GSFM FUNDS MANAGEMENT

Media Release

27 July 2026

Don’t overlook the underlying value of businesses in times of market volatility

Investors shouldn’t mistake market volatility as representing material changes in the value of listed companies, according to Tim Carleton, Auscap Asset Management’s CIO, who says the reality is that the underlying value of certain businesses is far more stable than their share price movements might suggest.

“Developments in artificial intelligence, the outbreak of hostilities in the Middle East, and the perceived impact of the budget on residential property prices and disposable income, have dominated short term share price movements,” he says.

“Such factors affect consumer confidence and the perception around the near-term economic outlook. From a markets perspective, this creates volatility and dislocations as participants respond to the news flow.

“However on the ground, we are seeing that there is often far more that is in the control of management in terms of the business’ future economic performance and earnings growth than there is outside their control.

“When everyone is fixated on the present, we believe it pays to focus on the future and what the business will look like in a few years from today.”

Carleton says two Australian businesses that are great examples of this are Nick Scali and Lovisa, both of which are consumer-facing business and therefore, at face value, vulnerable to softening consumer confidence.

“We recently spent time in the UK visiting these businesses and the story was much more positive than the headlines might suggest,” he says.

Australian furniture retailer Nick Scali (ASX: NCK) expanded its operations into the UK in 2024, buying a network of existing UK stores, Fabb Furniture, and converting them to Nick Scali stores. The most recent half year results reflected that the Nick Scali range was starting to resonate with British consumers, with like for like sales growth at 32 per cent in January 2026 for stores that had been branded as Nick Scali for more than 12 months.

“While the proof will be in the company’s results in years to come, increasing referral customers and conversion appears to be improving, all while still operating in a tough macroeconomic environment.

“The long-term investment thesis in Nick Scali is positive, and we continue to see opportunities for the company to grow its revenue and earnings in Australia and the UK, and to also take its operations beyond these two markets.

“No”Similarly, Lovisa’s expansion in the UK is putting it in a very strong position. Despite the remarkably low price point, the jewellery is extremely high margin. In the first half of FY26, Lovisa recorded a gross margin of 82.9%, resulting in very profitable store metrics. With a key global competitor, Claire’s, falling into bankruptcy in 2025, closing 290 stores in the United States and nearly 300 in the UK across 2025 and the first half of 2026, Lovisa should be in a position to increase its market share in these and many other underrepresented international geographies.”

Carleton says taking a view on what the business will look like in the future allows investors to benefit from “time horizon arbitrage,” which involves taking a longer-term perspective to buy into high-quality, growing businesses when they are priced attractively on a through the cycle basis due to short-term, transient concerns.

“Consumer discretionary businesses like Nick Scali and Lovisa remain in our portfolios. These two businesses offer good value for investors, and have solid future management growth plans that will positively impact earnings growth over the long term.

“We are excited by the quality of the current portfolios, positive on the earnings growth we expect over time and enthused about the value on offer,” says Carleton.

-oOo-

About Auscap Asset Management
Auscap Asset Management is a quality-first, value-focused, active Australian equities manager. Auscap is the Responsible Entity and Investment Manager for the Auscap High Conviction Australian Equities Fund and the Auscap Ex-20 Australian Equities Fund. It has approximately $440 million funds under management (at June 2026).