

Paul Scott

Small Caps & Zimbabwe trip

Hero to zero!

- Rapturous introduction from compere (Richard) last year!
- Humble pie this year!
- Concentrated portfolio in illiquid shares
- De-gearred in mid-2018 – lesson from 2008
- Market was overdue a correction last year
- Big falls present big opportunities
- Many small caps have recovered in 2019
- Still plenty of opportunities

Beam Me Up Scotty (Stockopedia portfolio)



How I've coped with a portfolio downturn

- If I'm going to sell, sell early
- Very detailed review of every position
- If in doubt – chuck it out!
- Think about sector – are others putting out profit warnings?
- Best investors I know are often happy sitting in cash
- Lots of opportunities after indiscriminate sell-off in late 2018
- New positions – keeping them small, so can exit easily
- Focus on **risk:reward**

Looking forwards

- Brexit – probably won't happen, impact on market comes & goes in waves, stockpiling (will reverse)
- International macro factors – I can't predict these
- Macro - 2 key factors – low interest rates & tariffs – US markets
- UK economy resilient – full employment, real wages rising, etc
- Huge structural changes – e.g. online retailers
- Mean reversion no longer necessarily works – so low PER esp risky
- Takeovers – FootAsylum, Flybe & BonMarche, Earthport

Interesting small caps

- NB! These are **NOT recommendations!** Just things I find interesting, ideas you might like to research further & make up your own mind. Many of these are extremely illiquid, so risk of spikes up – beware!
- **Gear4Music (G4M)** (I hold personally)

Bull: low valuation (undershot), cash pile (no dilution), big mgt s/holding, v strong organic growth, international, action to improve margins, own brand product.

Bear: Margins low, repeat customers?, competition, Amazon?

Stockopedia – Small Cap Value Reports

- Apologies for my poor service in last month – illness
- 7-8 am quick comments – doing well, e.g. WEY
- Sorry to the free readers we lost
- 6 years free was a good run!
- A cheaper, SCVR-only subs is planned

More small cap ideas (which may or may not work!)

- **Cloudcall (CALL)** - I hold personally
Bull: Inflexion point, strong organic international growth, coherent/bullish CMD, cheap relative to sector, possible bid target
Bear: Repeated failure to achieve targets, multiple fundraisings, breakeven pushed out
- **BigDish (DISH)** – I hold personally – ****HIGHLY SPECULATIVE****
Bull: terrific dining App, UK roll-out underway, new CEO (ex-TripAdvisor)
Bear: tiny company, negligible revenues, loss-making, placing likely next year, mgt over-excitable!

More small cap ideas

- **BOTB (BOTB)** (I hold personally)

Bull: Good organic growth, good recent trading update, cash generative, lovely divis, online-only now, mgt big skin in game, track record of looking after s/holders, reasonable valuation for internet business, marketing opps

Bear: VAT ruling hurt profits, regulatory risk

- **Zoo Digital (ZOO)** (no current holding)

Bull: market over-reaction to profit warning? FinnCap note emphasises bump in road – investment case intact

Bear: growth plans stalled, everything to prove, bal sht weak

How do I get rid of the titles?

- **SuperDry (SDRY)** – no current holding (on watchlist)
Bull: still a powerful brand, substantial business, recovery potential, strong balance sheet
Bear: Poor performance, brand damage?, Board room bust up, few outside shareholders voted for Dunkerton's return, lease liabilities on flagship stores
- **Quiz (QUIZ)** – no current holding (on watchlist)
Bull: recovery potential, experienced rag traders, very short leases, online growth, bid potential from family?
Bear: terrible recent trading, brand damage from TOWIE?, concessions in Debenhams

- **Staffline (STAF)** – no personal holding
Profit warning today
Falling knife – too risky IMO
Bank covenant risk
A Hogarth banked £10.3m at 1020p in Jan 2018 (follow the big money?)
Read-across could be very important to consider for all shares (tightening labour market)
- **Intercede (IGP)** - big personal holding
Bull: remarkable quality of clients, large US contract won on last day FY, possible multi-bagger if more big contracts won, new management seem sales focussed, cash position OK now
Bear: Hideously illiquid so market price almost irrelevant, convertible bonds

ZANE interlude

- David said I could have 5 minutes in my main talk to mention my recent trip to Zimbabwe
- More detailed talk later at 5:15 – please come along!
- Guest of ZANE's trustees – Tom Benyon reads SCVRs – military & MP



