of 128.1%. Our Benchmark has an annualised returned of 10.3%, resulting in a total return of 39.7% over the same period.

Portfolio Activity:

Over the last three months we did not add any additional companies to our portfolio. We did, however, increase our holdings in Flight Centre and SG Fleet over this period. Since these additions we have seen their respective market prices increase by over 45% for Flight Centre and over 10% for SG Fleet.

Company Updates:

Nick Scali: Nick Scali continues to be our largest holding, making up about 20% of the fund (including cash). From an investment perspective, we have achieved an annualised return of about 45% per year versus just under 10% for our benchmark over the last three years since we first invested in Nick Scali.

The business has benefited greatly from the recent increased spend seen by consumers, as many divert their spending toward home improvements and updating home offices, all brought about by the COVID pandemic. It is important to remember that the growth being reported across many consumer discretionary businesses is not sustainable and will most likely revert back to long term trends eventually.

The pandemic also prompted management to improve their online presence, which appears to have had some success. Online sales orders were $18.3m for FY21, which was the first full year of operation for the online store. This resulted in about $15m in revenue through online sales, or about 4% of total

Email: alistair.cowley@growthwithvalue.com
Address: PO Box 1078 Nairne, SA 5252
Mobile: 0417 836 202

revenue for FY21. A recent announcement in July confirmed rumours that management were in discussions with Greenlit Brands about the possible acquisition of their premium Plush Sofas brand, which already has a strong online presence as well as having a network of 46 stores.

Store roll-outs continued in FY21 with an additional 2 stores opening in Australia, bringing the total store network in Australia to 57, with one additional store opening in New Zealand, bringing the total to 4 stores.

We can expect Nick Scali to achieve its historical levels in sales growth of about 10% over the next few years, or at least until its store rollout is complete. Nick Scali is targeting a total network of 86 stores across Australia and New Zealand, being an increase of 25 stores over the current network of 61. I would also expect online sales to continue to provide a source of strong growth. An additional avenue for growth, as stated by management, is through acquisition, which has been reaffirmed as a strong possibility with the recent announcement of discussions between Nick Scali and Greenlit Brands.

A further update for Nick Scali: Since I began to write this report last, Nick Scali has announced it has entered into a binding agreement to acquire Plush-Think Sofas for ~$103m, with the acquisition expected to be complete by the end of 2021. Plush Sofas has 46 stores across Australia, as well as its online store. On a per store basis, Plush Sofas generated $3.5m in sales versus $8.7m for Nick Scali and $0.6m in EBITDA versus $2.5m for Nick Scali. Over the last two years, EBITDA margins for Plush Sofas increased from 9% in FY20 to 17% in FY21 versus 25% for FY20 and 34% for FY21 for Nick Scali. We will need to monitor the effect this acquisition will have on margins over the next few years. Historically, Nick Scali has maintained Operating Margins of around 24% and a Net Profit Margin of about 16%.

Flight Centre: Flight Centre has continued to keep costs down whilst maintaining a large cash balance of $1.3b. This cash balance has supported the business to continue operating through troubled times and also enabled it to increase market share, with US$1.4b of new corporate contracts and a 98.5% customer retention rate across is corporate business.

With many countries and regions beginning to re-open, such as across Europe this summer (July/August), it is beginning to look like international travel is not far from returning to more normal levels. There is also strong evidence of pent-up demand amongst consumers as they take advantage of borders re-opening, evidenced by large volume increases in bookings. Corporate travel is back to 59% of pre-COVID levels across Australia and New Zealand but Leisure travel is still lagging far behind at just 13%. Once vaccination levels reach the stated “herd immunity” levels of 80%, we are more than likely going to see international travel to and from Australia open up, which will likely occur by the end of 2021 or by early 2022.

However, it is likely we will continue to see restrictions in place for travel to countries which are still experiencing high rates of infection, and which also have low immunisation rates. In addition, I expect flights will continue to be expensive, when compared to pre-COVID prices, for a little while until consumer confidence has been restored and governments are no longer enforcing lock-downs. Quarantining is also likely to continue, be it at home or at a facility such as a hotel. Until lock-downs, quarantines, and new cases are a thing of the past, I doubt we will see a complete recovery, especially to leisure travel.

Email: alistair.cowley@growthwithvalue.com
Address: PO Box 1078 Nairne, SA 5252
Mobile: 0417 836 202

I think these ongoing detracting factors for travel will have a minimal impact on Flight Centre as it receives the majority of its revenue from developed countries which have or are trending towards strong levels of immunisation.

Long-term, I believe Flight Centre will continue to prosper as consumers' urge to travel will always exist. The industry will most definitely continue to experience some hiccups along the way, but provided Flight Centre can continue to keep its levels of debt low and maintain its large cash cushion, it should be able to come through any adverse future event.

