



W | A | M *Microcap*

Financial Report

For the half year ended 31 December 2019

ABN 34 617 838 418

WAM Microcap Limited

WAM Microcap Limited (WAM Microcap or the Company) is a listed investment company and is a reporting entity. It is primarily an investor in equities listed on the Australian Securities Exchange.

Directors

Geoff Wilson AO (Chairman)
Jacqueline Sullivan
Kate Thorley

Company Secretary

Linda Vo

Investment Manager

MAM Pty Limited
Level 26, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
(part of Wilson Asset Management)

Auditor

Pitcher Partners

Country of Incorporation

Australia

Registered Office

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Sydney NSW 2000

Contact Details

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Share Registry

Boardroom Pty Limited
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For enquiries relating to shareholdings, dividends (including participation in the dividend reinvestment plan) and related matters, please contact the share registry.

Australian Securities Exchange

WAM Microcap Limited
Ordinary Shares (WMI)

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Directors' Report to shareholders for the half year ended 31 December 2019

The Directors present their report together with the financial report of WAM Microcap Limited for the half year ended 31 December 2019.

Directors

The following persons were Directors of the Company during the financial period and up to the date of this report:

Geoff Wilson AO (Chairman – Non-independent)

Jacqueline Sullivan (Director – Independent)

Kate Thorley (Director – Non-independent)

Chris Stott (Director – Non-independent) (resigned 26 July 2019)

Principal activity

The principal activity of the Company is making investments in listed companies. The Company's investment objectives are to deliver a stream of fully franked dividends, provide capital growth in the medium-to-long term and preserve capital. No change in this activity took place during the period or is likely in the future.

Operating and financial review

Investment operations during the half year resulted in an operating profit before tax of \$27,288,635 (2018: operating loss before tax of \$12,876,934) and an operating profit after tax of \$19,689,923 (2018: operating loss after tax of \$8,445,791). The profit for the period is reflective of the strong performance of the investment portfolio over the six months to 31 December 2019. The investment portfolio increased 18.5% in the six months to 31 December 2019, while holding on average 20.1% in cash, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 14.6%.

The operating profit for the period includes unrealised gains or losses arising from changes in the market value of the investments held in the portfolio during the period. This movement in the market value of investments can add to or reduce the realised gains and losses on the investment portfolio and other revenue from operating activities (such as dividend and interest income) in each period. Because of this treatment under the Accounting Standards, this can cause large variations in reported operating profits between periods.

The operating profit or loss for each financial period is reflective of the underlying investment portfolio performance and is important to understand with context to the overall performance of equity markets in any given period. As a result, we believe the more appropriate measures of the financial results for the period are the investment portfolio performance, the change in net tangible assets (NTA) and fully franked dividends, together with total shareholder return.

WAM Microcap's before tax NTA increased 11.9% for the six months to 31 December 2019, including the 4.5 cents per share in fully franked dividends paid to shareholders during the period. This increase is after corporate tax paid of 3.7 cents per share or 2.9% during the period. Corporate tax payments made throughout the period and the performance fee accrued of 2.9% were the major items of difference between the investment portfolio performance of 18.5% and the NTA performance. The franking credits attached to corporate tax payments are available for distribution to shareholders through fully franked

dividends. Other items contributing to the change in value of the assets during the period were management fees of 0.5% and other company related expenses of 0.3%.

The NTA before tax as at 31 December 2019 amounted to \$1.43 per share (June 2019: \$1.32). The NTA after tax was \$1.37 per share (June 2019: \$1.27). These figures are after the 4.5 cents per share in fully franked dividends paid to shareholders during the period.

The total shareholder return for the Company for the period to 31 December 2019 was 23.0%. This was reflective of WAM Microcap's strong investment portfolio performance and the increase in the share price relative to NTA. As at 31 December 2019, WAM Microcap's share price premium to NTA was 1.3%, after commencing the period at a 7.9% discount. This measure does not value the potential benefit of franking credits distributed to shareholders through fully franked dividends.

The Board declared a fully franked interim dividend of 3.0 cents per share, representing a 33.3% increase on the FY2019 fully franked interim dividend, to be paid on 21 April 2020. A fully franked final dividend of 2.25 cents per share and a fully franked special dividend of 2.25 cents per share were paid during the period.

