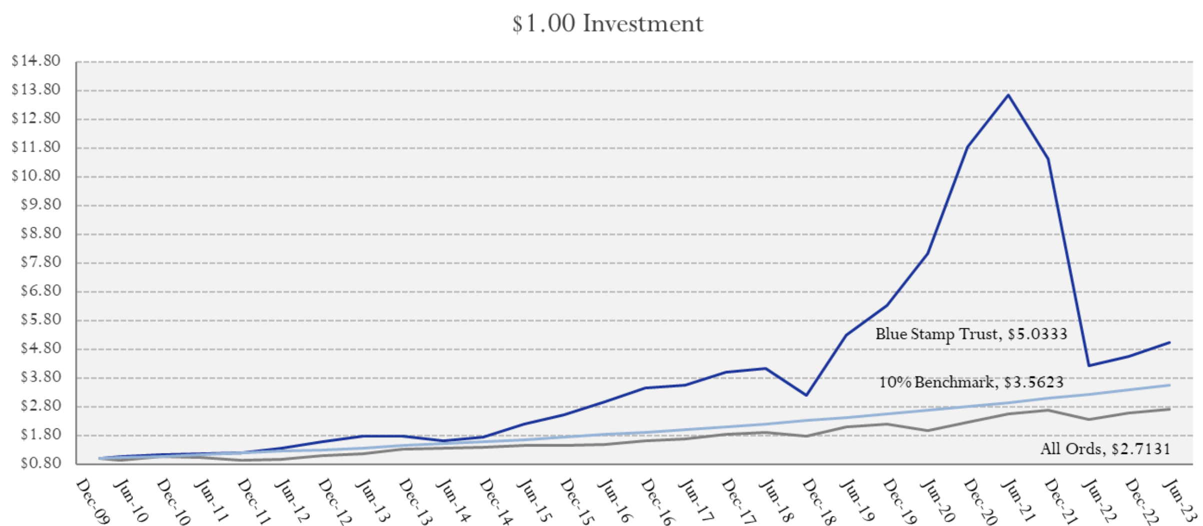
31st July 2023

To the Unitholders of Blue Stamp Trust,

The Lead Class unit price at the end of June 2023 was $4.4178/unit – representing a gain of 19.73% for the 2023 financial year.

The following graph tracks the change in value of $1 invested in the Trust versus the 10% Benchmark and the All Ords Index. The value of the investment in the Trust is for Lead Class units, after all fees and includes the reinvestment of any distributions.

If you hold units in classes other than the Lead Class, please login to your account at www.bluestampcompany.com/investors/ to find the relevant pricing information.



The bi-polar nature of 'Mr. Market' was on full display throughout FY23, particularly as we look at our holding in Megaport (MP1.ASX). When we last spoke to you about the business three months ago, Megaport was one of the most-shorted companies on the ASX with sentiment toward the company at an all-time low. Taking advantage of Mr Market's depressive mood, we increased our ownership of Megaport over the Mar-23 quarter and early in the Jun-23 quarter, a decision which looked almost prescient in hindsight, with the stock up over +75% over the ensuing period (and even higher after quarter end)[1].

There were a few events throughout the quarter that likely contributed to Megaport's swift reversal in sentiment. The first was the significant rebound in growth for the company, defying the trend of slowing growth exhibited at AWS, Azure, and Google Cloud Platform (GCP) – with Megaport's monthly recurring revenue (MRR) growing +49.1% YoY (and +14.1% QoQ) to A$14.1 million in the Mar-23 quarter, their highest growth rate in percentage terms since the Jun-20 quarter. Additional comments made by Chairman, Bevan Slattery, also confirmed that the weakness in growth seen in prior quarters was mostly due to internal factors rather than a structural reduction in demand for Megaport's services, with churn in the company's direct sales team being a major contributing factor. Outside of reducing cash burn and delivering profitability, rebuilding a high-performing direct sales team is a significant priority

[1] The +75% increase in MP1.ASX's price is measured from 31/3/23 to 30/6/23.

for the business, with a doubling in the team expected over the short term as the company tries to increase the cadence of new customer acquisition and MRR growth.

Other significant events contributing to the reversal in sentiment were the release of a near term forecast for profitability which exceeded our (and the market's) most optimistic expectations, and reaffirmation by the company that they have enough cash to fund ongoing operations with cash flow breakeven within striking distance. While we had already appreciated the latter, it seems that the wider market needed a little more convincing.

