

Jencay Australia Investment Fund

Quarterly report – 30 June 2025

JENCAY
capital

AFS Licence Number 402024
ACN 148810413

Performance

Returns are net of fees, exclude buy/sell spreads and assume reinvestment of distributions/income. Returns are annualised apart from the Latest Quarter figures.

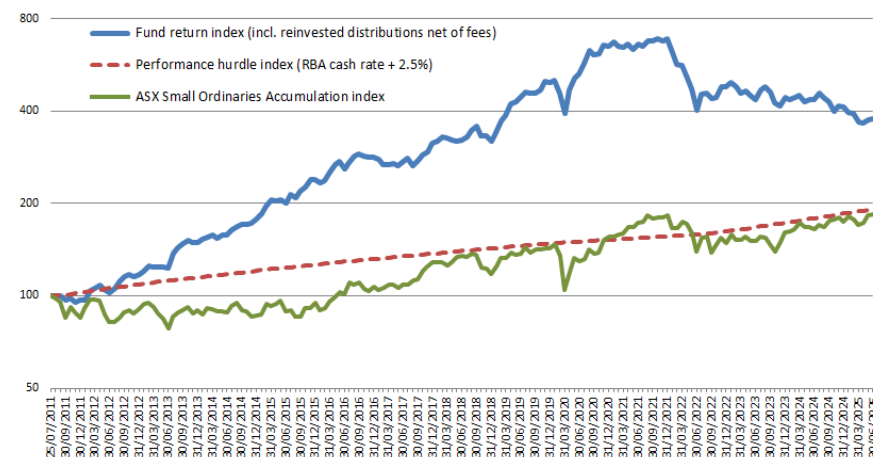
	Since inception p.a.	Latest 5 years p.a.	Latest 12 months	Latest Quarter
Fund total return	10.0%	(6.4%)	(13.0%)	2.8%
ASX Small Ordinaries Accumulation Index	4.5%	7.4%	12.3%	8.6%
Performance hurdle (RBA cash rate + 2.5%)	4.8%	5.0%	7.0%	1.6%

Unit Price

NAV per unit **AUD 2.0587***

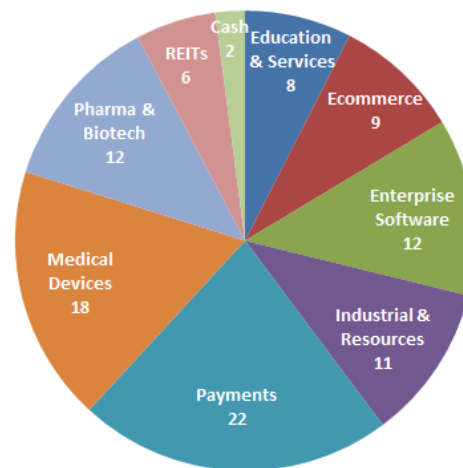
* The NAV per unit is a cum-distribution NAV (i.e. inclusive of the June distribution, which is yet to be finalised). Once the distribution has been calculated, ex-distribution redemption and application prices for 30 June will be produced and reflected on the website.

Performance Chart



The chart tracks the movement in value of AUD100 invested in the Fund at inception, relative to the Reserve Bank of Australia cash rate plus 2.5% (performance hurdle) and relative to the ASX Small Ordinaries Accumulation index. Returns are net of fees, exclude buy/sell spreads and assume reinvestment of distributions/income. The chart utilises a log scale on the vertical axis to reflect relative returns more clearly.

Fund Composition



Fund size: **AUD 97m**
Top 10 stock positions as % of overall portfolio: **59%**

The ASX dropped sharply in April following the imposition of the Trump tariffs but recovered strongly to finish well ahead for the quarter. Jencay was significantly less volatile than the overall market, barely dropping in April and then eking out a modest gain overall – perhaps an indicator that microcaps are now more defensive than the overall market following their abandonment. The biggest positive contributors in the quarter were Smartpay, Aroa Biosurgery and Urbanise. The biggest detractors included AI Media and Medadvisor.

