



**Gresham House**  
*Specialist asset management*

# Gresham House Strategic plc

(GHS.LN)

**For professional investors only**

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January 2021



# IMPORTANT INFORMATION

- The value of the fund and the income from it is not guaranteed and may fall as well as rise. As your capital is at risk you may get back less than you originally invested
- Past performance is not a reliable indicator of future performance
- Funds investing in smaller companies may carry a higher degree of risk than funds investing in larger companies. The shares of smaller companies may be less liquid than securities in larger companies
- You should note that your tax treatment in relation to any investments will depend on your individual circumstances and may be subject to change in the future. Governments may change the tax rules which affect you or the funds in which you have invested

# WHY GRESHAM HOUSE STRATEGIC PLC?

*"It is my conclusion that the successful investor must have patience to wait for the right moment - courage to buy or sell when the time arrives - and liquid capital" - Benjamin Roth*

- Specialist equity fund targeting 2xMM (15% IRR)<sup>1</sup> over the medium term
- Differentiated strategy with concentrated and engaged approach
- Small-cap specialists with significant public and private expertise and resource
- Structurally overlooked part of market
- Proven team with a long, strong track record<sup>2</sup>
- Truly aligned Manager and Team with investment capacity to grow

1. MM - Money Multiple and IRR - Internal Rate of Return

2. See **Strategic Public Equity - Track Record** slide

# OUR TEAM



**Richard Staveley**

Fund Manager

- Over 23 years' experience in public equity and finance
- Previously at Majedie Asset Management, River & Mercantile Asset Management (Founder) and Société Générale Asset Management



**Tony Dalwood**

Fund Manager

- Started Gresham House Asset Management in 2015
- CEO of Gresham House plc
- 25 years' experience in public and private equity
- Previously CEO of SVG Advisers and SVGIM



**Paul Dudley**

Corporate Finance

- Over 24 years' corporate finance experience
- Previously at HD Capital Partners (Founder), WH Ireland, Sigma Capital plc and PwC
- Joined Gresham House in 2020



**Laurence Hulse**

Investment Manager

- Over 7 years' investment experience
- Previously at Rothschild as an intern in the M&A team
- Joined Gresham House in 2015

## Wider Strategic Equity team

105 years' combined experience

Adam Khanbhai  
Bevan Duncan  
Ken Wotton  
Brendan Gulston  
Steve Cordiner

Thomas Makey  
Maya Ward  
James Hendry  
Mackenzie Travers  
Henry Alty



# INVESTMENT COMMITTEE



**Tony Dalwood**

*Investment Committee Chairman*

- Started Gresham House Asset Management in 2015
- CEO of Gresham House plc
- 25 years' experience in public and private equity
- Previously CEO of SVG Advisers and SVGIM



**Graham Bird**

- Over 26 years' experience in public and private equity fund management and advisory
- CFO at Escape Hunt
- Previously at Gresham House and SVGIM



**Ken Wotton**

- Over 20 years' experience in AIM and other listed investments
- Fund Manager for Gresham House UK Micro and Multi Cap Income funds
- Previously at Livingbridge



**Tom Teichman**

- 30 years' experience in VC and banking
- Co-founder of The Garage
- Previously CEO of Gresham House Strategic plc (formerly Spark Ventures)



**Bruce Carnegie-Brown**

- Over 30 years' experience in private equity
- Chairman of Lloyd's of London
- Previously at Banco Santander, Aon UK Ltd, and Catlin Group Ltd

# WHAT IS STRATEGIC PUBLIC EQUITY?

*An alternative investment strategy that applies private equity investment processes to public companies*

Highly engaged strategy driving strategic, operational or management initiatives

Influential minority stakes

Targeting inefficient areas of public markets

Focus on intrinsically undervalued, cash generative companies.  
A “value approach”

Thorough due diligence to identify value creation catalysts

Concentrated & flexible mandate:  
up to 30% can be  
invested in unquoted

*Past performance is not necessarily a guide to future performance.  
Portfolio investments in smaller and/or unquoted companies typically involve a higher degree of risk.*

# PHILOSOPHY - VALUE & VALUE ENHANCEMENT

*We invest in companies at a discount to their intrinsic value*

## Value creation

- Targeting profit recovery and accelerating earnings growth
- Opportunity for rating expansion
- Accelerated cash generation/de-gearing
- Catalysts for de-risking

### SPE equity portfolio weighted avg. metrics vs. indices

	GHS current	FTSE Small Cap
EV: Sales	1.1x	1.1x
EV: EBITDA	7.7x	6.6x
Net debt: EBITDA	-0.3x	3.5x

## Enhanced by

### Capital restructuring

Provide funding source for growth opportunities or to strengthen balance sheet.

### Board changes

Gresham House team or advisory network members to increase breadth or depth of boards.

### Corporate advisory

Provide advisory support on M&A, strategy, operations, and corporate culture matters.

### Advisory network

Leverage advisory network to introduce useful contacts for business development or as advisor.

### IR and PR improvements

Improve market communications and press coverage. Introduce additional brokers and/or research.