Before we take too many victory laps for reallocating capital to MP1 last quarter, let us remind you that the consequences of our decisions should be measured over much longer periods of time than a mere quarter or even a year. We are not traders, but long-term business owners. Just as a small business owner wouldn't try to sell and buy back their business every few months, we aim to buy pieces of great businesses at attractive prices and hold them for as long as possible – so long as the economic characteristics of the business continue as expected (or better than), someone gives us an offer we can't refuse, or we find a far better opportunity to reinvest that capital into. Ultimately, our investment returns will accrue over time as cash flows from the business are reinvested into developing new products, acquiring new customers, entering new markets, used to acquire additional assets or businesses, or returned to us in the form of cash dividends or reduced share count.

To that end, the businesses we own were incredibly busy over the Jun-23 quarter with improving their existing products, as well as launching new products, features, and markets. Block (SQ.NYSE) and its subsidiaries continue to add new products and features at such a pace, that it's increasingly difficult to keep up with! Of note, however, was the recent launch of the Square Credit Card, a fee-free financial product issued on the American Express card network which provides Square sellers with yet another tool to manage their cash flow, and it's aesthetically pleasing to boot. See below anecdote from a current Square seller – the list of companies out there servicing small businesses whose products get compared to Apple's is incredibly short[2]!

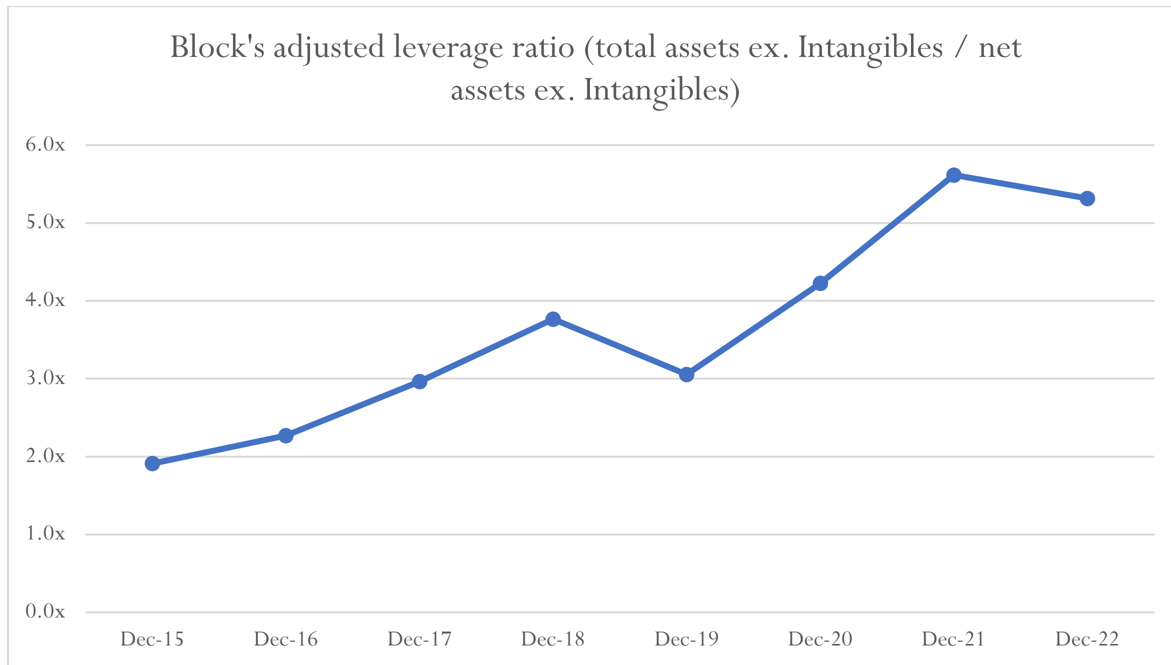
@CityLifeinArizona 10 days ago
OMG Square, I already bought the Square Terminal, Square Stand, Square chip reader, Square debit card, Square checking account, Square loan...and now you're going to make me get this. Your products to me are as addictive as Apple products, :D.

