Contact Asset Management

INSIGHTS

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CONTACT ASSET MANAGEMENT

Selecting High-Quality, Resilient Companies in an Era of Market Uncertainty (Mid & Small Caps)

In 2025 to date, equity markets have experienced significant volatility. This turbulence underscores the critical role of high-quality, resilient companies in a well-constructed investment portfolio. Such companies, characterised by low volatility, stable earnings and defensive business models, serve as anchors during market storms, preserving capital and delivering consistent returns.

Contact Asset Management takes a long-term and quality-first approach to investing. In this Contact Insights piece, we discuss three small/mid cap investments to highlight the resilience we have identified. These businesses should provide stability when market sentiment sours. Moreover, their resilience positions them to capitalize on recovery phases, as seen in historical rebounds following market corrections.

What is the benefit of resilience in portfolios?

High-quality, resilient companies offer several advantages. First, their low volatility, often measured by a low beta relative to the broader market, minimises portfolio drawdowns. During the April sell-off, defensive sectors like consumer staples and utilities outperformed, as investors sought safety. Second, these firms maintain strong balance sheets and diversified revenue, reducing exposure to global shocks. Below we discuss the relative resilience of Metcash (MTS.ASX), a consumer staples wholesaler, REA Group (REA.ASX), a real estate advertising business and IPH Limited (IPH.ASX), a niche intellectual property services firm.

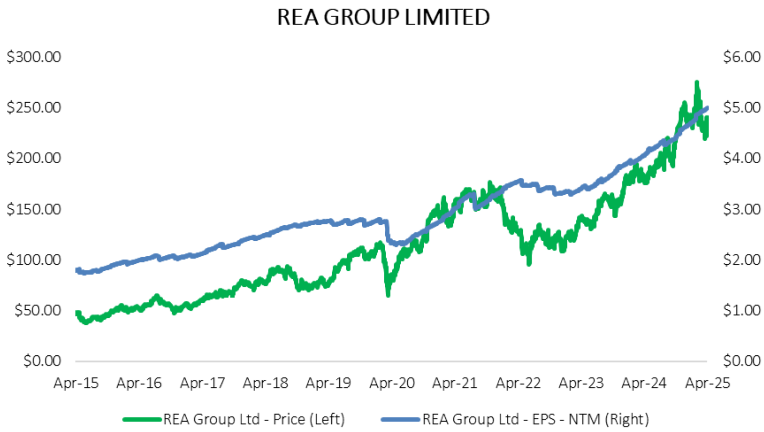
Resilient companies also pave the way for long-term portfolio success by combining stability with growth potential. Metcash's consistent earnings, driven by grocery demand and REA Group's reliable revenue from agent subscriptions, as seen in their strong February 2025 results, support dependable dividends and resilience across economic cycles. IPH's acquisition-driven growth and diversified global operations further reduce exposure to trade tensions, offering a buffer against market uncertainty. By prioritizing such high-quality, resilient equities, investors can avoid panic-selling during downturns and position themselves for gains in market recoveries. For Australian investors, these stocks provide a robust foundation, balancing risk mitigation with the promise of sustained returns in an unpredictable landscape.

REA Group (REA.ASX)

REA Group has demonstrated resilience despite market challenges. In its 1H25 result, the company grew revenue 18% despite real estate market headwinds, supported by demand and higher pricing. REA's market dominance underscores its resilience. REA's flagship platform, realestate.com.au, captures c.65% of Australia's adult population monthly (12 million users). Its near monopoly in online real estate advertising, with 132 million monthly visits versus Domain's smaller share, ensures stable revenue. Real estate agents rely on REA's tools and listings, entrenching its role in the market.

Real estate advertising is tied to essential economic activity—buying, selling, and renting homes. Even in downturns, demand for listings persists, as seen in REA's ability to raise prices during the 2019 slowdown. Unlike cyclical sectors, REA's services are less sensitive to discretionary spending

The following chart demonstrates the resilience of REA's earnings. The blue line is the forecast Earnings Per Share (EPS) for the next twelve months, which has shown a steady improvement over many years. This resilience gives us confidence to take advantage of short-term fluctuations in the share price.



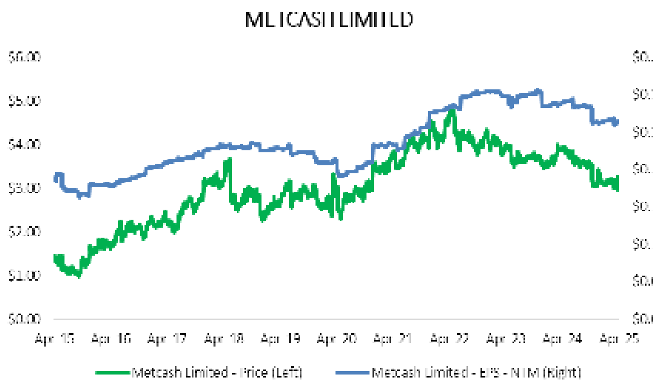
Source: Factset, Contact Asset Management