Jumbo Interactive and AI Media exited the top 10 due to weak share prices (but remain core holdings) and were replaced by Urbanise (a stock that was last in our top 10 in September 2022 but remained in our portfolio throughout), and new top 10 position Orion Properties - a US REIT that we started buying 18 months ago.

Top 10 Stock Positions

Weight %	Name	Summary (recent developments in italics)
10	Smartpay	Leading operator of card payment terminals in New Zealand and challenger in merchant acquiring in Australia with the imminent launch of acquiring in New Zealand. <i>A scheme of arrangement has been entered into with Shift4 Payments, a global payments peer based in the US, at a price of NZ\$1.20 per share. If no superior offer is forthcoming we will likely vote against the deal which is less than 50% of Jencay's estimate of fair value.</i>
7	EML Payments	Provider of prepaid debit cards and payment solutions in Australia, North America and Europe. <i>We were surprised by the size and structure of a generous incentive package proposed for the Executive Chair.</i>
7	Aroa Biosurgery	Fast-growing challenger in soft tissue wound care and surgical scaffold products, with a superior tissue source (sheep forestomach) and proprietary processing technology that confer Aroa a cost and quality advantage over peers. <i>F25 results were in line with revised expectations. Revenue growth guidance for F26 of 10-20% seems very conservative. We provide a deeper dive into Aroa overleaf.</i>
6	Praemium	Praemium operates a market leading, modern wealth management platform in Australia that is taking share from the large, legacy institutional platforms. <i>Solid net fund inflows were reported in Q3 particularly in relation to their new comprehensive wealth platform - Spectrum. Director share buying continued.</i>
5	Cleanspace	Producer of innovative powered air purifying respirators for Industrial workplace safety. Significant losses were endured following a Covid boom, but a breakeven result is expected in F25 due to strong revenue growth combined with cost reductions over the last two years. Anticipated future revenue growth of 20%+ p.a. combined with cost discipline should produce strong profit growth over coming years.
5	Urbanise	Provider of market leading cloud native Strata and Facilities management enterprise SAAS (software as a service) in Australia and the Middle East. <i>Urbanise enjoyed a share price bounce and returned to our top 10 after concluding a strategic partnership with the National Australia Bank that entails an equity injection and joint development of a market-leading banking solution for strata schemes. The NAB partnership will assist in generating new revenue streams and can help accelerate market share gains.</i>
5	Tyro	Leading provider of merchant acquiring and payment services in Australia with significant share in the health, hospitality, and retail segments. <i>Tyro's well-regarded CEO announced his forthcoming departure, which is disappointing. The entry into two new industry verticals in partnership with well-regarded industry specialists i.e. Aged Care and Pet Insurance, utilise Tyro's peerless payments stack and add additional growth avenues.</i>
5	Orion Properties	US REIT focused on single tenant net lease suburban office properties. US Office properties have been severely impacted by post-Covid working habits and changing space requirements - slumping renewals, increasing vacancy and interest rates have conspired to pulverise earnings and share prices in the sector. Notwithstanding the current tough operating conditions, Orion's financial position remains healthy due to modest debt levels (circa. 1/3 rd of property book value) and continued positive cash generation. The share price is less than 20% of net book value, implying a cap rate of circa. 15%, indicating significant potential upside. <i>Orion received a takeover approach at a modest premium to the prevailing share price which we hope the Board will reject.</i>
4	3P Learning	Online learning software for school and home markets with products that include Reading Eggs, Mathletics and Mathseeds. <i>Directors have been buying shares on market and dividends are being considered for the first time.</i>
4	Clinuvel	Clinuvel's orphan drug Scenesse is a unique hormone replacement implant used to treat patients with erythropoietic protoporphyria (EPP), a rare skin disease that causes intolerance to light. Their IP is being utilised to develop drugs in adjacent areas such as Vitiligo, DNA skin repair and cosmetics. <i>Patient recruitment for their 1st Phase III Vitiligo trial has completed with results due in 2026.</i>

Aroa Biosurgery

Our recent quarterly reports have described the severe underperformance of stocks that fall outside of the indices (i.e. microcaps which are Jencay's focus) largely due to the ongoing shift from active to passive management. To help unitholders better assess the quality and upside potential of our portfolio, we will be providing more stock specific commentary today and in coming editions.