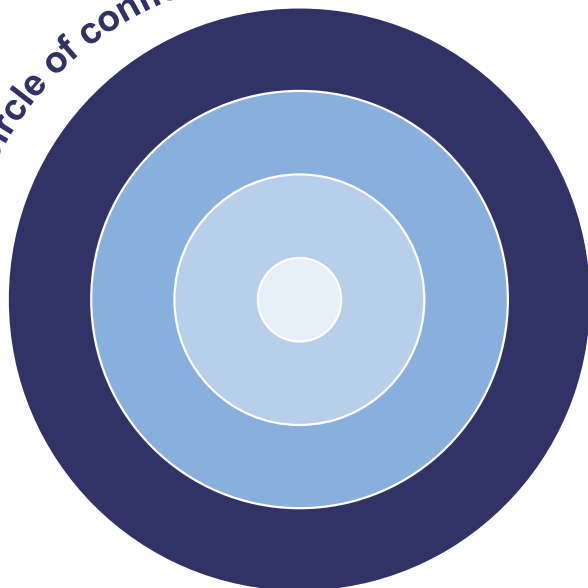
Table source: Bloomberg and Gresham House data as at 31 December 2020



# PROCESS - QUALIFYING OPPORTUNITIES

*A marriage of quantitative discipline and deals 'created' by the manager as a result of strong relationships*

Circle of confidence



## **'Smart entry point'**

- Self-originated or influenced transactional entry point
- Typically an equity issue (primary) or 'block trade' (secondary)
  - e.g. Van Elle, Bonhill

## **Clearly identified investment thesis**

- Valuation vs PE transactions, peer group and history, discount to intrinsic
- Capital structure and profit/returns improvement analysis
  - e.g. Augean, Flowtech Fluidpower

## **Engagement and influence**

- Significant shareholding
- Regular management and Board dialogue, pre- and post-agreed plan
  - e.g. Pressure Technologies, Northbridge Industrial Services

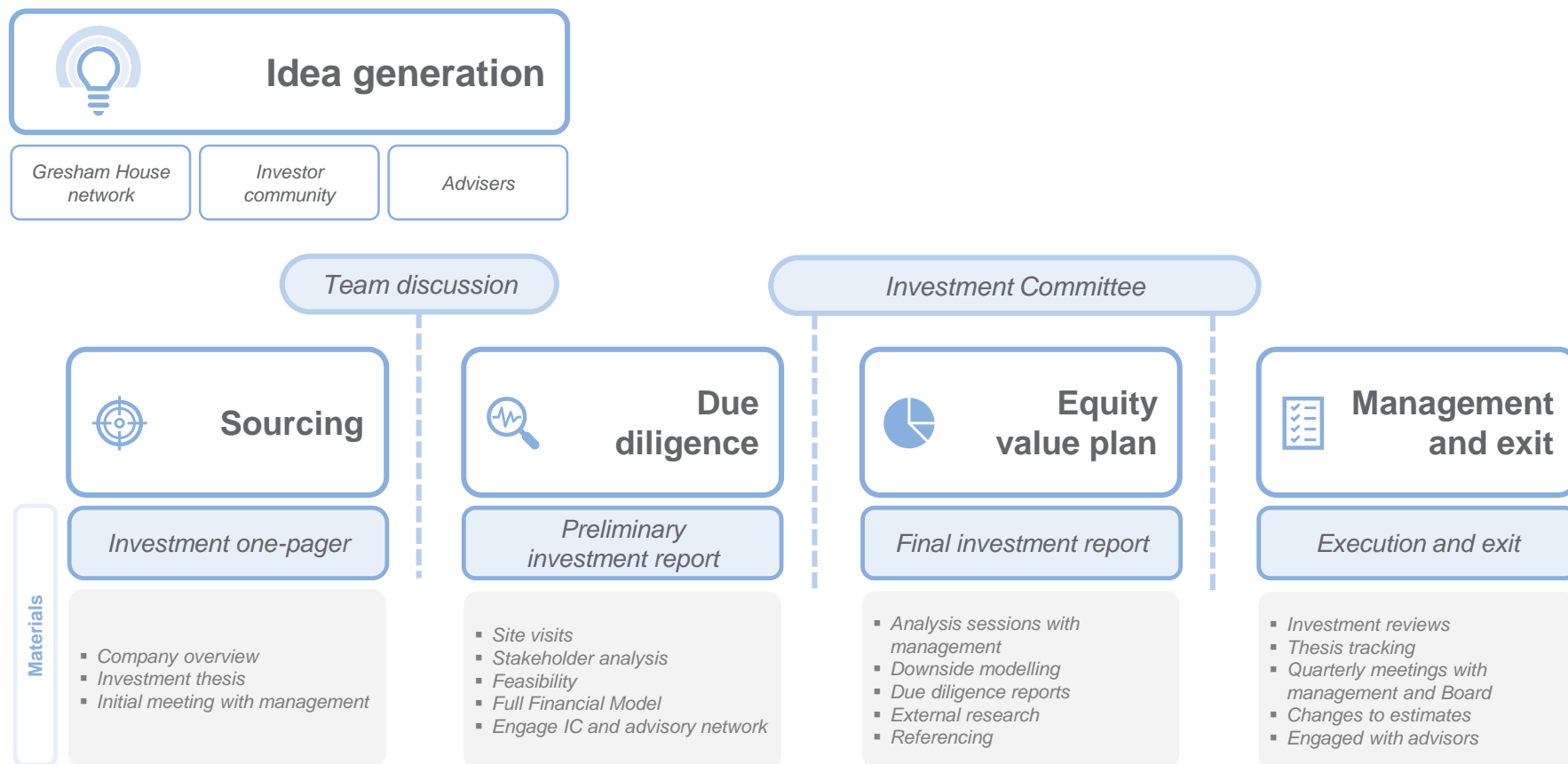
## **Catalysts and exit identified**

- Catalysts that can be supported by a strategic investor
- Often agreed with management teams pre-deal
  - e.g. IMI Mobile, Centaur Media

