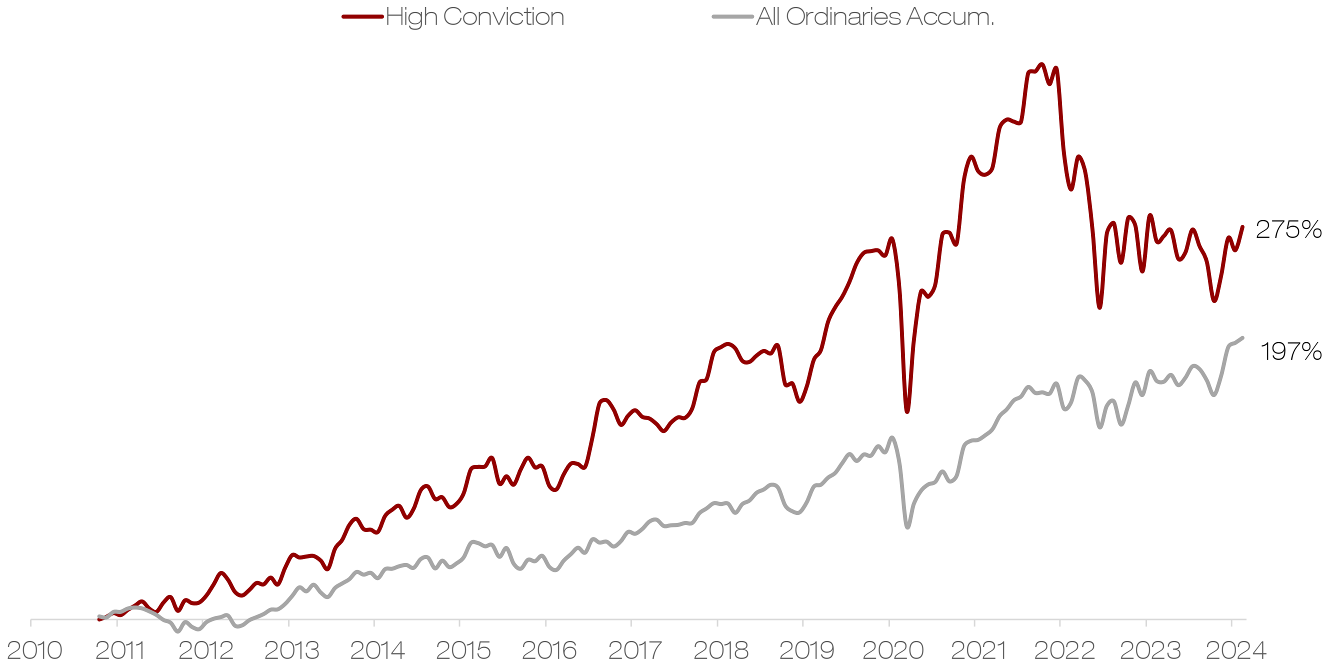
Endeavor Asset Management

High Conviction

February 2024

Performance	Month	Quarter	One Yr	2 Yr pa.	3 Yr pa.	5 Yr pa.	10 Yr pa.	12 Yr pa.	Inception
High Conviction	4.5%	10.1%	2.8%	-3.3%	-3.1%	5.9%	8.1%	9.6%	275.1%
All Ordinaries Accum.	1.2%	9.9%	11.3%	8.6%	9.1%	9.0%	8.2%	9.5%	197.2%
Outperformance	3.4%	0.2%	-8.5%	-11.9%	-12.1%	-3.1%	-0.1%	0.2%	77.9%



Portfolio Factsheet

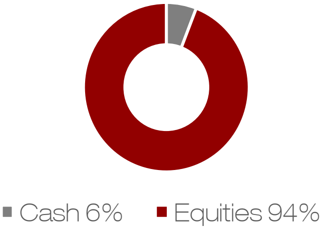
Top Contibutors

Aussie Broadband Limited
Altium Limited
Zip Co Ltd
Wisetech Global Ltd
Polynovo Limited

Top Holdings

Solvar Limited
Polynovo Limited
Aussie Broadband Limited
Life360 Inc.
Whitehaven Coal

Cash Weighting



Bottom Contibutors

Symbio Holdings Ltd
Whitehaven Coal
Articore Group Limited
Neuren Pharmaceut.
Impedimed Limited

Portfolio Characteristics

High Risk
Unconstrained in ASX200
Unconstrained in Ex200
20-35 ASX Listed Equities
Unconstrained Cash
All Ords Accum. Benchmark

*Note: Performance of the strategy group is representative of individual client portfolios, although performance can differ due to inherent differences between clients' portfolios such as initial entry timing, legacy holdings or requested stock exclusions. Performance measured is after fees, taxes and franking credits. Monthly performance figures include an accrual for fees charged quarterly.