We're starting this series with Aroa, one of Jencay's top 10 stocks. Despite being a high-quality business with impressive growth, the market is overlooking this opportunity because its small size and limited liquidity exclude it from major indices. We started buying Aroa in June 2022 and it entered our top 10 for the first time in December 2022. Our average purchase cost is 69c vs. the current share price of 58c.

Description

New Zealand based Aroa is a leading innovator in the field of biological (as opposed to synthetic) soft tissue wound care products used in hernia surgery, diabetic foot ulcer treatment, tissue trauma etc. Their unique tissue source (ovine/sheep forestomach) and proprietary tissue processing methodology deliver a product that is clinically superior in wound-healing properties at a very competitive cost and price point. The founder, Brian Ward, is group Managing Director and holds 10% of the equity.

Competitive positioning

To date Aroa has focused almost exclusively on the world's biggest market, the US. Their US\$50m odd revenue represents market penetration of less than 2% of an estimated \$3b total addressable market – significant future runway exists.

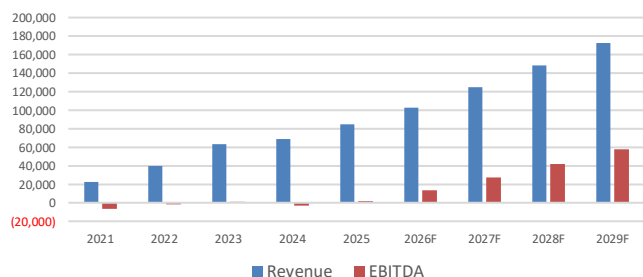
The tissue substitute market comprises synthetic products (either permanent or resorbable polymers) as well as biologics. Synthetic material can provoke infection and has more long-term side-effects but is generally cheaper. Biologic materials (reprocessed human or animal tissue) can be incredibly expensive but integrates more naturally with the human body and typically resists infection/rejection better.

The biggest players in the market include Becton Dickinson & Co, Integra, Organogenesis, Mimedx and Coloplast/Kerecis. The named competitors either suffer from higher costs/prices than Aroa, inferior product or both. Aroa's product is strong, resists infection and is priced competitively, even relative to some synthetic products. Their impressive growth since entering the US market in 2013 is a testament to their product quality and resilient management.

Aroa has a very active pipeline of new products in development including a unique, heavily patented surgical drain that assists in superior wound closure and healing post-surgery. The new product pipeline is currently not contributing to revenues and is therefore a free option at the current price.

Financial history and expectations

Revenue has grown at a 40% CAGR over the four years since IPO. To date the company has grown costs roughly in line with revenues to fund their extensive R&D programme and to build their US salesforce. Net cash on balance sheet of \$20m+ is more than adequate to fund Aroa to sustainable positive free cashflow which is expected within the next 18 months. The company now has sufficient scale and has therefore reached an inflection point with costs set to grow significantly more slowly than revenues, leading to accelerating profitability, as illustrated by the chart below comparing historical and forecast Revenues and EBITDA:



Source: Company accounts and Jencay forecasts. Amounts in NZD 000s

Valuation

Despite Aroa's impressive history of growth, product innovation, anticipated scale leverage and future growth, Aroa's share price of 58c is well below its July 2020 IPO raising price of 75c and 1st day trading price of \$1.40. It now trades on the following modest valuation metrics/ratios:

