

**ODYSSEAN**  
CAPITAL LLP



Odyssean Investment Trust  
Annual General Meeting 2019

27<sup>th</sup> June 2019

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# Agenda



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1. Key Messages
  2. Performance
  3. Stock Examples
  4. Outlook and Conclusion
  5. Appendix



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# 1. Key Messages

# Key Messages



- **Team bedded in, robust structure and processes working well**
  - Team performed well through recent challenging period
  - Significant work to build initial portfolio complete
  - ‘Shadow portfolio’ of further opportunities up and running
- **Portfolio well invested in companies performing strongly**
  - Largely fully invested in portfolio of companies matching our investment criteria
  - Trading updates form portfolio broadly supportive of initial investment thesis and mid-term value growth opportunity
  - Significant further self-help potential in the portfolio
- **Market remains volatile and likely to offer opportunities going forward**
  - UK market continues to show value
  - Short term volatility offering opportunities to patient investors with long term, committed capital



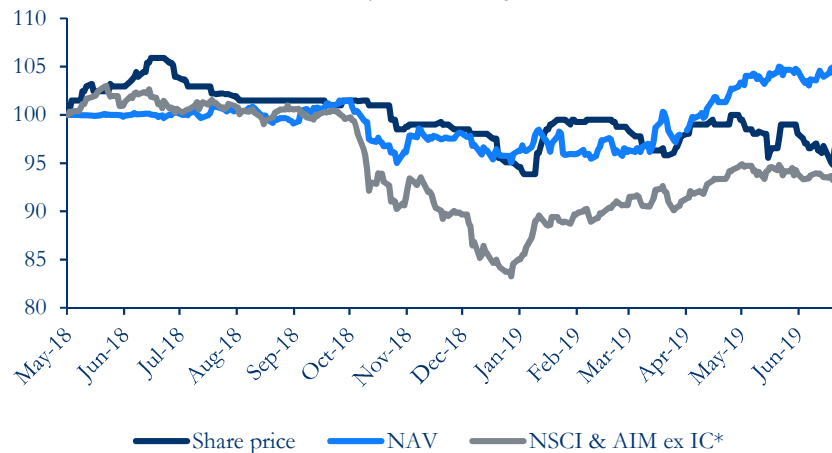
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## 2. Performance

# OIT Performance



OIT NAV per share and Share Price vs rebased Comparator<sup>1</sup>  
01 May 2018 – 21 June 2019<sup>2</sup>



- Very encouraging start
- Positive NAV performance since IPO vs falling comparator index
  - Relative performance typically better in sideways and down markets, has lagged when markets have moved sharply upwards
  - We remain focused on long-term absolute performance and would expect short term variance to comparator
- We believe the portfolio is well positioned to continue to grow value from here

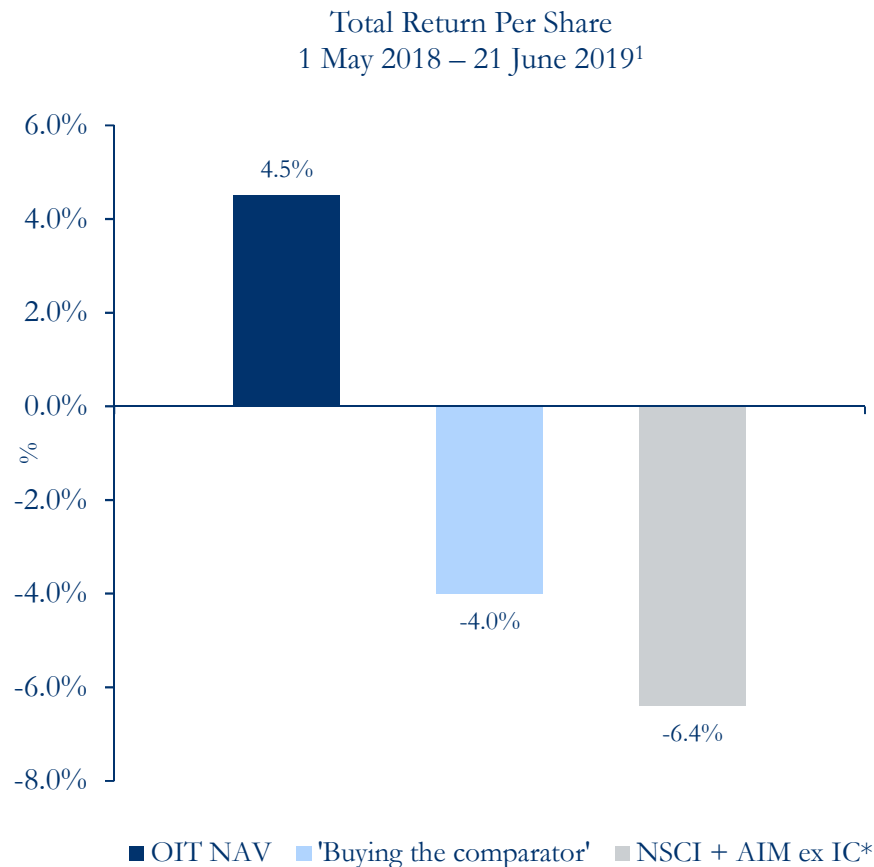
	Mar-19 to date	Inception to Mar-19	Since inception
NAV per share Total Return	+6.7%	-2.1%	+4.5%
Share price Total Return	-0.3%	-0.7%	-1.0%
NSCI & AIM ex IC TR*	+2.9%	-9.0%	-6.4%