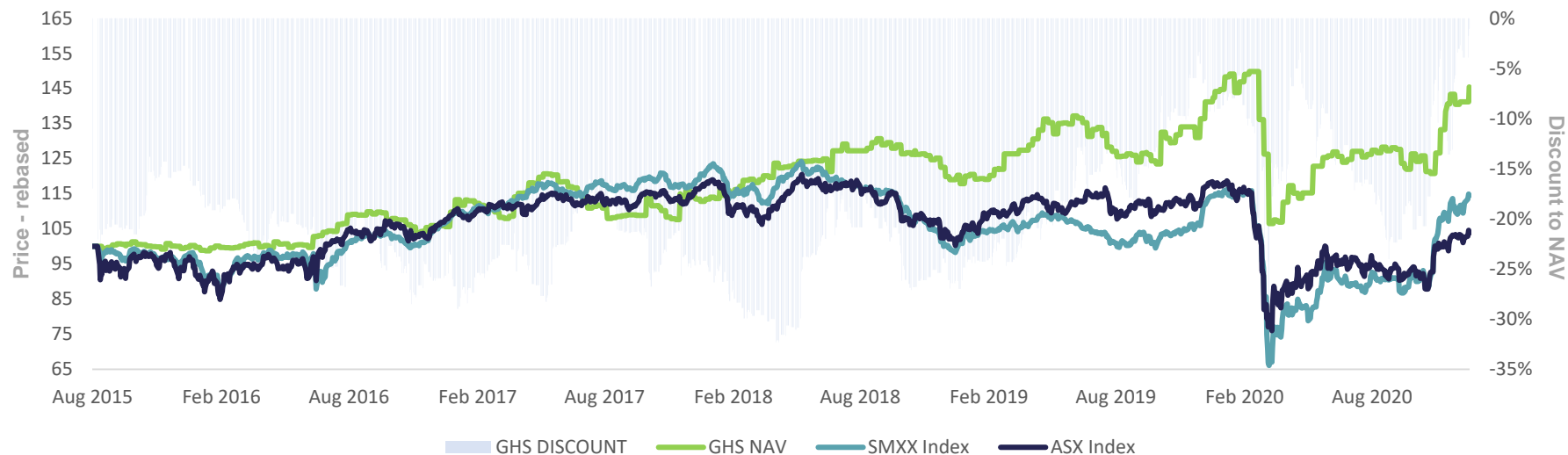


# PROCESS - MODELLED ON PRIVATE EQUITY

*Four stage investment process, with multiple touchpoints and Investment Committee input and oversight*



# PERFORMANCE



Source: Bloomberg as at 31 December 2020

Performance	Since inception <sup>1</sup>	1 year	3 year	5 year
<b>GHS NAV Total Return</b>	<b>54.3%</b>	<b>3.8%</b>	<b>34.9%</b>	<b>53.9%</b>
FTSE Small Cap Total Return	33.0%	1.7%	3.1%	34.1%
FTSE All Share Total Return	24.5%	-9.7%	-2.7%	28.5%
AIC UK Smaller Companies Sector Rank	-	7/26	4/27	11/26

Source: Bloomberg and AIC.co.uk (NAV TR) as at 31 December 2020, net of fees and costs

- ✓ Strong long-term track record
- ✓ Discount narrowed significantly under Gresham House
- ✓ Re-cycling returns into opportunity-rich environment

1. Inception 14 August 2015

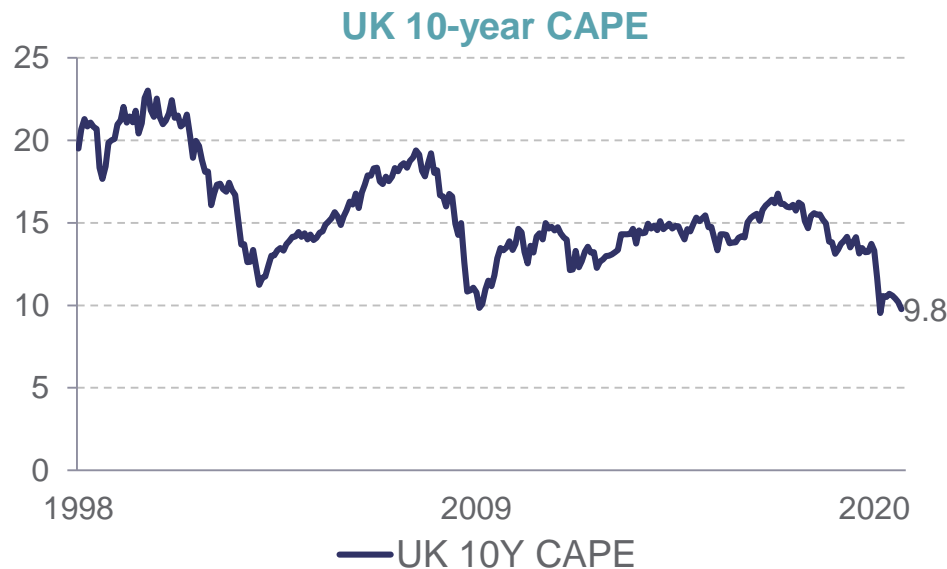
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*Portfolio investments in smaller and/or unquoted companies typically involve a higher degree of risk.*

# WHY NOW?

*'Taking the opportunities of a lifetime, in the lifetime of the opportunities'*

COVID-19 enabled significant deployment in '20 → Foundations for NAV acceleration laid  
Market focused on 'Growth and overseas markets → Many overlooked UK opportunities  
Small cap valuations in non-hype areas heavily discounted → A 'quintuple discount' for GHS  
Portfolio very undervalued → M&A activity likely to pick up, self-help profit drivers, catalyst rich