Due to their payment processing relationship with their customers, Square possesses distinct advantages over other traditional banks and financial institutions when it comes to providing credit-based financial services. Due to the volumes of payment data they have on their customers, Square benefits from a more timely pool of information to make underwriting decisions on. Having already collected identity verification information on their customer and having onboarded them into the Square Dashboard, the additional admin required to sell services such as Square Loans and the Square Credit Card is trivial and frictionless, with these services pre-approved before the customer even applies (no long forms to fill out!). Most importantly, due to the customer's sales volume flowing over Square's 'rails', Square is in pole position to collect their funds in the event of customer default. So not only can Square achieve a lower cost of acquisition on distributing these new financial services, but they can also maintain superior underwriting performance as well.

As Block has bundled different financial services into their business facing and consumer facing products over the years, the company's balance sheet and economics have evolved closer to that of a bank's with

[2] Source: YouTube – Introducing the Square Credit Card

large loan and consumer receivables balances, customer asset and deposit liabilities, long-term bond obligations and shorter-term warehouse funding facilities to help fund loan growth. The evolution of Block's balance sheet from a payments company to that of a bank is displayed in the following chart, showing an increase in Block's leverage ratio from 1.9x at Dec-15 to 5.3x at Dec-22.



Despite the increasing leverage used in Block's operations, the company remains in a robust financial position with over 63% of their $17.5 billion in total tangible assets at Mar-23, held in highly liquid cash and equivalents with the balance in short-term receivables associated with their Afterpay, Cash App, and Square Loan offerings, most of which have maturities of less than 12 months.

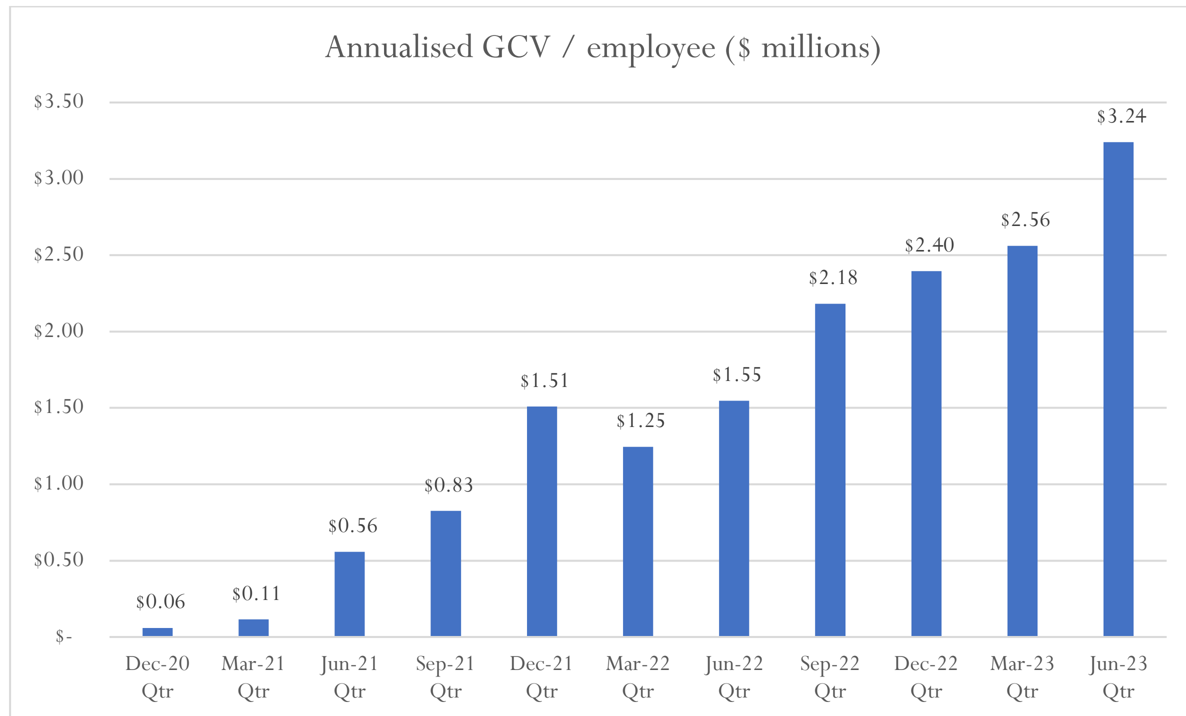
While Block has made their fair share of blunders when it comes to capital allocation (the TIDAL acquisition being their largest in our opinion), we remain impressed by their conservative approach to balance sheet management – something that was made more evident after the March 2023 banking crises which resulted in the collapse of Silicon Valley Bank (SVB), Signature Bank, and other long-standing US financial institutions. Rather than increasing balance sheet risk for the sake of eking out a couple of extra basis points of profit from commodity banking products, Block continues to rely on solving valuable and ignored problems for their small business and consumer customers with simple and accessible products to grow earnings.