Note: "To date" in returns data refers to period ended 21<sup>st</sup> June 2019. Last week end prior to preparation of materials

Source: <sup>1</sup> Numis Smaller Companies Index plus AIM ex Investment Companies. <sup>2</sup> Link, Bloomberg, Odyssean Capital LLP.

Past performance is no guarantee of future performance and the value of investments can go down as well as up.

# Value added over and above cash balances



- We have benefitted from holding a cash balance since inception.
- To estimate the impact of this, we have calculated the return which would have been delivered if we had 'bought the comparator index' on the same dates we invested in the OIT portfolio
- Buying the comparator index would have returned -4.0% since inception
- Implies c.2.4% return benefit from cash drag
- Stock selection has delivered c.8.5% return benefit

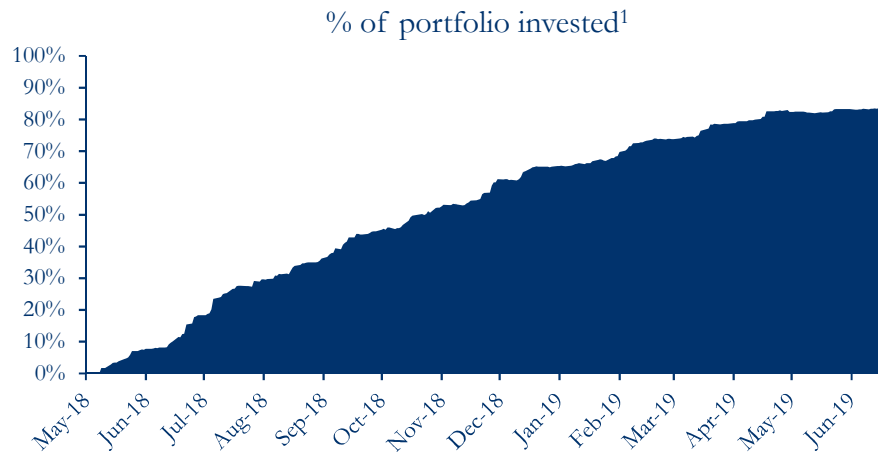
Source: Odyssean analysis. Assumes total consideration for stock purchases including fees and tax is invested at index closing level on day of transaction

\*Comparator Index, Numis Smaller Companies Index plus AIM ex Investment Companies Track Record. <sup>1</sup>Link, Bloomberg, Odyssean Capital LLP.

Past performance is no guarantee of future performance and the value of investments can go down as well as up.