Rounding of amounts to nearest dollar

In accordance with ASIC Corporations (rounding in Directors' Reports) Instrument 2016/191, the amounts in the Directors' Report have been rounded to the nearest dollar, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the *Corporations Act 2001* in relation to the review for the half year is set out on page 6 of this Financial Report.

Signed in accordance with a resolution of the Board of Directors.



Geoff Wilson AO
Chairman

Dated in Sydney this 12th day of February 2020

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**Auditor's Independence Declaration
To the Directors of WAM Microcap Limited
ABN 34 617 838 418**

In relation to the independent auditor's review of WAM Microcap Limited for the half year ended 31 December 2019, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.



S M Whiddett
Partner

Pitcher Partners
Sydney

12 February 2020

Statement of comprehensive income for the half year ended 31 December 2019

	Note	December 2019 \$	December 2018 \$
Net realised and unrealised gains/(losses) on financial assets		31,640,369	(14,201,910)
Other revenue from operating activities	2	2,460,948	2,693,364
Management fees		(1,053,083)	(964,796)
Performance fees		(5,281,633)	-
Directors fees		(23,210)	(27,500)
Brokerage expense on share purchases		(201,338)	(130,234)
Custody fees		(8,925)	(8,463)
ASX listing and chess fees		(72,340)	(69,966)
Disbursements, mailing and printing		(35,497)	(34,085)
Share registry fees		(33,008)	(36,439)
Other expenses from ordinary activities		(103,648)	(96,905)
Profit/(loss) before income tax		27,288,635	(12,876,934)
Income tax (expense)/benefit		(7,598,712)	4,431,143
Profit/(loss) after income tax attributable to members of the Company	6	19,689,923	(8,445,791)
Other comprehensive income			
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income/(loss) for the period		19,689,923	(8,445,791)
Basic and diluted earnings/(loss) per share		13.95 cents	(6.02) cents

The accompanying notes form part of these financial statements.

Statement of financial position as at 31 December 2019

	Note	December 2019 \$	June 2019 \$
Current assets			
Cash and cash equivalents		43,986,470	28,893,613
Trade and other receivables		117,990	761,461
Financial assets	7	165,203,314	164,333,580
Total current assets		209,307,774	193,988,654
Non-current assets			
Deferred tax assets		320,294	323,041
Total non-current assets		320,294	323,041
Total assets		209,628,068	194,311,695
Current liabilities			
Trade and other payables		6,534,568	7,829,575
Current tax liabilities		3,047,226	1,321,270
Total current liabilities		9,581,794	9,150,845
Non-current liabilities			
Deferred tax liabilities		6,462,460	5,718,602
Total non-current liabilities		6,462,460	5,718,602
Total liabilities		16,044,254	14,869,447
Net assets		193,583,814	179,442,248
Equity			
Issued capital	4	154,092,081	153,301,625
Profits reserve	5	40,025,789	26,641,727
Accumulated losses	6	(534,056)	(501,104)
Total equity		193,583,814	179,442,248

The accompanying notes form part of these financial statements.

Statement of changes in equity for the half year ended 31 December 2019

	Note	Issued capital \$	Accumulated losses \$	Profits reserve \$	Total equity \$
Balance at 1 July 2018		152,381,635	-	27,882,054	180,263,689
Loss for the period		-	(8,445,791)	-	(8,445,791)
Transfer to profits reserve		-	(7,527,669)	7,527,669	-
Other comprehensive income for the period		-	-	-	-
Transaction with owners:					
Shares issued via dividend reinvestment plan	4(b)	530,573	-	-	530,573
Dividends paid	3(a)	-	-	(5,606,054)	(5,606,054)
Balance at 31 December 2018		152,912,208	(15,973,460)	29,803,669	166,742,417
Balance at 1 July 2019		153,301,625	(501,104)	26,641,727	179,442,248
Profit for the period		-	19,689,923	-	19,689,923
Transfer to profits reserve	5	-	(19,722,875)	19,722,875	-
Other comprehensive income for the period		-	-	-	-
Transaction with owners:					
Shares issued via dividend reinvestment plan	4(b)	790,456	-	-	790,456
Dividends paid	3(a)	-	-	(6,338,813)	(6,338,813)
Balance at 31 December 2019		154,092,081	(534,056)	40,025,789	193,583,814

The accompanying notes form part of these financial statements.