Source: Panmure Gordon & Co, 30 October 2020

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# THE EXISTING PORTFOLIO

Augean 25%, has significant upside

EV/EBITDA 6.5x<sup>1</sup> vs Takeouts 8-12x

All theses on track, 'survivors', significant profit potential

No Financials / Extractive / Distressed

Well capitalised and extraordinarily good value

Downside limited

Cash at 4%, Convertibles 11% strong covenants<sup>1</sup>

>2% prospective yield, CAGR 15%

**GHS portfolio holdings average EV/EBITDA 7.7x<sup>2</sup>, EV/Sales 1.1x**











**GHS stock theses forecast considerable EBITDA upside**

1. As at 31 December 2020

2. Per Gresham House internal estimates as at 31 December 2020

# GRESHAM HOUSE STRATEGIC PLC - TOP 10 PORTFOLIO HOLDINGS

NAV £50.0m (1,436.3p)<sup>1</sup>

	£13.3m	Secondary - cash generation, performance recovery and re-rating		£3.2m	Operational and financial management improvements to drive significant Free Cash Flow
	£5.6m	Recovery and growth - equity and Convertible Loan Note (CLN)		£2.7m	Primary recovery capital to support the business through COVID-19 and capture infrastructure opportunities
	£4.6m	Secondary recovery capital; strategic refocus to drive organic growth and cultural change		£2.5m	Primary growth capital, CLNs
	£4.1m	Operational improvements and sector diversification to drive margin recovery		£2.4m	Strategic re-focus operational initiatives
	£3.4m	Secondary growth capital; product roll out, re-rating and improved communications		£2.2m	Supporting strategic change to drive operating recovery and return of capital

Other investments £6.4m

Cash and cash equivalents (£0.4m)

1. NAV per share, cash and holdings value data as of 31 December 2020 using mid-price per share unaudited data

**Not an investment recommendation.**

# AUGEAN - CASE STUDY

## Investment thesis

### Re-rating

Visibility and conclusion of tax investigation will allow business to be valued on an EV basis. Underpinned by tangible assets (waste sites)

### Earnings growth

Margin recovery as loss making divisions sold or mothballed. Significant cost base adjustments grow margin

### Cash generation

Cash generation from significantly improved margins. Resolution of HMRC offers potential return of cash to shareholders

## Return drivers

- Municipal waste drives Augean processing volumes; increasing post-COVID
- Ownership of four hazardous landfill sites; scarce resource, significant UK market share
- Direct long-term exposure to Energy-for-Waste capacity growth
- Cash generation will allow company to enter the dividend list with an attractive potential yield in the coming months

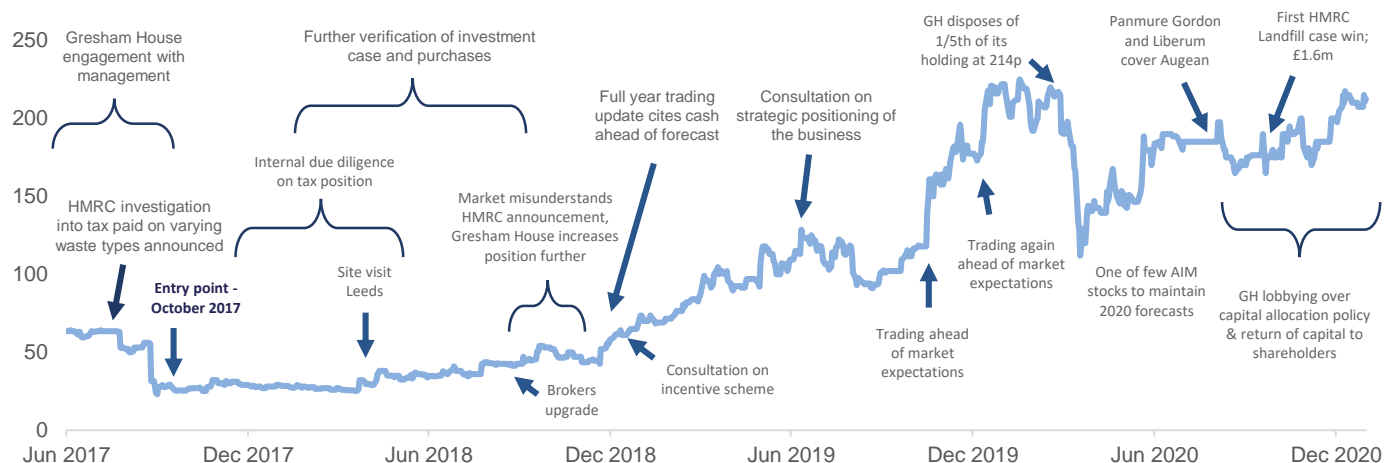


Chart source: Bloomberg, as at 31 December 2020

Securities selected for illustrative purposes only to demonstrate investment management style and not as an indication of performance or investment recommendation.

Case studies selected for illustrative purposes only to demonstrate investment strategy and are not investment or tax recommendations or advice.

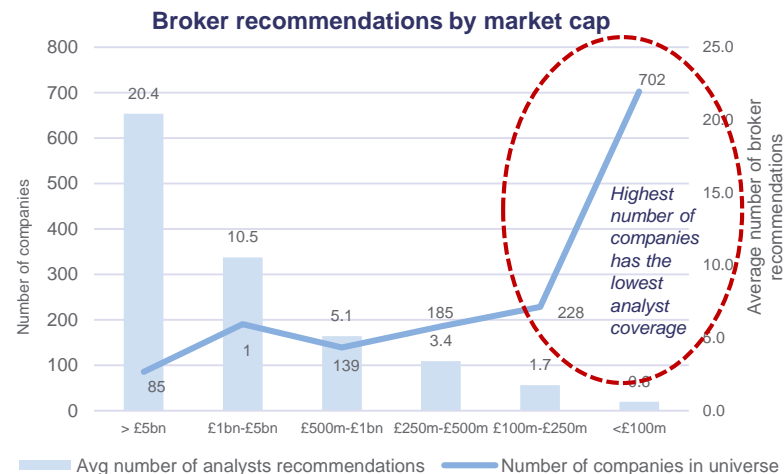
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# THE MARKET OPPORTUNITY