# Pace of research and capital deployment









- Investment process had been bedded in and continually refined since inception
- Active period for company meetings and investment diligence as we build the portfolio
- Portfolio c.84% invested in 16 companies, with certain positions still being built
- Bank of ‘shadow portfolio’ ideas which have been through process

# company meetings	140
# companies	80
# investment papers	40
# companies in the portfolio	16
# companies in the shadow portfolio	14

# Recent Performance Drivers



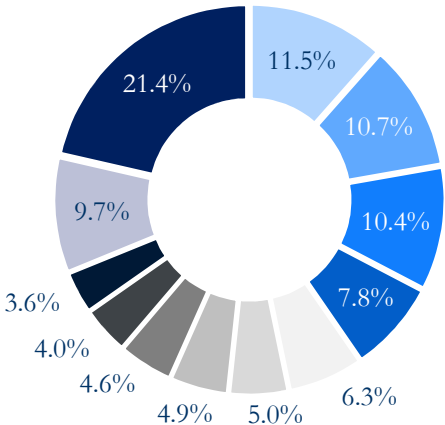
Company	Mar-19 to date	Year to Mar-19	Commentary
	↑	↑	<ul style="list-style-type: none"> <li>Self help - Gross margin rising on improving utilisation and better internal systems, OpEx savings identified</li> <li>Improving levels of cross sell and high value premium content work</li> </ul>
	↑	↔	<ul style="list-style-type: none"> <li>Continuing strong growth in Assurance division, Escrow stable</li> <li>Self help –Systems investment on track, assurance gross margins rising, cash collection significantly improved</li> </ul>
	↑	↔	<ul style="list-style-type: none"> <li>Strong organic growth in FY18 with good momentum into FY19</li> <li>Self help – Management announced £5m OpEx saving potential</li> </ul>
	↑	↔	<ul style="list-style-type: none"> <li>Negative sentiment in 2018 following delays in integration of US acquisition and ill informed sell note</li> <li>Strong recent performance addresses many concerns and US integration now complete</li> </ul>
	↑	↓	<ul style="list-style-type: none"> <li>Site explosion impacted FY18 performance</li> <li>Supportive market for countermeasures and wins of large Sensors contracts support mid-term prospects</li> </ul>
	↓	↓	<ul style="list-style-type: none"> <li>Self help - Change slower than we would like on exiting non core business and improving margins – Engaging on these areas</li> <li>Seeing impact of Woodford overhang</li> </ul>

# Portfolio construction

Focused on our core sector and core market cap range

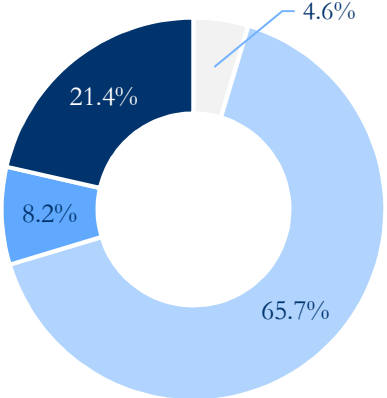


Top 10 portfolio holdings<sup>1</sup>



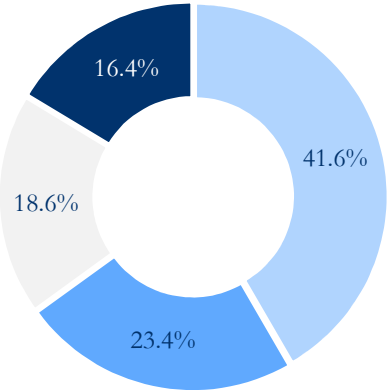
- SDL
- Equiniti
- NCC
- Chemring
- Volution
- Wilmington
- Devro
- Flowtech
- Benchmark
- Hill & Smith
- Other
- Cash

Portfolio holding by market cap<sup>1</sup>



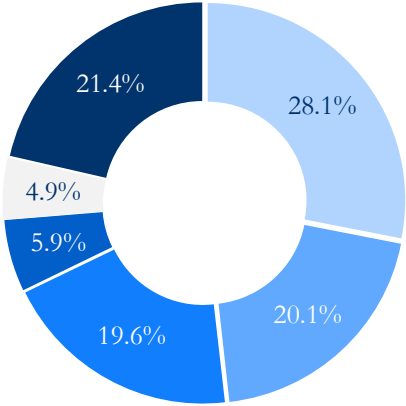
- Below £150m
- £150m-£750m
- Over £750m
- Cash

Revenue exposure of portfolio<sup>1</sup>



- UK
- US
- Europe Other
- RoW

Portfolio holdings by sector<sup>1</sup>



- TMT
- Industrials
- Business Services
- Healthcare
- Consumer
- Cash

Source: <sup>1</sup> Odyssean Capital LLP, Link. As at 31<sup>st</sup> March 2019