Statement of cash flows for the half year ended 31 December 2019

	December 2019 \$	December 2018 \$
Cash flows from operating activities		
Proceeds from sale of investments	192,169,037	130,556,102
Payments for purchase of investments	(165,767,684)	(93,531,411)
Dividends received	2,143,672	2,107,471
Interest received	292,659	398,320
Other investment income received	110,173	229,674
Management fee (GST inclusive)	(1,111,579)	(1,053,841)
Performance fee (GST inclusive)	(1,766,767)	(1,877,192)
Brokerage expense on share purchases (GST inclusive)	(215,791)	(139,763)
Payments for administration expenses (GST inclusive)	(298,187)	(317,265)
Income tax paid	(5,126,152)	(372,366)
GST on brokerage expense on share sales	(15,587)	(13,072)
Net GST received from the ATO	227,420	232,010
Net cash provided by operating activities	20,641,214	36,218,667
Cash flows from financing activities		
Dividends paid – net of reinvestment	(5,548,357)	(5,075,481)
Net cash used in financing activities	(5,548,357)	(5,075,481)
Net increase in cash and cash equivalents held	15,092,857	31,143,186
Cash and cash equivalents at the beginning of the half year	28,893,613	35,919,035
Cash and cash equivalents at the end of the half year	43,986,470	67,062,221
Non-cash transactions:		
Shares issued via dividend reinvestment plan	790,456	530,573

The accompanying notes form part of these financial statements.

Notes to the financial statements for the half year ended 31 December 2019

1. Summary of significant accounting policies

These interim financial statements and notes for the half year represent those of WAM Microcap Limited.

The half year financial report was authorised for issue on 12 February 2020 by the Board of Directors.

Basis of preparation

The half year financial statements are general purpose financial statements that have been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34: *Interim Financial Reporting*.

The half year report does not include full disclosures of the type normally included in an annual financial report. It is recommended that the half year financial report be read in conjunction with the Annual Financial Report for the year ended 30 June 2019 and any public announcements made by the Company during the half year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs except for financial assets and certain other financial assets and liabilities that have been measured at fair value. All amounts are presented in Australian dollars.

In accordance with ASIC Corporations (rounding in financial reports) Instrument 2016/191, the amounts in the financial report have been rounded to the nearest dollar, unless otherwise indicated.

The accounting policies have been consistently applied by the Company throughout the period and are consistent with those applied in the 30 June 2019 Annual Financial Report.

2. Other revenue

	December 2019 \$	December 2018 \$
Australian sourced dividends	2,084,135	2,024,615
Interest	245,589	414,937
Trust distributions	81,170	174,967
Foreign sourced dividends	50,054	46,845
Underwriting fees	-	32,000
	2,460,948	2,693,364

3. Dividends

a) Dividends paid during the period

	December 2019 \$	December 2018 \$
Final Dividends FY2019: 2.25 cents per share fully franked final dividend and 2.25 cents per share fully franked special dividend at 30% tax rate, paid 18 October 2019 (Final Dividends FY2018: 2.0 cents per share fully franked final dividend and 2.0 cents per shares fully franked special dividend)	6,338,813	5,606,054

b) Dividends not recognised at period end

	December 2019 \$	December 2018 \$
Since the end of the period, the Directors have declared a fully franked interim dividend of 3.0 cents per share, payable on 21 April 2020 (Interim dividend FY2019: 2.25 cents per share fully franked)	4,243,027	3,161,942

4. Issued capital

a) Paid-up capital

	December 2019 \$	June 2019 \$
141,434,234 ordinary shares fully paid (June 2019: 140,861,776)	154,092,081	153,301,625

b) Movement in issued capital

	December 2019 \$	June 2019 \$
Balance at the beginning of the period	153,301,625	152,381,635
572,458 ordinary shares issued on 18 October 2019 under a dividend reinvestment plan	790,456	-
379,361 ordinary shares issued on 26 October 2018 under a dividend reinvestment plan	-	530,573
331,078 ordinary shares issued on 26 April 2019 under a dividend reinvestment plan	-	389,417
At reporting date	154,092,081	153,301,625

5. Profits reserve

	December 2019 \$	June 2019 \$
Profits reserve	40,025,789	26,641,727

The profits reserve is made up of amounts transferred from current period profits which are preserved for future dividend payments.