ZANE – key points

- Core activity – humanitarian aid, destitute pensioners
- Military covenant
- Commonwealth ex-servicemen – “forgotten legion”
- Womens’ refuge, pop-up schools, food programme for care homes, club foot correction, WizEar partnership, charity shops
- Small grants, all means-tested – no waste or corruption
- Little money goes a long way
- Regular donations are best
- Needs a new wave of younger supporters

Zimbabwe problems

- Dire economic situation – currency collapsed **4 times**
- Typical income is \$100-200 per month
- Food inflation 200-300% last year
- Fuel shortages
- Unstable political situation
- Corruption widespread
- Tragic demise of a once-prosperous nation
- Long-standing connection to UK

Womens' refuge

- Traumatized women from high density areas
- Therapy, jewellery & needlecraft, goody bags
- Pop-up schools – 12 children * 5 sites

Womens refuge



Care homes

- Core activity – pensioners
- Food programme – 16 care homes in Harare
- Topping up fees
- Low occupancy rate, over-staffed

Spot the shares blogger in disguise!



Back to small cap shares!

- Sosandar (my largest holding)

Bull: It's all about management, concept now proven, v strong organic growth, very high gross margins, repeat customers high, focused niche – gap in the market, outsourced business model, multi-bagger potential if targets met

Bear: Loss-making & cash burning, cash burn higher than some might like, future fundraising? Ambitious targets (more than doubling sales), difficult to value at this stage

Others (yes I've run out of time!)

- Malvern International (I hold)– forced seller, new mgt turnaround
- Tandem (TND) (I hold) – Graham flagged this in SCVR
- Wey Education (WEY) (I hold) – good recent update, cash pile
- Zytronic (ZYT) (I hold) – Cash pile, recent profit warning, potential upside from new projects, inherently lumpy revenues, ex-growth?
- French Connection (collective groans!) – fundamentals greatly improved since 2017. Worth its working capital. In play, with multiple potential bidders, lease expiries imminent
- Portmeirion (PMP) (on my watchlist) – priced about right, bid potential?

My top pick (more & louder collective groans expected!) – Revolution Bars (RBG)

- Revolution Bars
- New management very clear about what went wrong;
 - roll-out of new sites left old sites neglected
 - “brain drain” as key area managers left
 - drinks too expensive, service too slow
 - not sure what customers want
 - too many sticky/sweet cocktails that take too long to make
 - multiple reasons for weak LFL sales in 2018
 - bungled changes to food menu

Revolution Bars – how they are fixing it

- New CEO seems excellent – great meeting
- Back to basics;
 - refurbishing older sites (overdue)
 - huge survey of staff & customers, told what they want
 - lowering some prices
 - bringing back best sellers, e.g. pizzas
 - menu opens on page with best margin, quick to make cocktails
 - roll-out plans put on hold to focus on restoring performance
 - dividends paused as they sort out
 - staff situation now improving

Revolution Bars – my view

- This is a simple turnaround
- Mgt confident (we're over the worst)
- Balance sheet looks fine – debt should reduce
- Refurbs cost £200k average, easy to fund 15 sites from cashflow
- Takeover bid at 203p, now 70p. Bidders likely to return, I think
- Site EBITDA c.£20m p.a. (excl. £8-9m H.O. costs)
- Market cap £35m, debt c.£15m
- Share price overshot to downside – stale bulls, no liquidity

Care homes – Athel Evans



Typical care home resident



Care homes – can't afford to feed residents or staff



Another care home – basic but beautiful!



Bizarre toilets of Zimbabwe – part 1

Interior designer 1: I've got a great idea, you know what we should put right next to that urinal? An easy chair!

Interior designer 2: Oh, and don't forget the tree stump for the corner!



Bizarre toilets of Zimbabwe – part 2

... and a chest of drawers!



Bizarre toilets of Zimbabwe – 3rd & final part

Interior designer 1: Moving on to our lovely cubicle. More tree stumps are needed, I think!

Interior designer 2: But wait! I often like to have a quick lie-down after taking a dump. What about a chaise longue?!

Perfect 😊



Afternoon off, Wild Is Life animal sanctuary



Wild Is Life – star of the show!

Staff at “Wild Is Life” animal sanctuary told us that this sociable fella spends all morning fluffing up his mane into peak condition on tree trunks.