# Portfolio themes



- **Structurally growing, stable markets**
  - Focus on markets with mid to long term structural growth drivers – not hyper growth but able to deliver GDP+
  - Wary of highly cyclical and commodity or consumer driven end markets
- **Global market leaders**
  - Preference for market leaders in well defined niches
  - Typically global players – produces a portfolio with international exposure above average for UK small cap market
  - Likely increased attractiveness to trade buyers
- **Self-help opportunities**
  - Opportunities where management action can drive improvement in margins
  - Market view on self-help stories can be volatile – opportunities for long term investors who conduct their own work and are willing to engage
  - Our estimates show c.300bps margin uplift potential across the portfolio through self-help actions. Value growth protection or acceleration opportunity

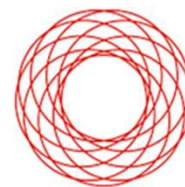


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## 3. Stock Examples

# Engagement Example: Devro

Sector: Consumer



DEVRO



## Opportunity background:

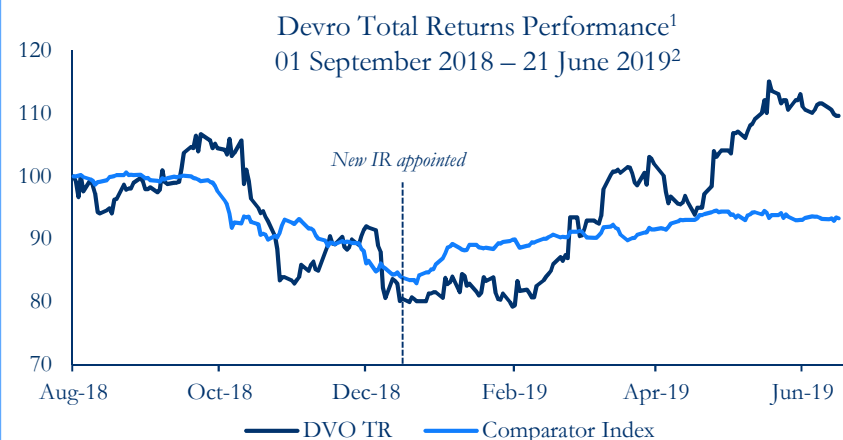
- Devro is the leading global manufacturer of collagen casings for sausages
- Unloved stock trading at 10-12x PE when building position implying 12%+ free cash flow yield
- After a number of years of significant investment, business is poised to improve cash generation
- Multiple levers to drive future value growth:
  - Continuing market growth and mix/pricing improvement supports top-line progression
  - Margin opportunity through consolidation of disparate global functions and driving best practice
  - Strong cash generation following recent capex investments

## The story so far:

- Initial stake built in September 2018
- Sell off in October driven by read across from soft trading at listed peer. Our diligence suggested issues flagged were not relevant for Devro – OIT increased stake at attractive levels
- Engagement: Introduced company to external IR experts in December 2018 to help improve communication to market and drive interest from new investors
- Strong full year results and well attended capital markets event in Q1 2019 have driven recent share price rally
- We continue to believe that the shares are too lowly rated

## Engagement

- We saw a number of areas where Devro could have been performing better:
  - Shareholder register underweight income and yield focused investors
  - Investor communications under developed with potential to tell the story more clearly to an uninterested market
  - Benchmarking suggests margin potential through self-help and utilization gains in new plants
- We have spent time with management and supported them in addressing some of the areas identified above



Source: <sup>1</sup> Bloomberg LP, Odyssean Capital LLP <sup>2</sup>Date at which OIT invested. Performance rebased to 100.

\*Numis Smaller Companies Index plus AIM ex Investment Companies Total Return

# Stock Example: NCC plc

Sector: TMT



## Opportunity background:

- NCC is a leading provider of cyber security assurance and software escrow services
- Group combines a market leading, high recurring, cash generative but mature software escrow business, with a fast growth cyber security assurance services business which enjoys pockets of market leading expertise. Historically cash flow from escrow has been recycled to build up the assurance services business through M&A
- Group had overstretched on M&A and poor deals under a former, dominant CEO and this drove profit warnings in FY17, a material de-rating and installation of new Chairman, CEO and finance director
- The new team have instigated a turnaround story, disposed of historic poorly acquired businesses and driven a rapid recovery in margins and acceleration in growth. Further opportunities for margin improvement remain along with further upside from a rapidly growing presence in the key US market
- Recent disappointing H1 FY19 trading update drove a further step down in share price and represented an attractive opportunity to build our stake further