	December 2019 \$	June 2019 \$
Movement in profits reserve		
Balance at the beginning of the reporting period	26,641,727	27,882,054
Transfer of profits during the period	19,722,875	7,527,669
Final and special dividends paid (refer to Note 3(a))	(6,338,813)	(5,606,054)
Interim dividend paid (refer to Note 3(b))	-	(3,161,942)
At reporting date	40,025,789	26,641,727

6. Accumulated losses

	December 2019 \$	June 2019 \$
Balance at the beginning of the reporting period	(501,104)	-
Profit for the period attributable to members of the Company	19,689,923	7,026,565
Transfer to profits reserve	(19,722,875)	(7,527,669)
At reporting date	(534,056)	(501,104)

7. Financial instruments measured at fair value

AASB 13: Fair Value Measurement requires the disclosure of fair value information using a fair value hierarchy reflecting the significance of the inputs in making the measurements. The fair value hierarchy consists of the following levels:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs).

Included within Level 1 of the hierarchy are listed investments. The fair values of these financial assets and liabilities have been based on the closing quoted last prices at the end of the reporting period, excluding transaction costs. Included in Level 2 in the prior period is an investment in an initial public offering which settled after the end of the period.

7. Financial instruments measured at fair value (cont'd)

The following table presents the Company's financial assets and liabilities measured and recognised at fair value at 31 December 2019:

31 December 2019	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets	164,656,722	546,592	-	165,203,314
Financial liabilities	-	-	-	-
Total	164,656,722	546,592	-	165,203,314

30 June 2019	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets	161,833,580	2,500,000	-	164,333,580
Financial liabilities	-	-	-	-
Total	161,833,580	2,500,000	-	164,333,580

There was one investment which was delisted in December 2019 which was transferred between Level 1 and Level 2 during the period (June 2019: nil).

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

8. Segment reporting

The Company engages in investing activities, including cash, term deposits and equity investments. It has no other reportable business or geographic segments.

9. Capital commitments

There were no capital commitments entered into by the Company before period end which settle after period end (June 2019: nil).

10. Contingent liabilities

There were no contingent liabilities for the Company as at 31 December 2019 (June 2019: nil).

11. Events subsequent to reporting date

Since the end of the period, the Directors declared a fully franked interim dividend of 3.0 cents per share to be paid on 21 April 2020.

No other matter or circumstance has arisen since the end of the period, other than already disclosed, which significantly affects or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial periods.

Directors' Declaration

The Directors of WAM Microcap Limited declare that:

- 1) The financial statements and notes, as set out on pages 7 to 14, are in accordance with the *Corporations Act 2001*, including:
 - a) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - b) giving a true and fair view of the financial position of the Company as at 31 December 2019 and of its performance for the half year ended on that date.
- 2) In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors.



Geoff Wilson AO
Chairman

Dated in Sydney this 12th day of February 2020

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Sydney NSW 2000

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**Independent Auditor's Review Report
to the Members of WAM Microcap Limited
ABN 34 617 838 418**

Report on the Half Year Financial Report

We have reviewed the accompanying half year financial report of WAM Microcap Limited ("the Company"), which comprises the statement of financial position as at 31 December 2019, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, a summary of significant accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half Year Financial Report

The directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: "*Review of a Financial Report Performed by the Independent Auditor of the Entity*", in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporation Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2019 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134: "*Interim Financial Reporting*" and the *Corporations Regulations 2001*. As the auditor of WAM Microcap Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the half year financial report consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of WAM Microcap Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the half year ended on that date; and
- (ii) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001*.



S M Whiddett
Partner



Pitcher Partners
Sydney

12 February 2020

Wilson

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