Marmalade also made some very exciting developments through the quarter. One was the release of v3 of Marmalade's payment matching algorithm 'PayMo', which has almost doubled the percentage of payments that are reconciled without human intervention (to around 60%, by number) and made a noticeable reduction in the amount of time spent by the team to process payments to Suppliers. As we've highlighted in prior letters, the continued reduction in the percentage of payments that need human intervention is crucial for allowing Marmalade to scale GPV to many multiples on current levels without needing to inject more people in the business to handle that extra volume. Additionally, the team developed automated pay-out functionality which, as the name suggests, automatically processes payments to Suppliers six times a day.

These two developments have vastly decreased the average time between when Marmalade receives payments on behalf of their Suppliers to when those funds are paid-out to them. Instead of sitting on

Supplier funds for one business day (or more!) while they wait to be matched to the correct invoice and manually paid to the Supplier's bank account, the delay in payment resulting from Marmalade's intermediation will now be barely noticeable. A seamless invoice payments experience is critical for attracting and retaining Suppliers, and these improvements will hopefully result in increased scalability of the Marmalade platform whilst improving Supplier satisfaction and retention.

Marmalade has already displayed impressive operating leverage to date, with annualised Gross Cashed-in Value (GCV) per employee coming in at $3.24 million in the Jun-23 quarter, over double that of the Jun-22 quarter.



Given that Marmalade's largest expense is employee salaries and wages, continued growth in GCV as well as improvements in their automated payment matching capabilities will bring the company closer and closer to cashflow breakeven and accounting profitability – not bad for a company that's barely three years old!

Marmalade achieved yet another record quarter across all key metrics, shown in the table below[3].

The company completed its second full financial year in Jun-23, recording GCV of **$85.9 million** in FY23, up +130% on FY22. Revenue increased by +182% to **$2.92 million** in FY23 and grew faster than GCV, due to increasing the average price of a cashed-in invoice.

[3] Active Supplier is defined as a Supplier who in the last 30 days has issued an invoice with Marmalade as the payment service
Gross Payment Value (GPV) is defined as the value of payments received by Marmalade and matched to an invoice.
Total Invoice Value (TIV) is the value of invoices created by Active Suppliers.
Gross Invoice Value (GIV) is the value of invoices with Marmalade payment details created by Active Suppliers.
Gross Cashed-in Value (GCV) is the value of invoices cashed-in by Active Suppliers.

		Jun-22 Qtr	Sep-22 Qtr	Dec-22 Qtr	Mar-23 Qtr	Jun-23 Qtr	YoY %
Active Suppliers	#	92	93	102	114	134	+ 46%
Gross Payment Value (GPV)	$ millions	33.4	46.7	56.1	53.0	70.2	+ 110%
Total Invoice Value (TIV)	$ millions	63.2	75.1	80.4	85.4	128.3	+ 103%
Gross Invoice Value (GIV)	$ millions	43.9	57.3	67.1	71.8	106.2	+ 142%
GIV / TIV	%	69.5%	76.3%	83.5%	84.0%	82.7%	
Gross Cash-in Value (GCV)	$ millions	13.9	19.1	19.8	21.1	25.9	+ 86%
GCV / GIV	%	31.7%	33.3%	29.4%	29.4%	24.4%	
Revenue	$	400,147	630,549	669,010	731,750	886,266	+ 121%
Average cash-in fee % of GCV	%	2.87%	3.30%	3.38%	3.46%	3.42%	

We remain excited about the future ahead of this business and the returns it may produce for our Unitholders.

While we could write endlessly about the companies in our portfolio, we're sure that you're probably getting sick of hearing about the same companies in these letters… rest assured that we are as active as ever in finding the next opportunity to add to the portfolio.

