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Why Dean Fergie likes Skydive the Beach, Freelancer, and Afterpay



Cyan's Dean Fergie says social media is a huge driver of consumer choices. Stefan Postles



by [Vesna Poljak](#)

The impulse for people to share their lives on social media is a significant driver of consumer behaviour and one that fund manager Dean Fergie thinks will be an enduring source of interest for small caps stocks.

One of Cyan Investment Management's performers has been [Skydive the Beach](#), the listed skydiving operator that drops thrillseekers onto iconic spots such as Mission Beach and Byron Bay instead of paddocks.

"Twenty years ago if I jumped out of a plane, it would be pretty exciting, but I couldn't tell everyone about it. So my propensity now to do stuff that's exciting, that's going to impress my friends is much greater than it was before social media," explains Fergie, who has skydived.

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It's the same reason why people line up for an hour outside a hip cafe for "truffled mushrooms with edible flowers on some sort of quinoa toast" – "they want experiences, and they want stuff they can tell people about", he says.

"There's also this trend towards instant gratification, 'I'm never going to be able to buy a house, it's out of my league, so I'm going to go for a nice dinner, drink some expensive wine, going to go skydiving, get a new V8 car or go on a holiday'. It's reasonably affordable and everyone's impressed by it."

Fergie describes Skydive the Beach as a reasonably simple business with growth and economies of scale.

"I say this half jokingly, but not really, you see parachutes coming down all the time in St Kilda or Byron Bay. Four hundred, eight hundred, twelve hundred, sixteen hundred; that's how many dollars are coming down." Customers pay for photos or video of their jump, and wait for the social media 'likes' to roll in.

Don't obsess on the stock price

Over 2015-16, the Cyan C3G Fund returned 41.4 per cent, ahead of the All Ordinaries Accumulation Index's 39.4 per cent.

Fergie seeks out companies from \$50 million up to \$1 billion in market value with double-digit growth, book-ended in the business cycle between concept and maturity.

"There's a real sweet spot between 'I've got an idea', and that idea's working, to that idea's profitable and making money."

Fergie believes the risks in large caps are understated, but acknowledges that some people like the perceived safety of big businesses. BHP Billiton, he notes, is trading at

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business," he says. A \$40 billion fund manager has to make \$4 billion to earn 10 per cent but a small cap manager only needs to find \$10 million.

"When these growth businesses are trading on reasonably high multiples, there's a bit of risk there. Having said that, our view is buying a growth business you only have to worry a little bit about the value and the timing because if a business is growing it's going to catch up with its valuation in the next one to two years.

"We'd much rather buy a business that's increasing in value. Even if we think we're overpaying a bit now, we won't be overpaying in a year's time. Whereas buying a business that's in decline, because it's cheap ... that's the bottom picking mentality you've seen with media stocks, they all look cheap because the business is going backwards."

He is not a fan of management teams that obsess over the stock price, or get caught up in the hype of their own success. "We used to joke the very top of the market for any stock is when the MD gets put on the front of *BRW*," he says.

"The only reason you worry about your share price is because you want to raise money or you're looking to sell. It's only because you want access to capital. It's your business to run your business, it's investors' business to work out what it's worth."

Fergie, who is into kite-boarding and cycling, graduated as a civil engineer, but finished university at a time when Australia was experiencing an infrastructure slump, which meant nobody was hiring engineers. He ended up working as a quantitative analyst at National Asset Management, which is how he got into funds management.

Cyan tries to avoid making wrong calls, "and that means saying no to a lot more than we otherwise should", but "if we can get seven out of 10 right we'll be doing very well". The biggest success to date has been Bellamy's. One that failed was diagnostics group Capitol Health.

"You had these masses of problems," recalls Fergie, [an] acquisition's going badly, your core business being under threat and management being distracted by doing other things. It all just went pear-shaped." Cyan cut its losses early and the stock has sunk to 14¢.

Freelancer could be a \$5b company

He is more optimistic about Freelancer, [the online freelance marketplace which is growing quickly but has never made a profit](#).

"It could easily be a \$5 billion company," the fund manager says. "The problem is it doesn't make any money yet, but it doesn't lose [much] money."

It fits Cyan's philosophy of a business that makes sense, is run well, and people either

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done by a designer in Macedonia for \$200.

Domino's Pizza Enterprises is another example: "It is an unbelievable service, it really is, it's extraordinary. You've got that machine working so beautifully."

A small cap to watch, he believes, is Afterpay, which is recording strong growth by [acting as a buy-now-pay-later intermediary for merchants and shoppers online](#). "The consumer says 'that's great', the merchant says 'this is great, we're selling it for full price to a guy we otherwise may not have sold it to' and Afterpay take a bit of credit risk but they know it's not much," explains Fergie.

"They are lots of little transactions, no one's buying a new Aston Martin and they basically charge the merchant 4 per cent-odd.

"Would you rather sell a [\$100] product for \$96, or not at all? I guarantee the margins on board shorts are not 4 per cent, they're probably closer to 100 per cent. They're seeing massive growth."

[Afterpay listed at \\$1 in June, and now trades at \\$2.38.](#)

"If you're looking around at these newer businesses to the market, that have got a really good growth profile in the right space at the right time, you can make really, really good money."

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