MEREWETHER CAPITAL

Merewether Capital Inception Fund Performance Summary (at 31 October 2024 net of fees and expenses)					
1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Since Inception*
3.54%	9.25%	27.39%	42.85%	17.24%	-3.82%

Indicative performance is reported net of all fees and assumes reinvestment of distributions. Past performance is not a reliable indicator of future returns. * Inception Date 26 November 2021

Dear Investor,

The Merewether Capital Inception Fund (the “Fund") began the month with a unit price of $0.9289 and ended the month with an indicative unit price of $0.9618 for a 3.54% return.

Global markets generally lacked direction in October as the potential effects of the looming US election lingered. While I think both candidates are broadly positive for equity markets in the short term given their commitment to large fiscal spending, around the edges specific policies will impact certain businesses/sectors.

Within the Fund, the most material development came from **Xref** (XF1) who announced they had a received a non-binding indicative acquisition offer from employment giant SEEK at 21.8c, roughly a 60% premium to the 13.5c shares were trading at prior.

Despite the offer being non-binding and indicative, the market immediately priced in the potential takeover which makes sense in the context of partnership established earlier this year between XF1 and Certsy (a SEEK owned credential verification platform) to integrate XF1’s reference checking product and “explore opportunities to collaborate” in the future.

While our position in XF1 was a modest one (~2.5% prior to the acquisition announcement), we were fortunate enough to have added to the position recently after a better than expected second half FY24 performance. XF1 exited FY24 with $15m in annualised recurring revenue (up more than 200% on last year) and recorded positive cashflow in the fourth quarter of the year.

With the SEEK offer priced at roughly 3x annualised recurring revenue to XF1’s enterprise value we are currently holding our position with the view that the chance of a competing bid is reasonable. Perhaps I am coloured by our experience with intelliHR, another human resources technology business that received a takeover offer at a similar valuation before a bidding war emerged with the business finally being bought around 8x annualised recurring revenue.

Outside of XF1 we saw brief first quarter updates from a handful of Fund holdings, mostly in conjunction with their AGM’s. **Austco Healthcare** (AHC) announced revenue in the first quarter was up 90% on last year, though benefiting strongly from the result of two acquisitions made at the back end of last financial year. However, even excluding these acquisitions organic revenue was up 16% and the contracted order backlog continued to grow despite the higher revenue, up to $51.1m compared to $46.2m at the start of the quarter.

SKS Technologies (SKS) announced first quarter revenue of $64.9m leaving them almost perfectly on track to achieve their FY25 guidance of $260m revenue. Management also confirmed a target profit before tax margin of 6%, leaving them trading on roughly 16x forward earnings. That is towards the upper end of SKS’s fair value range as a contracting based business, however I believe management has guided light on FY25 revenue with the chance they will come in above $260m with the earnings multiple coming down accordingly.

XRF Scientific (XRF) continued its steady profitable growth with first quarter profit before tax growing 15% on last year. Revenue fell 3% due to lower lithium prices (XRF pass on higher or lower input costs with a fixed margin) and some delays with shipments of capital equipment.

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If profit growth is maintained at the mid-teens level, XRF also trades towards the upper end of its fair value range (~20x earnings). However, management have called out a positive outlook for all divisions, with the potential for acquisitions to further boost growth.

Outside of the normal quarter-to-quarter lumpiness of cashflow, everything remained broadly on track for our companies still required to provide quarterly cashflow reports.

8Common (8CO) continued its steady growth in recurring revenue with a record $1.2m generated in the quarter, up 13% on last year. The business is hovering around cashflow breakeven with the focus remaining on the opportunity with Federal Government customers. The main negative from the update was a decline in users on the platform, however the subsequent jump in average revenue per user suggest those users were no/low revenue generating.

Change Financial (CCA) saw first quarter revenue grow 69% on last year driven by increased usage on their Vertexon payment processing and card issuing platform. Management re-iterated their guidance for 30% revenue growth over the full year, despite the strong first quarter likely to see them report ~50% growth with the roll-out to Unity Credit Union completed late in the quarter. I expect to see an upgrade at the half year results in February.

Like 8CO, **Global Health** (GLH) continued its steady growth in recurring revenue, logging $1.7m in the first quarter, up 12% on last year. Management guided to $7m in recurring revenue this year, which combined with expected customer on-boarding and support revenue should see the business EBITDA breakeven.

GLH incurred some higher than usual operating costs in the quarter as they shifted cloud data hostage from Macquarie Telecom to Microsoft Azure. Longer term Microsoft's investment in artificial intelligence on the Azure platform will be explored to see how it can be used in GLH's software suite.

Environmental/weather technology company **Aeeris** (AER) recorded its first contracted revenue quarter over $1m as they continue to execute on the increased regulatory scrutiny on climate risk exposure for large enterprises. Despite the $300k cash outflow for the quarter the business remains well capitalised (~$1.5m cash) to continue its growth plans.

Knosys (KNO) recorded a ~$250k cash surplus for the quarter driven by the receipt of their R&D cash tax offset payment. While KNO especially has lumpy cashflow due to two large enterprise customers who pay annually for their software subscription, I expect KNO to maintain its profitability of around ~$1m this year and continue to build its cash balance which can be used for strategic growth or shareholder capital returns.

After a strong year for the Fund, I remain very optimistic on the outlook for the micro and small cap sectors on the ASX. The market remains extremely bifurcated with companies who are in the markets favour trading well above any estimate of fair value, while companies experiencing operational issues or have a weak balance sheet are being completely ignored.

That creates the ideal market for investors who do the work and look past the short term. I suspect the best opportunities will come where investors are willing to accept a bit of extra risk that a business turnaround will be successful, or growth can be better than expected.

While it feels safe to invest with the herd and pay above reasonable valuations for businesses in the markets favour, we will continue to fish around in the ignored and unloved parts of the market and patiently wait for the market to see what we see.

Thanks for your on-going support.

Luke Winchester (Portfolio Manager)