## Inefficient market

- Lack of research for smaller companies, further impacted by MIFID II
- Regulation and liquidity needs has pushed many institutions up the market-cap scale
- Consolidation of FM industry raising 'minimum' market capitalisation



## Value vs growth

- Extended low interest rate environment has driven investors to high-growth companies
- Record distortion in the performance of 'value' style vs 'growth'
- 'Growth' style dominates leaving recovery situations stranded - a 'minority sport'
- IHT and VCT flows less 'valuation' conscious, driving up AIM valuations for 'winners' and a loss of 'selling discipline'

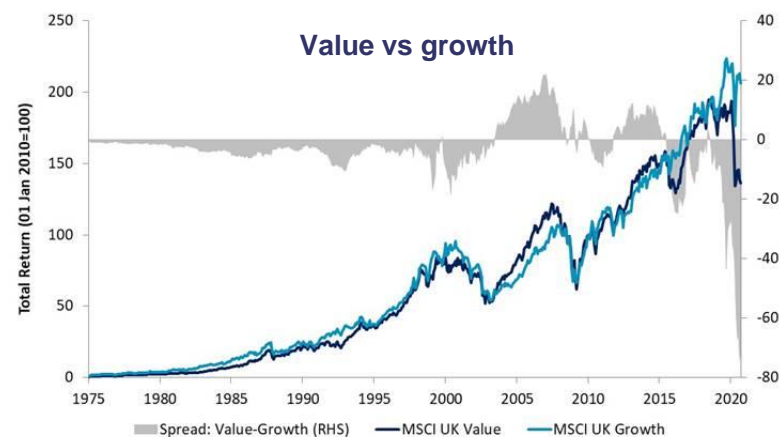


Chart 1 source: Peel Hunt - The New World of MiFID II: Unintended Consequences. Mid and Small-Cap Investor Survey April 2018

Chart 2 source: Bloomberg

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# RECENT OPPORTUNITIES



# WHY INVEST?

*In the middle of difficulty lies opportunity” - Albert Einstein*

The biggest determinant of future returns is entry valuation

*UK Equities are very good value relative to history and other market/assets*

The small companies ‘size’ effect is significant

*The ‘size’ discount for UK small cap is large vs history*

Value factor is out of favour; underperformance stretched vs history

*Returns should mean-revert to long-term averages, implying significant outperformance of the factor*

Structural factors supporting the strategy have intensified

*Market focus on smaller companies deteriorated further post-MiFID II*

Significant market dislocation

*47% of NAV invested in last 12 months*

We have the resource and capacity in place to scale the strategy

*Nimble Fund and well-resourced Investment Team*

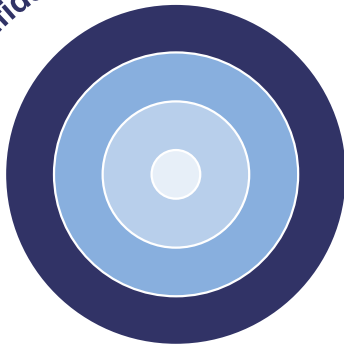
January 2021 outlook

*Material portfolio catalysts expected over the next 12 months*

# CONCLUSION

- Alignment - Gresham House plc and team members own >20% of the Fund<sup>1</sup>
- Experienced Investment Team with a strong track record
- Significant potential upside - from existing portfolio
- Investment timing once in a generation - compelling case for capital deployment
- Specialist equity fund targeting 2xMM (15% IRR) over medium term

Circle of confidence



**'Smart entry point'**  
- COVID-19 Funding gaps and Industry disruption creates opportunities

**Clearly identified investment thesis**  
- Valuations outstanding in unrecognised/ignored turnarounds

**Engagement and influence**  
- Overlooked corporates looking for equity partners

**Catalysts and exit identified**  
- 'PE dry powder huge'

1. As at 31 December 2020, most recent Link Asset Services shareholder report and accounting for subsequent TR-1 notifications



# APPENDIX

# FUND OVERVIEW

Gresham House Strategic plc	
Legal structure	Closed End Investment Company
Domicile	UK
Fund listing	AIM
Ticker	GHS.LN
Strategy inception	August 2015
NAV frequency	Weekly
Financial year end	31 March
Directors	David Potter (Chairman), Charles Berry, Ken Lever, Helen Sinclair
Investment policy	Up to 30% private, typically 10-20 holdings
Fees	Annual management fee: 1.5%   Performance fee: 15.0% over a 7.0% hurdle
Market cap	£48m (as at 31 December 2020)
Website	<a href="http://www.ghsplc.com">www.ghsplc.com</a>

# TRACK RECORD

*Twenty years of investment experience, over 15 focused on 'Strategic Public Equity' (SPE) investing*

Five consecutive funds following the SPE strategy have outperformed by an average of 9.8% per annum<sup>1</sup>

Fund	Years	Track Record
Gresham House Strategic plc ("Closed Fund II")	2015 - present	NAV per share total return 92.0% since inception <sup>2</sup> vs 33.0% for SMXX
Gresham House Strategic Public Equity LP ("LP Fund III")	2016 - present	Money Multiple 1.27X, IRR 10.1% <sup>2</sup>
Strategic Equity Capital plc ("Closed Fund I")	2005 - 2011	11% IRR since 2007 <sup>3</sup>
Schroder Ventures Strategic Recovery Fund II ("LP Fund II")	2006 - 2011	6% net IRR <sup>4</sup> (06 Vintage). Remaining equity investments distributed to LPs in specie <sup>5</sup> : E2V plc +78%, Journey Group plc +34% and Lavendon Group plc +12%
Schroder Ventures Strategic Recovery Fund I ("LP Fund I")	2003 - 2006	46% net IRR <sup>4</sup> (03 Vintage)
Schroder Ventures UK Focus Fund	2003 - 2010	78% total return 2003 - 2010 vs 14% for SMXX <sup>6</sup>
Philips & Drew (UBS) UK Equity Fund	1999 - 2002	Top Quartile vs CAPS UK Equity Median

Blue highlighted rows represent funds in the SPE Strategy.

