

Wilson Asset Management

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How to find unloved stocks

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About us

Independent boutique fund manager

- Manager of six LICs and over \$2 billion in shareholder capital for 48,000 retail shareholders
- Eight investment professionals with combined investment experience of more than 100 years
- Proven investment approach
- Committed to philanthropic and advocacy initiatives



Winner of the Listed Investment Companies category at the Professional Planner | Zenith Fund Awards 2014, 2015 and 2016

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Geoff Wilson
Chairman
& Portfolio Manager



Kate Thorley
Chief Executive Officer



Chris Stott
Chief Investment Officer
& Portfolio Manager



Matthew Haupt
Portfolio Manager



Martin Hickson
Head of Trading



Oscar Oberg
Senior Equity Analyst



John Ayoub
Senior Equity Analyst



Tobias Yao
Senior Equity Analyst



Martyn McCathie
General Manager



James McNamara
Head of Corporate Affairs

Advantages of small and mid-cap stocks



Under-researched
by the investment
community



Lower liquidity,
meaning high
volatility and the
potential to find value



Lower profile



Small companies
tend
to grow at a faster
rate than their larger
peers



Fewer professional
investors, leading to
less efficient pricing



Greater possibility
of corporate activity



More entrepreneurial
and agile

How to find unloved stocks

Media
Newspapers
(e.g. AFR, WSJ,
The Australian)
Internet
TV
Radio

Industry players
Other fund
managers
Brokers
(occasionally)
Director buying
Substantial
shareholder
notices

Price
movements
Up & down

Word of mouth
Talk to
competitors &
sell-side analysts
Do your own
research
Feedback on
companies from
friends & family

Questions to ask

- ***Who are the shareholders?***
- ***Do the big institutions own shares? (No big institutions = positive)***
- ***What in your eyes are they key swing factors/drivers in the business?***
- ***Is there a catalyst? An action or event that will impact on the market's perception of a company and move the share price***
- **Types of catalysts:**
 - Earnings surprise
 - Structural change in an industry
 - Management changes
 - Asset sales
 - Acquisitions
 - Dividends

How to identify catalysts

A catalyst can be identified after achieving a clear understanding of how a company makes money; what factors impact on its profitability and how changes in these factors lead to changes in profitability.

An investor needs to:

- Understand the profit drivers for a company to identify an earnings surprise.
- Be aware of structural changes in the economy to identify their impact on company profit.
- Be able to assess the ability of management.
- Understand the company's industry position
- Understand the profit or valuation impact from an asset sale.
- Calculate the impact on a company's Earnings Per Share (EPS) from an acquisition.
- Understand the value the market pays for franked dividends.

Company meetings

Meeting with companies is critical to...

- **Developing trust (or not) in management**
- **Developing clarity (or not) around the financial statements or accounting**
- **Developing a detailed understanding of how a company makes money**
- **Learning about the company's strategy**
- **Developing an extensive understanding of a company's industry**

Company meetings

- **The greatest correlation between share prices and any other variable is EPS growth.**
- **It is vital we know our companies and their management as this gives us a competitive insight into what motivates people and what drives their behaviour.**
- **Meetings and interviews with company management give us a deep insight into the ability of management and the growth dynamics and strategy of the company.**
- **When we buy shares we become owners of companies rather than investors in stocks.**

Unloved stocks that worked



(ASX: SIQ)

**Bought in July 2014 at
\$1.56**

**Sold in October 2016 at
\$5.92**

About

- Salary packaging and novated lease business.
- Listed competitor McMillan Shakespeare provided good insight into industry dynamics
- Demand for the IPO was weak. Five months after listing, the stock was down 24%.

Catalyst

- Renewal of major client contracts in the period post the IPO and acquisitions.

Now

- Business continues to acquire and integrate acquisitions.
- The stock is now a “market darling” small cap.

Unloved stocks that worked



(ASX: BKL)

**Bought BKL in March 2015
at \$47.**

**Sold in February 2016 at
\$169.**

About

- Leading natural health business.

Catalyst

- Demand for the product into China
- Major competitor Suisse running into financial issues
- New management
- Chairman selling shares

Now

- Share price has retraced back to \$90.
- Distribution channels into China remain dynamic
- As such, the companies earnings have been under pressure in the last year.

What we like:

Southern Cross Media Group Limited (ASX: SXL)

Background

- Leading Australian media company with radio and TV assets
- Improving financial metrics
- New CEO
- PE: 10.7x

Catalysts

- Australian media reform
- Industry consolidation
- Radio market growth
- Improving balance sheet



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