MEREWETHER CAPITAL

Merewether Capital Inception Fund Performance Summary (at 30 April 2023 net of fees and expenses)					
1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	Since Inception*
0.55%	-3.88%	-3.40%	-20.03%		-32.41%

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 $0.6722 and ended the month with an indicative unit price of $0.6759 for a 0.55% return.

Despite the usual macroeconomic concerns lingering, markets globally climbed the “wall of worry” in April. Generally it feels as though the expectation within markets is that economic conditions are approaching a cliff but overall data remain remarkably resilient. Tourism and travel exposed businesses across the market are upgrading their financial guidance as conditions remain stronger than expected. While retailers aren’t necessarily upgrading guidance, trading updates in that sector also are resilient in the face of expectations for the consumer to be significantly weaker.

I’ve met with many different management teams over the past few months and while the sentiment varies, the overall feedback from CEOs were that conditions were generally fine.

For our companies exposed to mining and construction (**Laserbond, Vysarn** and **XRF Scientific**) the cycle remains very strong. Each of those management teams said they can’t see a peak in the cycle yet with order books remaining strong and customers committed to growth in their capital expenditure.

The feedback from our two companies most exposed to the semiconductor chip shortage (**Austco Healthcare** and **Rectifier Technologies**) was that things are improving but are far from back to normal. I came away from meetings with both companies with a far greater respect for the results they have achieved since Covid given the issues they have faced.

The one space where CEOs were a bit more muted were our tech holdings (**Xref** and **Prophecy International**) where there were concessions that conditions had become tougher over the last year. The share prices across the space have been battered on that outlook but the feedback from those CEOs were that despite things slowing down (from a period where many companies were reporting triple digit growth), conditions are not dire and they expect growth to continue albeit at a slower rate.

April brings the quarterly cash reporting for micro caps, plus many businesses releasing quarterly trading updates meaning we had a busy month for news across the portfolio.

XRF Scientific (XRF) continued its stellar operational execution through the third quarter, with revenue growing 43% and profits growing 30%. Those growth rates are in line with the first half of the financial year and leaves the business on track to achieve $8-9m profit for the full year.

The share price has had a fantastic run over the past year and the valuation has become very stretched for a business that is cyclically exposed. We have done well not succumbing to selling any shares so far but with the forward valuation climbing to 18-19x earnings, we couldn’t resist the temptation to take profits from our largest position.

XRF remains a meaningful position but there is opportunity now to redeploy some capital into positions that we believe offer better risk reward over the medium term.

Prophecy International (PRO) released a third quarter update which alleviated the concerns which emerged from their half year report in February.

In the February report, I noted the $3m cash loss over the half was the main cause for alarm, despite the fact management assured the business would be cash flow positive over the full year given the lumpiness of cash collections.

True to their word, the third quarter produced $3m in cash flow and brings the company to breakeven for the year to date and is expected to remain that way through the fourth quarter.

As I mentioned before, growth has slowed for the business but recurring revenue has grown 16% over the year so far, and the company is positive on the pipeline they have developed and are awaiting decisions on several large tenders. With a $45m market cap, $13m in cash and breakeven with $21m in recurring revenue, investors aren't taking much risk to see if the business can execute on the potential in front of it.

SKS Technologies (SKS) had a solid quarter, generating $900k in positive operating cash flow and guiding to $90m revenue for the full year which would be over 30% growth on last year. Commentary from management was positive, they are seeing the fruits of their labour from the last few years to expand geographically and into new verticals such as data centres.

Aeeris (AER) continues to grow steadily with recurring revenue up by 28% in the year to date while remaining roughly breakeven. The business has been putting a platform in place over the last year to prepare for the full commercial push for their Climatics software. There is a swelling regulatory push for enterprises to disclose their exposure to physical climate risk and AER's solution offers software that complies with the reporting obligations from APRA and ASIC to suit.

8Common (8CO) also continued to execute on their growth plans, winning further Federal Government clients and taking another step closer to being cash flow positive.

There was a concern that the NSW Department of Transport churned away to a competitor, however despite being a large client, they were very low revenue per user and were only marginally profitable. The fourth quarter historically is 8CO's strongest and I expect this coming one will be the largest in the company's history, given the record backlog and a rush to onboard clients before the end of the financial year.

Global Health (GLH) was another position that took a step towards being cash flow positive as they have rationalised their cost base and continue to implement their clinical software solutions to customers. Staffing shortages in the healthcare space are starting to abate meaning the company can execute on its sales pipeline more efficiently, highlighted by professional services and implementation revenue increasing 79% in the 9 months prior to March 2023.

The only disappointing update in the month came from **CPT Global** (CGO). After reporting a positive first half result, the IT services company disclosed a very sharp deterioration of revenue in the third quarter led by the US segment where major banking clients deferred project decisions due to the potential US banking crisis.

Commentary from management is that the sales pipeline has since recovered but due to the three-month delay, the business will report a loss in the second half of the financial year. I met with CEO Luke Tuddenham at a conference during the month and it was made clear that the issues were only temporary and management are confident in the on-going growth of the business and new strategies to drive them deeper into their existing blue chip customer base.

As always, if you ever have any questions about the Fund or its holdings, please call me on 0423 510 004 or email luke@merewethercapital.com.au

Thanks for your on-going support.

Luke Winchester (Portfolio Manager)