**Past performance is not necessarily indicative of future results, and there can be no assurance that the fund will have comparable results or that the fund will be able to implement its investment strategy or achieve its investment objective.**

1. Average annual outperformance against FTSE Small Cap (Excluding investment trusts) Index across 5 funds totally £221m spanning periods from 2003 to (Jan) 2021. Performance measured over life of fund/period relevant to the Investment Team's involvement

2. Gresham House/ Fund administrators calculations to 31 December 2020, based on the last set of accounts received from the Administrator; LP Fund III to 30 September 2020

3. Gresham House Asset Management Limited calculations excluding dividends 7 year IRR from 2007 when SEC became fully invested to 2014, including period subsequent to the departures of Graham Bird (February 2009) and Tony Dalwood who left SVG in March 2011 having stepped down from the SEC plc Investment Committee, moving to Non-Executive Chairman of SVGIM on 30 September 2010

4. GVQIM website

5. Bloomberg data (total return since 30 July 2013 when SRF II wound up through to 30th July 2015) - SEC plc continues to follow an SPE style of investment and demonstrates the success of the strategy over the investment cycle

6. Bloomberg data - total return. Tony Dalwood left SVGIM in March 2011 therefore data tracked for UK Focus Fund from August 2003 (July inception) - 31 December 2010

# VAN ELLE HOLDINGS - NEW INVESTMENT

*Piling and groundworks*

## Investment thesis

### Earnings growth

Operating margin recovery to 7% and sales growth driven by UK infrastructure (rail) and construction activity

### Valuation

Gresham House led placing at 50% discount to NAV (fleet), 3.7x recovery EV/EBITDA (FY22)

### Timing

Primary stock placing during COVID-19 liquidity crunch

## Return drivers



- Management change driving improved processes and operations
- UK government spend on rail and infrastructure outstrips UK rail piling flit capacity
- Recovery of housebuilders post COVID
- Growth of services division further enhances margin profile and rating

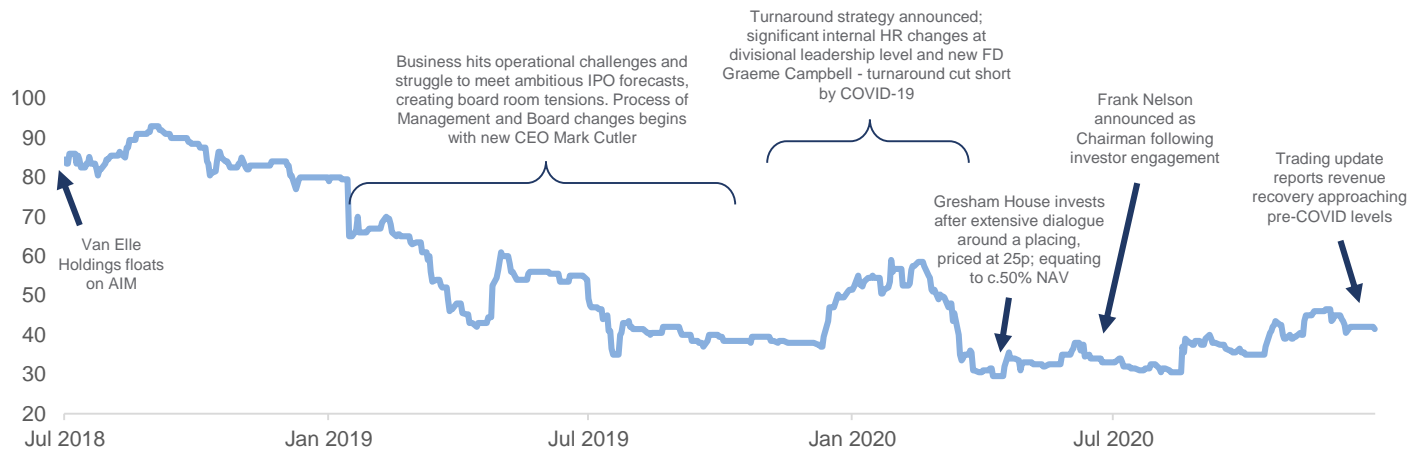


Chart source: Bloomberg, as at 31 December 2020

**Investments have been selected for illustrative purposes only to demonstrate investment strategy and are not investment or tax recommendations or advice.**



# IMIMOBILE - SUCCESSFUL EXIT

*B2C communications engine - 23.7% IRR investment exit*

## Investment thesis

### Re-rating

Re-rating to peer group average (peer group remains on premium). Company has a history of being misunderstood - now improving. Use of channel partners and resellers to accelerate growth

### Earnings growth

Increasing exposure to higher margin areas and geographies. Significant structural growth drivers - global trend towards digital communications and engagement via mobile devices. Significant operational gearing - clear target to grow EBIT margin

### Cash generation

Business is highly cash generative which supports reinvestment for growth and improving return on capital. 86% cash: EBITDA conversion.<sup>1</sup> 94% revenues are recurring<sup>2</sup>