Portfolio Commentary

The High Conviction Portfolio returned 4.5% in February, which brings the 10 year return to 8.1% p.a. The All Ordinaries Accumulation Index returned 1.2% which brings the 10 year return to 8.2% p.a. Since inception the portfolio has returned 275% after fees compared to the benchmark 197%.

February was all about the first half reporting season in Australia. The market reached a new high, and on an aggregate basis the economic growth evident supports the valuations in the market, which are above historical averages.

Stock Commentary

Altium (ASX: ALU) received a takeover bid at A$68.50 per share, putting the company's valuation at A$9.1 billion - a significant milestone for investors. Our initial investment in ALU was made at $6.30 per share in 2016, and while this acquisition marks a rewarding achievement, it also feels bittersweet as we part ways with one of the best companies on the ASX. The offer, reflecting a 31% premium over the last trading price, underscores the management team's world class ability to execute. Throughout our holding period, Altium compounded its revenue by over 20% per annum, while maintaining strict cost controls, increasing profit margins, and achieving an outstanding 90% return on invested capital. We congratulate the Altium senior executives on their journey so far, and we look forward to finding the next one for the portfolio.

Following the completion of the Symbio takeover, we opted to convert our holdings entirely into Aussie Broadband shares which rallied 21% in February. Aussie Broadband has demonstrated robust subscription growth and improved return on investment, as evidenced by an operational cash flow of $41 million in the first half of 2024. With the acquisition now finalized, the combined entity has $1.3 billion in revenue and $160 million in EBITDA, positioning it as the fastest-growing telecommunications company on the ASX, with organic earnings increasing at a rate of 20% p.a. Looking ahead, we anticipate further subscription growth and strategic acquisitions, bolstered by approximately $200 million in reserves, which could potentially add another 30% to earnings. Additionally, the FY24e EBITDA forecast has been revised to the upper end of the guidance, reflecting improved subscriber acquisition rates, margins, and operational leverage. The recent takeover offer for Superloop demonstrates their aggressive approach, creating an entity with 1.2 million subscribers, surpassing Optus on the NBN, with revenues of $1.8 billion and EBITDA of $260 million. We expect substantial upside anticipated for the share price this year.

WA1 is a groundbreaking niobium discovery in Western Australia. Since our initial investment at $10 per share in February, it has returned 29%. Niobium is a critical mineral, essential for advancing a low carbon economy, highlighting the significance of WA1's role in this sector. The stock trades significantly below our internal Discounted Cash Flow (DCF) valuation, suggesting substantial upside potential for our investors.

The ZIP share price increased another 28% in February, which brings the return to 134% since we first invested in December. As we mentioned in previous newsletters, we were initially sceptical, viewing it as an overvalued entity dependent on low interest rates, but our perspective shifted due to the significant transformation over the last two years. By exiting non-core markets, launching new products, cutting operational expenses, and enhancing unit economics, ZIP not only achieved cash profitability but also is on track for strong earnings growth. This turnaround is noteworthy. The first half of 2024 revealed impressive growth in the U.S., improved net interest margins, enhanced unit economics, and increased cash leverage. Notable achievements include a cash EBTDA of $31 million, up $60 million year-over-year, and expectations of continued growth driven by higher margins in ANZ, leading transaction volumes in the USA, stringent cost control, and a favourable environment for transaction volume growth in the U.S. Additionally, factors such as the Klarna IPO, peer margin upgrades, visibility on substantial cash EBTDA, and a $7 million boost for every 25bps cut in interest rates contribute to our positive outlook. On numbers slightly more conservative than management's expectations, market DCF valuations are close to $2/sh. ZIP remains a high weighting in the portfolio, even after taking profits during the month.

Logistics software business, Wisetech Global (ASX: WTC) increased by +29% in February following an impressive set of 1H24 financial results. More than half of the top 25 largest freight forwarding businesses globally are using WiseTech's CargoWise offering. The major positive surprise in the 1H24 result was the better-than-expected EBITDA margins and associated upgrade to FY24 EBITDA margins of 44-46% (from 44%-45%), implying 2H24 margins will be >46% and longer-term EBITDA margins could be >50%. We're attracted to the combination of the core CargoWise product further penetrating the largest global freight forwarding businesses, as well as entering new US markets via acquisition such as US landside and intermodal logistics. As a result, opening the opportunity to cross-sell. Despite our positive long-term outlook for Wisetech Global and considering the business is currently trading on ~51x NTM EV/EBITDA (vs. 45x 5-year average and recent peak of ~53x in August 2023), we trimmed our overweight position during February.