- EV/Sales – **2.3x** (based on F2025 actual revenue)
- Forward P/E (based on Jencay forecasts):
 - o 2026F **31x**
 - o 2027F **11x**
 - o 2028F **8x**
- Price/Fair Value: **less than 20% of Jencay's estimated fair value**

Aroa's modest valuation compares to the following ASX market darlings that trade on punchy EV/Sales and P/E multiples despite revenue CAGR that is equivalent to or lower than Aroa's:

Company	Market Cap	Sales	4yr Sales CAGR%	EV/Sales	F27 Fwd P/E	Comments
Hub24	6,670	366	41	20	49	includes acquired growth
Pro Medicus	28,911	185	30	177	130	all organic
Wisetech	36,450	1,118	25	32	54	includes acquired growth
Aroa	185	84	40	2	11	all organic

Source: Factset and Jencay – Aroa F27F P/E is based on Jencay forecasts, broker consensus for the others

Why is Aroa this cheap, particularly relative to the above fast growing market darlings? The following factors likely contribute:

- Over the last 18 months Aroa produced results that fell short of previous revenue and earnings guidance due to inventory movements within their supply chain and overly optimistic forecasts - the market is currently intensely focused on short-term performance ("beats vs misses" in the trading lexicon) to the detriment of long-term investment horizons and any miss relative to prior guidance is severely punished.
- Aroa's hernia portfolio (half of their revenues) is sold exclusively via US distributor, Tela Bio. Tela Bio is yet to reach profitability and has disappointed the market relative to expectations on a few occasions. Despite the market's concern about Tela Bio, Aroa could step in or find an alternative distributor under a worst-case scenario.
- Aroa is yet to generate positive net profits or free cashflows which precludes some funds from buying – its maiden profit is expected in the current financial year. If we take out R&D costs, Aroa would have been profitable every year since 2022 but chose to invest in its future. Risk is therefore lower than appears at first glance.
- Due to Aroa's relatively small market cap, it is not included in any meaningful index and therefore ignored. The market is highly inefficient at present – many of the biggest stocks go up regardless of their fundamental performance whilst the opposite applies to smaller stocks.
- The ASX Healthcare sector in general has significantly underperformed – over the last five years the ASX 300 healthcare index is flat compared a 50% gain for the ASX 300 overall.
- Valuations for the three comparators above appear stretched, highlighting the gulf between large cap and microcap valuations.

Conclusion

The shift from active investing to indexing is causing large segments of the market to sell or ignore gems like Aroa – which are trading at bargain prices – and instead to focus on the biggest stocks. An example is Commonwealth Bank, a low-growth behemoth that trades on eye-wateringly high valuation multiples.

As long as the market is prepared to gift us opportunities like Aroa, we will continue buying. Whilst it is hurting performance in the short term, we are almost certain to benefit in the long term.

Fund Key Features

Investment strategy	The Fund seeks to generate attractive risk-adjusted returns over the long term and protect capital by buying securities trading significantly below fair value (bargains) and holding cash on deposit when bargains are not available in the market. The Fund has a small cap bias in accordance with the Manager's opinion that most bargains are found amongst small caps.
Investment universe	Securities publicly traded on a recognised securities exchange and cash to be held on deposit
Investment restrictions	<ul style="list-style-type: none">Maximum of 40 individual securitiesMaximum exposure of 15% to a single securityNo direct short positionsNo leverage at Fund level
Base management fee	1% p.a. excluding GST. Management Expense Ratio 1.025% p.a. inclusive of non-recoverable GST.
Performance fee	20% of returns above the Hurdle rate subject to a high-water mark. The Hurdle rate is the Reserve Bank of Australia Cash Rate Target plus 2.5%.
Redemption notice	6 months' redemption notice required otherwise 5% early exit penalty to be applied
Custodian & Administrator	Apex Fund Services Pty Ltd (head custodian and Administrator) and JP Morgan Chase Bank N.A. (sub-custodian)

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