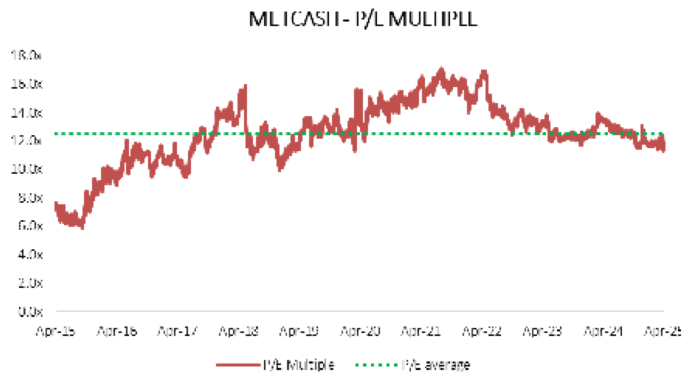
Metcash Limited (MTS.ASX)

Operating primarily in consumer staples through its food, liquor and hardware divisions, Metcash supplies independent retailers such as IGA, Cellarbrations and Mitre 10. Its resilience stems from a defensive business model, stable revenue streams and a domestic focus, which insulate it from global economic shocks. As a cornerstone of Australia's retail supply chain, Metcash's performance during market turbulence underscores its value in a diversified portfolio, offering low volatility and consistent earnings.

Looking ahead, Metcash is well-positioned to remain resilient if market volatility persists. Its solid balance sheet and cash flow generation supports dividends and reinvestment in growth initiatives including e-commerce and supply chain upgrades. Its cost out program will ensure it continues to absorb competitive pressures from Coles, Woolworths and Aldi.

The following charts highlight MTS earnings resilience. We believe that the stock offers attractive value based on its P/E multiple, which remains below historical averages and well below its supermarket peers.





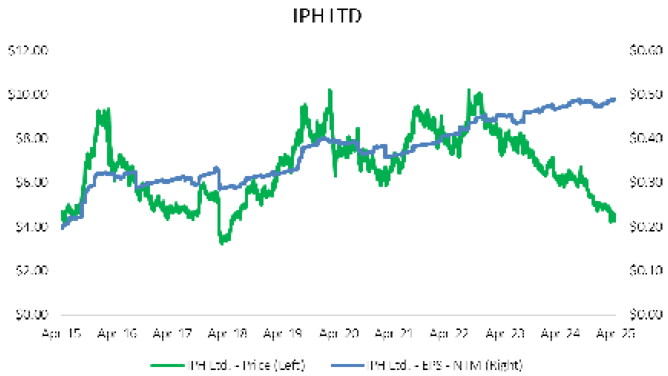
Source: Factset, Contact Asset Management

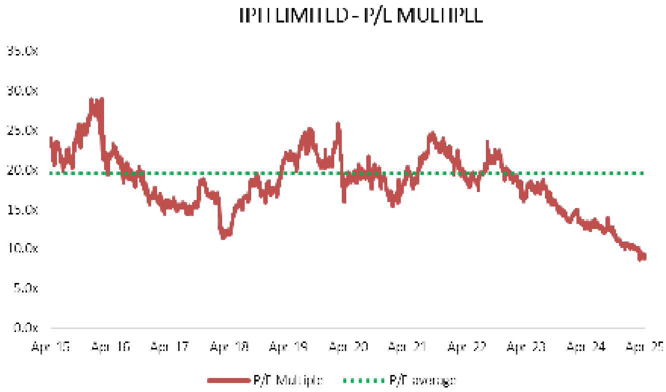
IPH Limited (IPH.ASX)

IPH Limited a leading intellectual property (IP) services provider in Australia, Canada and the Asia-Pacific, has exhibited notable earnings resilience in recent years. Of interest, this has not been reflected in the company's share price performance.

Operating a network of IP firms including Spruson & Ferguson and AJ Park, IPH offers patent, trademark and legal services, serving a diverse client base from startups to multinationals. Its resilience is driven by a defensive business model and stable demand for IP services. Its February results were solid, with revenue increasing by 19% and EBITDA by 16%. The company has been acquisitive in recent years and investors became wary of subsequent capital raisings and increased borrowings to fund the growth. While we believe in the strategic rationale of IPH's expansion strategy, we think that management execution of the M&A could have been better. We now expect that IPH management will bed down the acquisitions and the benefits will flow to improved profitability.

In the meantime, the disconnect between resilient earnings and execution of M&A has seen a decline in the share price and earnings multiples. The following charts present a compelling case for IPH. Earnings are resilient; IPH's business model capitalises on the essential and growing need for IP protection in a knowledge-driven economy. Demand for patents and trademarks remains steady across economic cycles, as businesses prioritise safeguarding innovations, particularly in technology and pharmaceuticals. IPH's diversified operations across Australia, New Zealand, Asia and Canada mitigate regional risks. We have been adding IPH to the portfolio.





Source: Factset, Contact Asset Management

Conclusion

Incorporating resilient stocks is not just a defensive strategy but a cornerstone of long-term portfolio success. At Contact, we appreciate companies with recurring revenue streams, solid cash flow generation, robust balance sheets and resilient earnings. This stability allows investors to avoid panic-selling during downturns and positions them to capitalise on market recoveries. We believe that by prioritising high-quality and resilient companies, investors can achieve a balance of safety and growth, ensuring portfolios remain robust against the unpredictable waves of market uncertainty. We also believe that periods of market uncertainty present wonderful opportunities for the long-term investor.

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