## Source and diligence angles:

- Business well known to Odyssean (formerly reviewed as a take private opportunity by EW)
- Multiple diligence angles through i) calls with other players in industry; ii) prior relationship with newly installed Chairman; and iii) site visit to Manchester to meet tier 2 team

## Quality

### Qualitative

- Dominant in UK in software escrow
- Leading independent in fast growing cyber assurance market
- Expertise and reputation in assurance division are barriers
- 'Market standard' in UK software escrow

### Quantitative

- High and growing CFROA
- High recurring revenue in escrow division and significant repeat business in assurance
- Net debt of c.1.0x EBITDA

## Value

### Static

- Trading at c.11x-13x EBIT during stake build
- Assurance assets likely valuable to many trade buyers – escrow business attractive to PE. LBO supportive of valuations above current share price

### Dynamic

- Organic growth: c.10% - market rates
- Margin: Increase 300bps+ via better utilisation and pricing in assurance and lower central cost
- Ongoing cash generation
- Re-rating potential

## Engagement

- Investor relations – Better disclosure on make up of assurance business and mid term targets would simplify a complex story for investors
- Margins – Central costs look high, significant opportunity seemingly remains in assurance division. Story would benefit from clarity on targets
- Structure – Limited logic for escrow and assurance to be under same umbrella – possible value in a break up

# Stock Example: Flowtech FluidPower plc

Sector: Industrials



## Opportunity background:

- Flowtech is the leading specialist distributor of fluid power products (hydraulic and pneumatic components) in the UK
- Flowtech acts as a master distributor sitting between global OEMs and a broad range of small local distributors. It offers a broad range of stock (50k+ SKUs) and rapid delivery for components which are generally replacement parts for business critical machinery at customers. This and strong market position supports attractive margins
- The business has built its market position through M&A growing well since IPO in 2014. However, a disappointing trading update in June 2018 and a poorly handled CEO transition spooked the markets and drove a sharp share price fall.
- The former CFO who stepped into the CEO position has put a halt on further M&A, hired a new external CFO and is focused on driving integration and realizing synergies from a number of historic acquisitions where integration to date has been limited –potential material cost savings to be delivered
- Entry at depressed share price levels following sharp fall offered attractive value

## Source and diligence angles:

- Evaluated by SW when IPO'd in 2014
- Business identified through Odyssean company screens and initially evaluated before H1 trading update driven share price fall
- Diligence angles through network i) Review with panel of advisors who have relevant industry experience; ii) Site visit completed

## Quality

### Qualitative

- UK market leader
- End market growth cyclical but GDP+ levels driven by increased usage of fluid power

### Quantitative

- 15%+CFROA with potential to rise with margins driven by management actions
- Limited revenue visibility
- Low balance sheet risk - leverage c.1.4x

## Value

### Static

- Entry at c.7x NTM PE following share price fall – below historic averages
- Strong market position potentially attractive to larger industrial distribution firms, where deals have been done at 9x+ EBITDA

### Dynamic

- Continuing organic growth at market rates - 3%-5% across a cycle
- Material cost out opportunity - £3m-£4m through integration of legacy M&A
- Ongoing cash generation, potentially recycled into M&A

## Engagement

- Management/corporate governance: Recent challenges demonstrate potential benefit from better corporate governance – feel Chairman change would be additive
- Investor relations: Better disclosure on cost opportunity and returns from historic M&A would more clearly articulate value story to investors





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## 4. Outlook and conclusion

# Outlook



We remain cautious and focused on specific company opportunities not macro trends

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## **Opportunities & reasons to be positive**

- UK equity market remains unloved and continues to offer pockets of value – potential for re-rating if political uncertainty resolved
- Increasing shift from central banks (notably the Fed) towards more accommodative monetary policy is supportive for equity markets
- Increased volatility, and MiFID II impact, offers scope for finding attractively priced long term investments
- There continues to be a supply of good quoted companies delivering sub-optimal returns, ripe for engagement

## **Risks & reasons to be cautious**

- UK political uncertainty continues
- Number of indicators pointing to slowing global economy (China, Europe, US data weakness...) after a very long cycle
- Equity bull market has run a long way – how long will it last...