Xero (ASX:XRO) increased by 15% during February. The High Conviction Portfolio originally invested in XRO in March 2020 at $62 per share and has exited and re-invested multiple times since then (e.g. exited at $95 per share in September 2020, re-invested at $72 per share in February 2023 and have held our position since then with the occasional selling for portfolio/risk management purposes. We were convinced that over the long term the sticky, high-quality recurring revenue would eventually translate to sustainable and growing free cash flow. FY23 was the inflection year for FCF increasing to ~$121m from $12m in FY22 and $68m in FY21. The consensus view is now that FCF will continue to grow in the years ahead demonstrated by FY24 consensus FCF being ~$226m growing at a CAGR of 28% to $459m by FY27. XRO presented its inaugural investor day during the month introduced its FY25-FY27 focus, being its '3x3 Strategy' consisting of its main offering (Core Account, Payroll and Payments) in its 3 core geographies of Australia, UK and USA. Furthermore, XRO will open up adjacent revenue streams in its 3 core markets whilst allowing for 'profitable growth' in its non-core markets (e.g. NZ, Canada and South Africa). Additionally, The company made significant investment into bolstering its senior leadership team. XRO has introduced its next stage of artificial intelligence adoption with GenAI where by XRO can adopt it internal purposes (e.g. software coding) as well as customer-facing purposes such as billing reminders and other uses. Lastly, XRO concluded by reiterating FY24 opex guidance to be ~75% of operating revenue (noting that 1H24 exited at a higher rate of 79% of revenue, implying a lower 2H24 rate and potential exit-run rate into FY25).

Shares in leading wound care company Polynovo (PNV) increased 20% over the month. The first-half result was another demonstration of NovoSorb's product quality, with strong sales growth (+60% pcp) that tipped the Company into positive NPAT territory. Sales growth has exceeded market expectations in both US and the rest of world (RoW), particularly in the RoW which derived 25% of first half sales. PNV's dominant market position, continued global sales traction and well controlled costs warrant shares to trade a material premium to peers.

Entries and Exits

We took a position Bellevue Gold (BGL) after identifying a potential discrepancy between consensus expectations and reality. BGL recently started up their high-grade gold mine and are on the cusp of generating strong free cash flow. After further validating our analysis with a meeting with management and a DCF valuation, we bought an initial position at $1.36/sh. For BGL to trade on an 8% FCF yield FY25e, shares should be over 50% higher versus the close of February. Our BGL shares closed the month 13% higher versus our cost.

We exited coal producer Stanmore at $3.90 per share, which then declined 13% after our exit, and switched into Metals Acquisition Corporation, a copper producer, at $17 per share, which increased 10% after our entry. MAC, listed on the ASX with a market capitalization of $1.3 billion and an enterprise value of $1.2 billion, stands out as the only pure-play copper producer on the exchange. It operates the highest grade copper mine in Australia, located in NSW. The IPO raise that was offered at a 10% discount to its US-listed shares. Under the guidance of a highly experienced management team, MAC is poised for significant organic and inorganic growth opportunities, demonstrating strong alignment with shareholder interests. Since acquiring the project, MAC has significantly reduced its cash costs, leading to our projection that it could generate A$250 million in gross profit for FY24E based on current spot prices.

