

## MUSCIT

Investment Commentary  
Q4 2024



### Quarterly review

During the quarter, the NAV of the Montanaro UK Smaller Companies Trust (“MUSCIT”) fell by -1.3% in line with the benchmark. For the calendar year, the NAV rose by +4.5%, below the benchmark return of +9.5% but almost matching the +5% return of the index including AIM.

We feel it was a respectable year. Relative to our Peer Group of eight UK SmallCap investment trusts, MUSCIT’s share price was top over 3 months; second over 6 and 12 months; and fourth over three years. Could be worse.

It was a quiet quarter. We were getting excited by the recovery seen in the second and third quarters and hopeful for a Santa Claus rally in the final quarter, possibly marking the return to favour of SmallCap. This did not come to pass. A sharp rise in interest rates and a poorly received Budget sapped investor confidence. Shame.

The strongest contribution came from **Raspberry Pi**, the maker of affordable single-board computers, which released strong results, launched a well-received new product and announced an exciting distribution partnership. **Games Workshop**, the creator of the Warhammer fantasy miniatures and tabletop games, advanced on the finalisation of its Amazon deal and entry into the FTSE 100. **DiscoverIE**, the designer and manufacturer of customised electronics for industrial applications, outperformed

following the release of its H1 2025 results, which showed record operating margins and an improvement in order intake, with management confident the company has turned the corner.

The weakest contribution came from **Big Yellow**, the leading provider of self-storage solutions, which underperformed following H1 2025 results that came in below consensus expectations. However, management anticipates stronger earnings growth in H2 and for the full year. **Bytes Technology**, the provider of IT and software solutions, underperformed as investors worried about risks to margins arising from changes in Microsoft's rebate structure. **Genuit**, the supplier of sustainable water, climate and ventilation management solutions, traded lower due to concerns about the impact of the Labour budget on economic growth.

## Manager comments

ME Group is a global leader in operating automated instant-vending machines across eighteen countries. Probably best known for photobooths at train stations where you get your passport photo, they also operate washing machines; digital printing machines; juice and pizza vending machines; and even kids' rides. They have four main businesses: Photo.ME; Wash.ME; Print.ME and Feed.ME.

They partner with high-footfall site owners such as supermarkets, petrol forecourts, train stations typically in five-year deals with a 99% renewal rate. ME Group installs the machines and looks after care and maintenance. The site owner pays the utility bills and shares in the revenue - photo booths in the UK pay them a commission of 30% - 45%. Not bad.

Photobooths are relatively mature and are a cash cow. They are rolling out next generation booths that have biometric capabilities (fingerprint, iris recognition, digital signature). Growth is mainly coming from rolling out laundry units. They expect these to more-than-triple in the next decade to reach 20,000 units, which represents a CAGR of 14%.

Who uses them? As it is a long time since I was a student making a weekly stop to the launderette, these days the demand is far wider: families, large items like duvets and dog blankets, B2B (AirBnb, hospices) and travellers (truckers). Ireland is one of the most penetrated markets, with one Revolution washing machine per 10,000 citizens. Applying this ratio to their other markets underpins confidence in a large growth opportunity.

There are also new initiatives such as key cutting equipment which they will enter this year, competing with Timpson.

## What caught our eye?

We like companies with a long history that have seen it all before. ME Group was founded before I was born in 1954 and floated on the stock market in 1962. Rather like our own business, it is family owned (37%) and managed. It was founded by Serge Crasnianski (Chief Executive Officer & Deputy Chairman). His daughter Tania (a lawyer) is on the Board and his son Vlad is the managing director of the UK operations and in charge of investor relations – our main point of contact. It really is a family affair. Some will shout about poor corporate governance. On the contrary, in the world of small companies, we see this as a key strength and take the opposite view.

Serge started the company at 21 developing the first automated key cutting machine after getting locked out of his flat. His real love and skill lie in the invention / development of machines. Every month there is an innovation meeting where leaders in the business talk about what they are seeing in the field and brainstorm about what may work.

There are two research and development teams, one in Vietnam and another in Grenoble. With over 120 people, they are constantly looking at different things all around the world. Serge is at the forefront and is full of ideas. One of his latest concepts is a photobooth where you go inside, tell it about your dream, and then using generative AI it will create an image of your dream and print it out for you.

The financials are great: group EBITDA margins of 36% and ROCE of 45% with earnings growth expected of around 8% pa over the next five years. You are only paying a P/E

multiple of around 13x. This attractive valuation may be because ME Group is not widely followed. Some dismiss the company as boring and wonder why anyone would invest in photobooths. It is much more than that and this creates an opportunity. *It is a growth company priced as a value stock.*

We took a toe-hold position in ME Group before Christmas and will continue to build this up this year. On 20 January 2025, Vlad made the following announcement:

*“We are pleased to extend our partnership with Morrisons for an additional five years, which will see the rollout and installation of at least 200 Revolution laundry machines at its sites over the next three years.”* [They have just over 100 currently].

*“As a leading supermarket innovator in the UK, Morrisons is the perfect partner to offer our laundry services to customers as they carry out their weekly supermarket shop. This new contract builds on our existing relationship where we have a number of other services in place across Morrisons high footfall locations, including photobooths and children’s rides which provide fantastic synergies for both parties.”*

Morrisons is a key strategic partner for ME Group (with a relationship spanning over 30 years). We like that.

Charles Montanaro

21 January 2025

Ps Raspberry Pi has now more than doubled since we invested in the IPO last year. Please do not believe for a moment that this happens all the time. We are delighted for the management team and grateful to them for delivering on all their promises since we met them ([see my previous commentary here](#)).

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