



## IML SMALL-MID CAP WEBINAR SUMMARY – NOV 24

### Market performance and outlook

Australian equity markets have shown resilience in 2024, despite initial uncertainties surrounding the economic outlook in North America and Australia. Reporting season delivered relatively robust results, with most companies reporting in line with expectations. Notably, the technology sector has seen significant growth, driven by innovations in AI and other advanced technologies. Interest rate cuts globally, albeit not yet in Australia, have further supported equity valuations by encouraging cash flow from fixed interest to equities. This has resulted in strong equity returns for investors, particularly in the US.

In Australia, the economy has been bolstered by strong government expenditure and significant population growth post-COVID-19. These factors underpin the economic outlook, despite flat GDP per capita figures. The geopolitical landscape remains volatile, adding an element of risk, but Australia's robust export earnings and population growth provide a solid foundation for continued economic strength.

### Investment themes

The defence sector is one we view positively. Companies like Electro Optic Systems (EOS) and Austal are well-positioned to benefit from increased defence spending. Also healthcare, where the ageing population and technological advancements are driving demand for companies such as Integral Diagnostics and Australian Clinical Labs (ACL). Sigma Healthcare has been a great beneficiary of this trend and of course the merger with Chemist Warehouse has seen its share price appreciate significantly.

The small cap sector has performed well this year, with the index being up mid-20% over the past 12 months. However despite these gains the small cap sector is still lagging the large cap sector in performance, so we believe there is still good value in small caps and plenty of opportunity for future growth. We are continuing to find high quality stocks trading at good valuations to buy.

### Stocks in focus

- **Austal:**
  - A leading shipbuilder for the Australian military and a prime US defence contractor.
  - It is benefitting from a record order book and significant contracts, including a \$450 million grant from the US Department of Defense to build new facilities in Alabama.
  - Despite recent share price gains, Austal trades below net asset backing, offering potential for future growth.
- **Hansen Technologies:**
  - Global provider of billing and customer care software, particularly strong in the energy and communications sectors.
  - Experiencing accelerated organic growth driven by the complexity of modern energy networks and smart metering.
  - Recent acquisition of PowerCloud positions Hansen for growth in Germany.
  - Trading at 15 times price to free cash flow, a significant discount to ASX-listed enterprise software peers.
- **Kelsian Group:**
  - A major player in the bus transport sector with long-term, inflation-protected contracts.
  - Has underperformed this year, mainly due to higher than expected capital expenditure on its legacy marine and tourism business.
  - IML believes the sell-off presents a buying opportunity, with a focus on its core operations in Australia and the US.
  - Trading at a compelling valuation with potential for re-rating as capital allocation improves.

## Outlook for 2025

Looking ahead to 2025, IML anticipates continued volatility, driven by geopolitical uncertainties and potential interest rate movements. However, the team believes that the small-cap sector offers significant value and opportunities for discerning investors. M&A activity is expected to remain a key theme, with private market multiples often exceeding those of listed small-cap stocks, suggesting potential takeover opportunities.

IML remains committed to delivering strong capital growth while ensuring downside protection and lower volatility. Their disciplined focus on quality and value, combined with active ownership, has consistently delivered robust returns with reduced risk. IML believes the small to mid-cap sector offers fertile ground for investment, driven by favourable macroeconomic trends and undervalued stocks. IML's expertise and disciplined approach continue to provide investors with a compelling risk-adjusted return profile, underscoring their reputation as a leading manager in this space.

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