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## 5. Appendix

# Odyssean Investment Trust



Investment objective	<ul style="list-style-type: none"><li>• Achieve attractive total returns per share principally through capital growth over a long term period</li></ul>
Investment Team	<ul style="list-style-type: none"><li>• Stuart Widdowson and Ed Wielechowski have &gt;30 years' collective experience investing in UK Smaller Companies</li><li>• Investment outlook steeped in Private Equity experience</li></ul>
Smaller Companies	<ul style="list-style-type: none"><li>• Smaller companies represent a less efficient part of the equity market provides more scope for pricing anomalies where higher quality businesses can trade at a discount to intrinsic value</li><li>• Businesses are small enough for change to occur rapidly and materially impact equity value – more meaningful engagement potential</li></ul>
Odyssean Capital	<ul style="list-style-type: none"><li>• Fundamental, research-driven private equity approach</li><li>• Long term alignment between clients and team – significant “skin in the game”</li><li>• JV with Harwood Capital Management Group, a multi-boutique founded in 2011 with AUM &amp; AUI of £6.2bn<sup>1</sup> across private equity, real estate and public equity investments</li></ul>

Source: <sup>1</sup>Harwood Capital LLP as at 10.06.19 across private equity, real estate, public equity investments and wealth management

# Investment Strategy





## Private equity investment style in public equities



Unconstrained	<ul style="list-style-type: none"><li>• Seeking long term positive performance rather than beating an index</li></ul>
Highly concentrated	<ul style="list-style-type: none"><li>• Dedicated focus on smaller companies, typically 150-750m market cap</li><li>• Highly concentrated portfolio: 15-20 positions</li><li>• Focus on industry sectors we know well; TMT, Industrials, Business Services &amp; Healthcare</li></ul>
Long term mindset	<ul style="list-style-type: none"><li>• 3-5 year investment horizon</li><li>• We believe long term, patient capital achieves superior returns in this illiquid sector and that our longer term mindset gives us a significant edge</li><li>• We believe our fund structure reflects the illiquidity of the underlying assets and our long term holding periods</li></ul>
Influencing stake	<ul style="list-style-type: none"><li>• Build influencing stakes and work with management to support our value plan</li></ul>
Capital preservation	<ul style="list-style-type: none"><li>• Look to avoid capital loss by backing businesses that have strong economic ‘moats’</li><li>• Evaluate how alternative owners (PE, trade) will value our companies and seek opportunities where this provides upside or protection</li></ul>





# OIT Board of Directors



<p>Jane Tufnell Chairman</p>		<p>Jane started her career in 1986 joining County NatWest, firstly in corporate finance and then moving to fund management where she jointly ran the NatWest pension fund's exposure to UK smaller companies.</p> <p>In 1994 Jane co founded Ruffer Investment Management Ltd where she worked for over 20 years to build the business to an AUM of £20 billion, before leaving in 2014. Jane now has a variety of directorships including Diverse Income Trust, JPM Claverhouse Trust and Record plc, the currency management specialist.</p>
<p>Arabella Cecil Non-Executive</p>		<p>Arabella started working in financial services in 1987, training in Milan and Paris before CL-Laing in London, where she headed institutional analysis of the food manufacturing sector. In 1998 she founded a media company which specialised in the IMAX format. Between 2008 and 2012 she worked for Culross Global Management, ultimately as a member of the firm's Investment and Risk Committees.</p> <p>In 2012 she co-founded the investment trust BACIT Ltd, which became Syncona Ltd in December 2016. She serves as CIO of Syncona Ltd's fund portfolio until 1st April 2018, and Syncona's Head of Fund Investments thereafter.</p>
<p>Peter Hewitt Non-Executive</p>		<p>Peter has 35 years investment management experience. In 1983 he joined Ivory &amp; Sime managing first US equities and then moving onto UK smaller companies from 1987 -1992. He then focussed on management of UK pension fund accounts until 1996. He moved to Murray Johnstone as Head of UK Equities with a focus on UK income funds.</p> <p>In 2000 Peter re-joined Friend Ivory &amp; Sime and specialised in management of investment trust funds and products. In 2008 he launched the F&amp;C Managed Portfolio Trust onto the LSE and remains the current investment manager of the trust. He is Director, Global Equities of BMO Global Asset Management.</p>
<p>Richard King Non-Executive</p>		<p>Richard spent 35 years with Ernst and Young LLP becoming deputy Managing Partner of UK &amp; Ireland and a member of both the Europe, Middle East, India and Africa (EMEA) Board and Global management group. Since leaving EY, Richard has been involved either as chairman or non-executive director on a variety of private and public companies and has been involved in company disposals in excess of £400 million.</p> <p>Richard is chair of the audit committee of GYG plc a recently listed business on AIM. He is also on the advisory board of Frogmore Property Group and chair of trustees for the Willow Foundation.</p>