Throughout the Jun-23 quarter one of the companies we revisited was Lovisa (LOV.ASX), a fashion-jewellery retailer that Brock has owned in the past before joining Blue Stamp and one that you (or your daughters) may be quite familiar with. On the surface, Lovisa looks very different to the businesses in our portfolio – their products and services are rooted in the physical world, and the company pays consistent dividends – however it shares many other characteristics that we look for in a business. For starters, Lovisa's brand has strong recognition in its home market of Australia and is loved by many young women entering adulthood as well as those already well into it, due to their affordable, yet fashionable earrings, necklaces, chains and more. The business is incredibly cash generative and possesses unit economics that many retailers could only dream of, comfortably earning over 40% annual returns on up-front store fit-out costs and working capital associated with new stores[4]. Over the last 12 months, LOV achieved an annual return on assets (ROA), measured by dividing profits before tax (PBT) by average total assets, of 23.8%.

Impressively, Lovisa has grown revenues by a +21.3% p.a. on average over the last 7 years to $556.4 million in CY2022 despite making cumulative dividend payments of ~$246 million. Though with such high returns on new store investments and such a large store rollout opportunity remaining (particularly in the US), we wonder whether there might be better uses for that cash rather than lining investor's pockets.

However, unlike other businesses in our portfolio, there is no wide moat to protect the business from any deterioration in the competitive landscape – with the business likely having sustained high returns on invested capital due to operational efficiency and focus, but also a lack of direct competition in its key markets. Thus, if we did own this business, we would need to be closely watching the competitive landscape, consumer preferences, and returns on capital for any potential deterioration in performance.

Despite the slowdown in discretionary consumer spending that's been occurring across the world, Lovisa's business, and share price, has held up quite well. As a result, shares in Lovisa remain out of our

[4] A 10-year internal rate of return calculation comparing per store cash flows before interest and tax to the upfront capital expenditures and working capital investment required to open and refurbish the store.

price range although we've added it to the 'bench' of businesses that we would like to own at the right price.

A crucial part of generating extraordinary long-term compounded returns is ensuring we pay a low price relative to our assessment of the business's intrinsic value. Therefore, we must remain patient and disciplined enough to stick to our 'hurdle rate' for required returns on capital – it just means we may have to remain spectators to some of the greatest companies on the planet for very long periods of time, Spotify (SPOT.NYSE) being one of them (and a topic for another letter), while we wait for an opportunity to strike. As investors, we must revel in this challenge, continuing to work hard, turning over rocks, looking for a nugget of gold that's priced as coal.

Finally, we exited our position in Toast (TOST.NYSE) during the quarter after less than a year of ownership. While we still admire their products, market opportunity, competitive position, management team, and financial performance, we felt that the market was overly enthusiastic about the business's future earning power. With other more compelling opportunities within the portfolio for long term wealth creation and a more than fully invested portfolio, we had to make the unfortunate decision to place TOST back onto the bench. Being more assertive with selling positions when we feel the future returns have been compressed, is a key lesson we have taken away from the past year.

With markets continuing to gyrate to the song and dance of inflation and interest rates, TOST may get another run on the field yet.

Thank you for the opportunity to invest on your behalf.

Kind regards,

Luke Trickett and Brock McCamley
Blue Stamp Company Pty Ltd

Performance Summary (Lead Class units)

	Jun-23 Qtr	1 year	3 years	5 years	2-Mar-10*
BST^	21.29%	19.73%	(16.06%)	4.12%	12.89%
Benchmark	2.50%	10.00%	10.00%	10.00%	10.00%
AOAI	1.01%	14.75%	11.42%	7.34%	7.78%

^Blue Stamp Trust returns are net of all fees and charges and assume the reinvestment of distributions. Annualised returns are shown for periods of 1 year or greater.
*Blue Stamp Trust commenced on 2 March 2010
AOAI – All Ordinaries Accumulation Index

This document contains general information only and is not an investment recommendation. Blue Stamp Company Pty Ltd (ACN 141 440 931) (AFSL 495417) ('Blue Stamp') is the Trustee and Manager of the Blue Stamp Trust ('Trust'). Blue Stamp accepts no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. Blue Stamp does not guarantee the performance or repayment of capital from the Trust. Past performance is not a reliable indicator of future performance. Please consider the Information Memorandum ('IM') and investment risks before making any decision to invest, acquire or continue to hold units in the Trust.