Lovisa: Lovisa has been our most profitable investment, providing a total return of 576% over the last one and half years, or 234% on an annualised basis. Lovisa made up just 6% of our portfolio at the time of investment in March 2020. From our date of purchase, the share price bounced back in just a matter of weeks to above what I deemed to be its fair value. Unfortunately, this resulted in me failing to build a larger, more appropriate position size within our portfolio to suit such a wonderful company.

Lovisa was able to take advantage of the economic downturn, mainly due to the fact they carry little to no debt, by acquiring beeline, which had 114 similar fashion jewellery stores across Europe. The end result, after some store rationalisation, was an addition of 87 new stores, increasing Lovisa's European store network to a total of 158, with 544 stores globally.

Lovisa has also improved its online sales by enhancing its online store presence, with online sales up 178% in FY21. We can expect to see continued strong growth as Lovisa continues its store rollout, with the USA probably its largest opportunity for growth. Jewellery has and will continue to be a way for people to express themselves and improve one's appeal. This can give us confidence that Lovisa's products will continue to be in demand long into the future.

SG Fleet: On the 1st of September SG Fleet completed its acquisition of LeasePlan ANZ for a cash consideration of $273m and a 13% equity interest in SG Fleet. SG Fleet is now the largest Fleet Management and Leasing company in Australia and third largest in New Zealand.

SG Fleet sees a 99% retention rate amongst its customers. The company has seen a 6% increase in Revenue for FY21, primarily supported by a 23.5% increase in End of Lease Income (Revenue received from the sale of second-hand end of lease vehicles). Otherwise, all other Revenue Segments decreased over the period. We can, however, expect to see strong growth over the next 2 to 3 years, once the LeasePlan ANZ acquisition has been fully integrated.

Smart Group: Smart Group has renewed 8 of its top 20 contracts which have fallen due so far this year. Revenue was down 0.9% for the first half of CY21 but, after a 9% reduction in operating expenses, Operating Profit was up almost 16% for period.

On the 29th of September, a consortium comprising TPG Global, LLC and Potentia Capital proposed acquiring 100% of the outstanding shares of Smart Group at a price of $10.35, which is a 32% premium to the market price prior to the announcement being made and a 75% premium to our average purchase price. We first purchased shares in Smart Group back in February 2020. The acquisition is subject to the successful completion of due diligence by the consortium and also approval by the Board which has already indicated a unanimous recommendation of the proposed acquisition.

I would prefer to retain our holdings of Smart Group as it is a quality business with the potential to continue compounding our capital at exceptional rates. Through long-term ownership, we inevitably avoid having to pay capital gains tax, which only results in a reduction in capital that otherwise could

Email: alistair.cowley@growthwithvalue.com
Address: PO Box 1078 Nairne, SA 5252
Mobile: 0417 836 202

have remained invested, compounding away each year. Over a few decades, this can result in a large amount of lost capital that has been paid to taxes. One of the benefits of investing in quality business with long-term prospects is to avoid unnecessary transaction costs.

InvoCare: InvoCare has seen an increase in Revenue as lockdowns began to ease. Management has also been reducing debt levels, with a leverage ratio dropping from 3.3 times in 2018 to 1.1 times in 2021. InvoCare has $450m in debt facilities with about $250m currently drawn. To assist with reducing the leverage ratio, InvoCare issued two share purchase plans to raise $86m in 2019 and $271m in 2020. Both raisings were issued with the intent of increasing Balance Sheet strength, particularly the $271m raising in 2020 at the beginning of the COVID pandemic.

The Protect & Grow Strategy, now referred to as the Network & Brand Optimisation program (NBO), as well as the negative impact of COVID has resulted a large reduction in earnings over the last few years. We can expect however, to see strong growth over the next few years, as capital expenses begin to subside and more customers are attracted to the new and improved facilities, as well as from a reduction in COVID restrictions.

Shine Justice: Shine Justice has been diversifying its revenue over the last five years. In FY17 70% of revenue was from personal injury cases, now, in FY21, 46% is from personal injury, whilst the remaining 54% stems from New Practice Areas such as, abuse, disability, asbestos, medical law, class actions, employment, and private client services.

Vita Group: Vita Group recently announce the pending sale of its Information and Communication Technology (ICT) business to Telstra, after Telstra had made it known it intended to take back complete ownership of all Telstra branded stores currently operated by third parties, such as Vita Group. This was originally due to take place in 2025, when the current contract between Telstra and Vita Group expired. Since this announcement, Telstra has agreed to purchase the ICT segment, which includes the Sprout brand, from Vita Group for $110m, which is equivalent to about $0.66 a share. Vita intends to retain about $35m to fund growth in the Artisan Aesthetics Clinics business, with the remaining funds to paid out to shareholders.