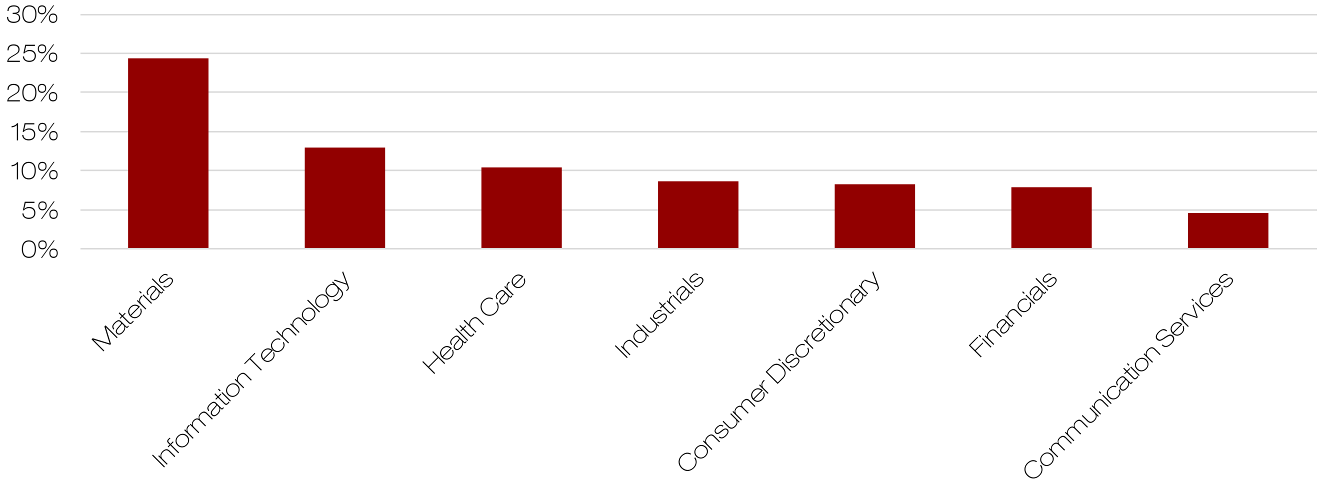
Outlook

As we progress into the year, our outlook for the portfolio remains cautiously optimistic. Our focus remains on navigating the forever changing market dynamics. Inflation has returned to a manageable level, but we are watching closely for signs of a resurgence.

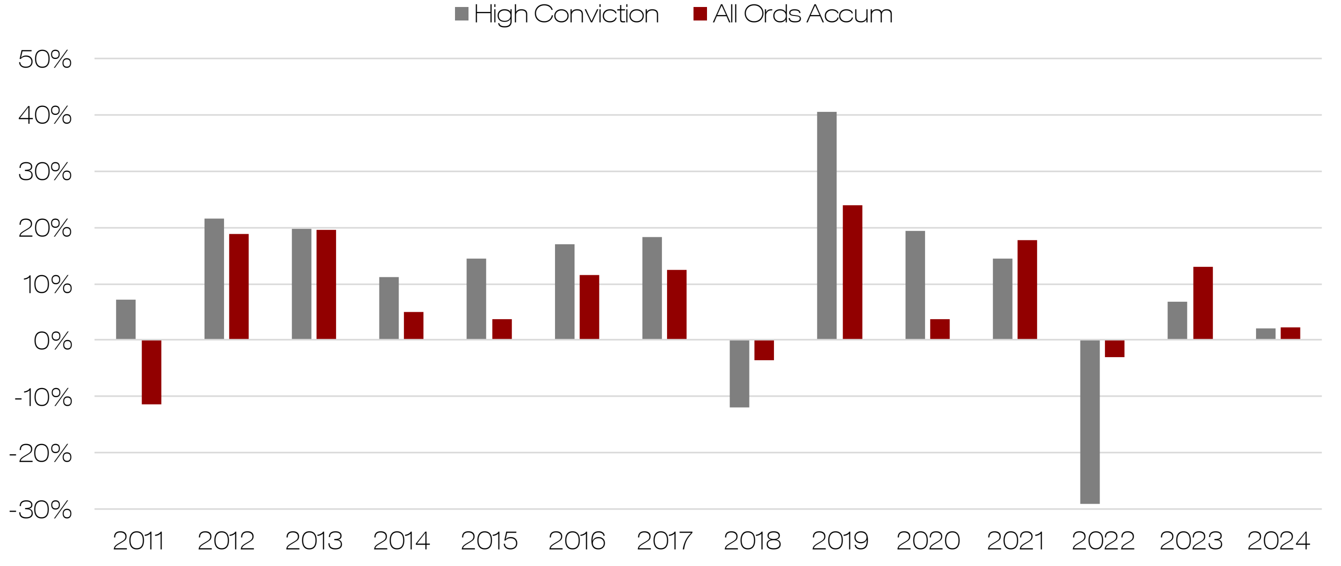
We now have a high cash weighting, not due to a pessimistic outlook, but rather due to profit taking in companies that have met or surpassed our valuation targets. We have a number of new and exciting opportunities that will enter the portfolio in March. We look forward to updating you next month.

Portfolio Factsheet

Industry Exposures



Annual Return*



Investment Philosophy

Bottom up, fundamental focused investor with a 3-5 years time frame

Focus on under owned, under researched businesses

Returns can be maximized through fundamental industry and company research combined with active portfolio management

Small cap bias where inefficiencies in the market are the greatest

High conviction concentrated approach allows portfolios to hold only high conviction ideas

When investing in companies Endeavor take on the view of being the owner of the business

A concentrated portfolio with a flexible mandate

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