# Odyssean Team






Stuart Widdowson Fund Manager		<p>Stuart is the Managing Partner of Odyssean Capital, which he founded in 2017. Stuart has over 18 years experience investing in public and private UK small and mid-size corporates and a further 2 providing investment advise in the same field. Prior to Odyssean he was a Director and fund manager at GVQ Investment Management. In 2009, he became lead fund manager of Strategic Equity Capital plc.</p> <p>Stuart began his career as a strategy consultant undertaking commercial due diligence and strategy projects for private equity and corporate clients. In 2001 he joined HgCapital and spent five years executing small and mid-cap leveraged buyouts, including working on a number of public to private transactions of UK quoted companies.</p>
Ed Wielechowski Fund Manager		<p>Ed joined Odyssean in December 2017. Prior to joining Odyssean Ed was a Principal in the Technology team at HgCapital. He joined HgCapital in 2006 and worked on numerous completed deals, including multiple bolt on transactions made by portfolio companies. He has additional quoted market experience having led all aspects of the successful IPO of Manx Telecom plc in 2014 as well as having evaluated and executed public to private transactions.</p> <p>Ed started his career as an analyst in the UK mergers and acquisitions department of JP Morgan in 2004.</p>
Kate Reid Investor Relations		<p>Kate has over 11 years of experience working in financial services, including 3 years at Algebris Investments where she launched their 'CoCo' fund with c. \$2bn and a UCITS version of their flagship Global Financials fund. She started her Investor Relations career at ZA Capital LLP, a value-focused long-short equity fund, and has also worked at Praxis Fiduciaries, Connolly Global Macro Advisors and New Amsterdam Capital.</p>
Emily Roberts Executive Assistant		<p>Emily joined Odyssean in October 2018 as an Executive Assistant. Prior to joining Odyssean she worked alongside Stuart, Ed and Ian at HgCapital before joining Blue HK Investments in 2010, where she worked for the last 8 years.</p>

# Odyssean Capital Panel of Industry Advisors



We use industry experts who have run businesses to assist due diligence

<p>Lindsay Dibden Healthcare</p>		<p>Lindsay Dibden is our healthcare sector specialist. He spent 23 years in private equity investment and was a founder partner of HgCapital, establishing its Healthcare practice in 1996, which he led for 16 years. During his career, Lindsay was involved in more than 30 transactions. Prior to retiring from the partnership in 2012, Lindsay served on the firm's Investment Committee and Executive Committee. He is now the owner of two healthcare businesses, one providing care in the home in Hampshire and the other offering women's health and IVF services in the home counties. He is also a director of 24Haymarket Ltd, a business engaged in active investment in early stage businesses. In addition he acts as an advisor to Spring Ventures and EVOCO AG and actively manages a diverse portfolio of other investments</p>
<p>John Poulter Industrials</p>		<p>John Poulter is a natural science graduate with over 20 years experience on public and private company boards. He was Chief Executive and Chairman of Spectris plc, during which time the company developed from a small newly-floated engineering group to a leading specialist instrumentation and services provider at number 200 in the FTSE. John has led operations in engineering, electronics, print and packaging, marketing services, distribution and software. He was most recently Executive Chairman of 4imprint plc during which time the company's share price rose more than tenfold. He is currently Chairman of RM plc. He has been Chairman, Committee Chair and Board member of numerous plcs as well as several Investment Trusts.</p>
<p>Roger Siddle Business Services</p>		<p>Roger Siddle has a broad range of relevant experience. He is a former public company CEO, leading BPP Holdings plc prior to its successful sale in 2009, and leading the turnaround at Findel plc between 2010 and 2015. He spent seventeen years of his career at Bain and Company, the global strategy consulting firm, where he became UK Managing Partner and served as part of the global management team. He currently chairs a range of private equity backed businesses, mainly in the business to business services area. He is also a member of the National Volunteer Board of the NSPCC.</p>



# Contact details

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