## Return drivers

- Significant initial Gresham House-led engagement capitalists
- Structural market growth opportunity catalyses earnings momentum
- Improved IR and market understanding of the stock supports re-rating
- Execution of bolt-ons increases geographic footprints and global market penetration

IMI  mobile

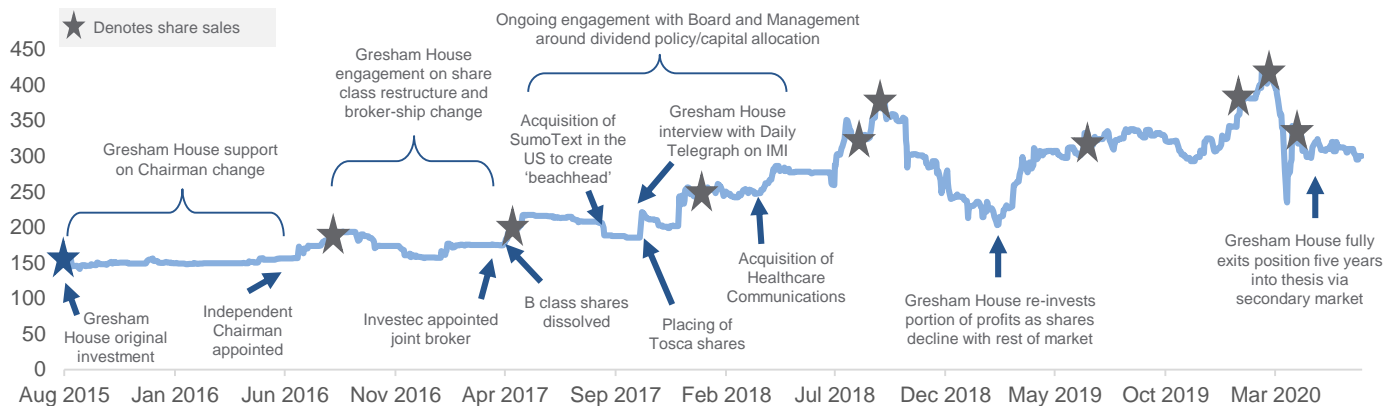


Chart source: Bloomberg, as at 30 June 2020

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# BE HEARD

Marketing services buy & build - Convertible Loan Note IRR +22.2%, Equity IRR -37%

## Investment thesis

### Re-rating

Valuation arbitrage - larger companies in sector currently exceed >12x EV/EBITDA<sup>1</sup>. If a proven management team could repeat previous success, market likely to re-rate the business as growth strategy realised

### Earnings growth

Track record of successful acquisitions provided scope for further M&A. Adding new services to existing platform offered earnings accretion, cross-selling opportunities and margin improvement. Significant revenue and cost synergies available from a buy and build strategy

### Cash generation

Strong cash flow generation from operations and earnings growth expectation

## Return drivers

- Investment thesis had sought to target the switch away from large conglomerate ad agencies to nimbler, mid-sized digital agencies
- Backing industry figure Peter Scott to deliver a buy and build strategy
- Thesis quickly breached as execution errors emerged in bolt-on acquisitions and Brexit drove end market headwinds
- Gresham House team stepped in, overhauling management and board to limit downside, stabilise business and minimise further losses; EBITDA subsequently recovered from £1m to £4m
- Overall investment downside limited by Strategy's flexible approach to investment instruments via Convertible Loan Note: Premium on capital received on takeover, mitigating losses on Equity

BE  
HEARD



Chart source: Bloomberg, as at 30 June 2020

1. Bloomberg data for M&C Saatchi and Next Fifteen plc as of 29 September 2017

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# SPECIALISTS IN ALTERNATIVES

Gresham House is a London Stock Exchange-quoted specialist alternative asset management group (GHE.LN), providing funds, direct investments and tailored investment solutions, including co-investment.

- Specialists in five areas of alternative investment
- Growing organically and through acquisition, expanding our shareholder base, and developing our investment pipeline
- Committed to operating responsibly and sustainably, building long-term value across our portfolio

## Strategic Equity



### Public Equity

- Gresham House Strategic plc
- Gresham House Strategic Public Equity Fund LP
- LF Gresham House UK Micro Cap Fund
- LF Gresham House UK Multi Cap Income Fund
- LF Gresham House UK Smaller Companies Fund
- Strategic Equity Capital plc

£0.5bn



### Private Equity

- Baronsmead Venture Trust plc
- Baronsmead Second Venture Trust plc

£0.3bn

£0.8bn

## Real Assets



### Forestry

- Gresham House Forestry Fund LP
- Forestry Partnership LLP
- Managed Accounts
- FIM Sustainable Timber & Energy LP (STELP)
- Gresham House Forest Fund I LP
- FIM Timberland LP

£1.4bn



### New Energy & Sustainable Infrastructure

- Gresham House Energy Storage Fund plc (GRID)
- Gresham House Renewable Energy VCTs 1 & 2 plc
- FIM Solar Distribution LLP
- FIM Windfarms 2 LP
- Wind Energy LP
- Gresham House BSI Infrastructure LP
- Managed Accounts

£0.8bn



### Housing

- Gresham House BSI Housing LP
- Residential Secure Income plc (ReSI REIT)
- Gresham House Residential Secure Income LP<sup>2</sup>