Then he eats lunch (horse meat) right in front of the fence where the tourists are standing.



ZANE party for some of the pensioners it supports, staff, and other supporters

After a traditional Zimbabwe BBQ (delicious!), I wandered around the tables, talking to many guests.

Pensioners look forward to this function all year, it gives them a great morale boost, to dress up, and socialise with others.

Nearly everyone I spoke to, asked me to say thankyou to ZANE donors in the UK. They are immensely grateful for the support.

Key message in Tom Benyon's speech –
"You're not forgotten"



Father & son?!

... quipped a friend when he saw this picture.

A marvellous man (the one on the left!) – a GP in Bulawayo, still working at age 75.

He was invited to the BBQ because he treats so many ZANE pensioners pro bono. ZANE often take sick pensioners to see him, and he treats them for free.

“ZANE staff are very persuasive”, he chuckled!



ZANE fundraising

- Ongoing project, not a one-off
- I realise many/most investors already have your own favourite charities
- Not virtue signalling, just a fascinating visit & wonderful little charity
- Donors can chose (if we wish) which projects we'd like to support
- I'll soon be setting up "matching" fundraising pages – looking for sponsors, both individual & corporate (one investor has already pledged £3k), to match smaller individual donations 1:1
- LIBOR report – remarkable what can be done by the existing team

LIBOR funding

- ZANE secured funding from the [LIBOR fines fund](#) – c.£1.3m spread over 5 years
- This is one of several ZANE projects, where ZANE's team (c. 20 people in Zimbabwe + many volunteers) has a pot of money for very specific aims
- Specific aims – “To support 583 Commonwealth ex-Servicemen, women and widows living in extreme poverty in Zimbabwe.”
- Tom Benyon calls these people “the forgotten legion”, previously abandoned by the UK – ZANE is putting this right now.

This is what was achieved, LIBOR year 1

- - 13 x cataract operations
- - 56 x provision of glasses
- - 8 x provision of hearing aids
- - 12 x dental treatment
- - 35 x diabetic treatment
- - 27 x asthma treatment
- - 12 x prostate cancer treatment
- - 47 x scans, x-rays, blood transfusions and screenings
- - 11 x oxygen and blood pressure monitors
- - 81 consultations

LIBOR project – staff comments

- “The team in Zimbabwe have noticed a very tangible difference in the health of many veterans and widows when coming to collect their grants. Some who were previously clearly malnourished now look a healthy weight, others who would stoop and struggle to walk, now hold their heads up high; a new vigour in each step.”

LIBOR project – comments from recipients

- Mr Z, 87 is a chronic asthmatic. In May 2018, he became seriously ill and was taken to a clinic by his brother where he was diagnosed with pneumonia. The clinic did not have the drugs to treat him and he no money to seek treatment elsewhere. Whilst sitting round the fire that evening lamenting his fate, our team were fortuitously able to speak with him to let him know he had the first instalment of the new Libor grant waiting for him in Harare. He was able to borrow money for his fare and, after a 2 am start to his journey, he arrived at the office seven hours later, cold and clearly suffering. With the Libor funding, we were able to get him the correct treatment and money to reimburse the travel loan. With his health greatly improved, Mr Z is doing well and told us “I surely would have died without this help. It saved my life.”
- Mr K, 84 had a tennis ball sized lump on his neck. Although it was benign, it was very uncomfortable and restrictive. With the Libor medical grant, our team were able to refer him to a local doctor who sent him to a specialist working at a mission hospital. The lump was removed in January and he is a changed man. Without the Libor fund, he wouldn't have been able to get to the clinic, let alone pay for the procedure.
- “We've had a bad rainy season. Very few of my crops have made it. Knowing I have the food grant coming means I won't starve. Without it, I surely would.” Mr G 79
- “Thanks to you, I have food in my stomach and my diabetes under control. It really has changed my life. Thank you.” Mrs V, 81.

Conclusion

- ZANE is a remarkable little charity, that makes a little money go a long way
- I've personally seen their projects on the ground, hugely impressed
- Dedication & compassion of the staff & volunteers, is remarkable
- ZANE is saving the lives, and giving some dignity, to pensioners with nobody else to turn to
- ZANE donors are getting older, so the charity needs fresh blood to help maintain & expand its wonderful work
- Situation on the ground is dire & getting worse