£0.3bn

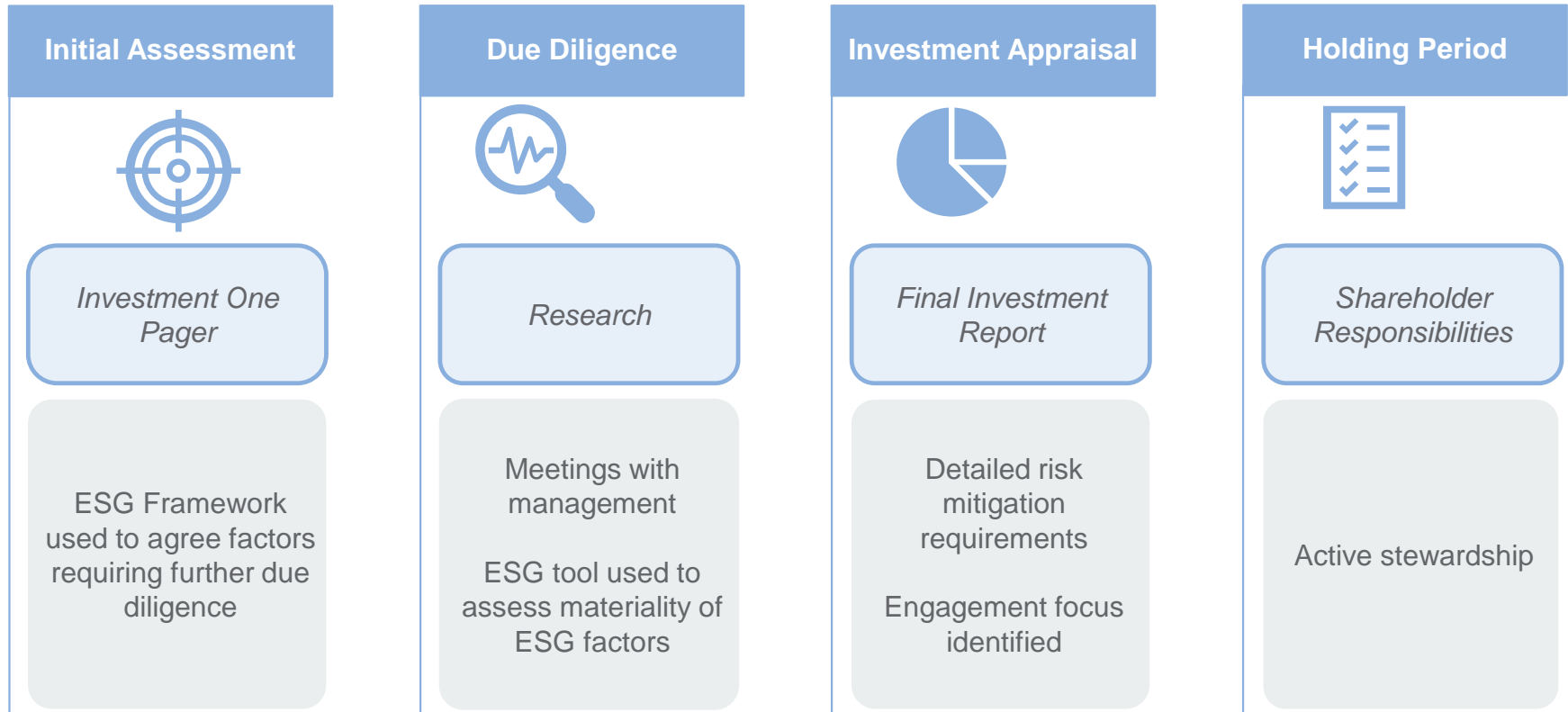
£2.5bn

£3.3bn<sup>1</sup>

1. AUM as at 30 June 2020, unaudited data

2. Launching Q4 2020

# ESG IMPLEMENTATION: PUBLIC EQUITY



We are proud signatories to the following member organisations:

# INVESTMENT DEPTH, EXPERIENCE, CLIENT SERVICES & RESOURCES

*Across the Gresham House Group*

- Team of 65 investment professionals
- A range of other resources are centrally provided by Gresham House to enable the Investment Teams to focus on investment origination and execution
- Gresham House has a team of 70 supporting the ongoing investment activities

Team members		Responsibilities
Technology, Operations, HR and Support	27	Broad based support team to assist across multiple tasks.
Sales and Marketing	12	Investor relations and other client support functions.
Finance, Legal, Risk and Compliance	31	Central support to provide consistent reporting and group management. Central risk and compliance oversight supported by industry expert service providers.

Technology, Operations and Support



**27**  
Full-time team

Sales and Marketing



**12**  
Full-time team

Finance, Legal, Risk and Compliance



**31**  
Full-time team



**65**  
Investment Professionals

Source: Gresham House as at 12 January 2021

# GRESHAM HOUSE STRATEGIC PLC - SHAREHOLDINGS

Shareholders	%
Gresham House plc	23.4%
Hargreaves Lansdown Asset Management	7.4%
James Sharp & Co	7.4%
Unicorn Asset Management	6.3%
Smith & Williamson Investment	5.0%
Premier Miton Investors	4.9%
Interactive Investor	4.4%
Investec Wealth & Investment	3.5%
Berkshire County Council	3.0%
Canaccord Genuity Wealth	2.1%

*As at 31 December 2020, most recent Link Asset Services shareholder report and accounting for subsequent TR-1 notifications*

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## **Capital at risk.**

*The value of investments may fall as well as rise and investors may not get back the original amount invested.*

*Investments in smaller and/or unquoted companies may carry a higher degree of risk than investments in larger, more established companies.*

The internal rates of return or IRRs presented on a gross basis do not reflect any management fees, carried interest, taxes and allocable expenses of the kind that will be borne by investors in a fund, which in the aggregate may be substantial. Prospective investors are reminded that the actual performance realised will depend on numerous factors and circumstances some of which will be personal to the investor. Statements contained in this Presentation that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of GHAM.

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