SFML Quarterly Newsletter
No. 59

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In this quarterly edition, we review performance, attribution and reporting season. We consider the importance of re-investment, discuss the bumps and bruises investments deliver and we visit PNG. Image: Investing forever.

selector

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About Selector

We are a boutique fund manager with a combined experience of over 150 years. We believe in long-term wealth creation and building lasting relationships with our investors.

Our focus is stock selection. Our funds are high conviction, concentrated and index unaware. As a result, we have low turnover and produce tax effective returns.

We seek businesses with leadership qualities, run by competent management teams, underpinned by strong balance sheets and with a focus on capital management.

Dear Investor,

One quarter into the new year and things haven't changed much, or so it seems. The local market navigated the latest reporting season with the All Ordinaries Accumulation Index largely unchanged. That said, individual company results varied. Those that failed to meet expectations were punished heavily, while the opposite was true for those that surprised to the upside. A competitive global economy, shifting consumer preferences and technological advancements are opening the door to disruption, exposing traditional industries.

Looking offshore and having moved on from North Korea, most attention is now centred on President Trump's economic policies. Now in his second year in office, Trump has shown he is not afraid to push through changes. Already, the passing of the U.S. Tax Cuts and Jobs Act of 2017 is having the desired impact on corporations. His trade policies have been more divisive and include the reintroduction of tariffs on imported steel, aluminium and a broad range of protective measures targeting imported goods from China.

Talk of trade wars should be expected, but no one should be under any illusions that the current global trade settings are fair or equitable. Protectionism in one form or another is common in many countries aiming to preserve domestic industries, automobile manufacturing in Australia is a notable example. Irrespective of the economic arguments against, we suspect this will also fall away as a long-term concern.

For investors, we encourage a more focused approach that evaluates the individual merits of each business. There is a good chance that in 10 years the list of Australia’s largest listed companies will look markedly different. The change will be as much a function of the actions of business leaders as it is a result of structural change.

To sit still is to go backwards and unfortunately, too many of our home-grown companies have either failed to make the necessary transitions or have not acted as business owners. The approach of running a business with the goal of hitting consensus expectations often comes at a price. In our article titled *"Re-investment"*, we explore this aspect further.

We follow this up with our *"Bumps and bruises"* article, which explores the reality of owning businesses, the ups and downs that naturally occur, and the surprises for those that stay the course. We follow this up with details of our trip to Papua New Guinea, visiting the operations of Oil Search. Finally, we provide some insights into company reporting season.

For the March quarter, the Fund delivered a gross positive return of **5.21%** compared to the All Ordinaries Accumulation Index which posted a fall of **3.69%**. For the financial year to date the Fund has delivered a gross positive return of **21.23%** compared to the All Ordinaries Accumulation Index which has posted a gain of **5.27%**.

We trust you find the report informative.

Regards,

Selector Investment Team

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Quote: Peter Lynch, Fidelity Magellan Fund portfolio manager 1977-1990

"There's some poetic justice in the fact that the stocks that take you the furthest in the long run give you the most bumps and bruises along the way." ***SFM***

Performance March 2018

For the quarter ending March 2018, the Fund delivered a gross positive return of **5.21%** as compared with the **3.69%** fall in the All Ordinaries Accumulation Index.

Performance table since inception

Returns	Gross Fund Return (%)	All Ordinaries Accumulation Index (%)	All Ordinaries Index (%)
3 Months	5.21	-3.69	-4.84
6 Months	17.67	4.20	2.16
1 Year	30.26	3.65	-0.59
3 Years annualised	14.89	4.43	0.04
5 Years annualised	19.48	7.86	3.34
10 Years annualised	12.07	5.28	0.82
Since Inception annualised	12.99	7.79	3.32

Fund's Top 10 holdings

Top 10 March 2018	Top 10 December 2017
ALTIUM	ALTIUM
ARISTOCRAT LEISURE	ARISTOCRAT LEISURE
COCHLEAR	BLACKMORES
CSL	COCHLEAR
FLIGHT CENTRE TRAVEL GROUP	CSL
JUMBO INTERACTIVE	FLIGHT CENTRE TRAVEL GROUP
NIB HOLDINGS	JUMBO INTERACTIVE
RELIANCE WORLDWIDE	NIB HOLDINGS
RESMED	RESMED
SEEK	SEEK
Top 10: 43.08%	**Top 10: 46.51%**

* *Listed in alphabetical order*

Selector employs a high conviction, index unaware, stock selection investment strategy, which typically targets 15-25 stocks for the Fund. As shown above, the Fund's top 10 positions usually represent a high percentage of its equity exposure. Current and past portfolio composition has historically been very unlike that of your average "run-of-the-mill index hugging" fund manager. Our goal remains focused on truly differentiated broad-cap businesses rather than the closet index hugging portfolios offered by most large fund managers.

ASX Sector Performance – March 2018 Quarter

S&P ASX Industry Sectors	March 2018 Quarter Performance (%)
HEALTH CARE	6.10
INFORMATION TECHNOLOGY	0.72
CONSUMER STAPLES	-1.31
INDUSTRIALS	-4.32
MATERIALS	-5.06
CONSUMER DISCRETIONARY	-5.34
FINANCIALS	-6.90
ENERGY	-7.72
TELECOMMUNICATIONS	-12.83

Portfolio Commentary

March 2018 Quarter

Top 5 contributors	%	Top 5 detractors	%
ALTIUM	3.20	BLACKMORES	-0.96
SIRTEX MEDICAL	1.46	IRESS	-0.42
FLIGHT CENTRE TRAVEL GROUP	0.99	THE STAR ENTERTAINMENT GROUP	-0.37
JUMBO INTERACTIVE	0.66	AINSWORTH GAME TECHNOLOGY	-0.37
RESMED	0.53	IMPEDIMED	-0.36

Top Contributors

1. Altium (ASX:ALU)

See Reporting Season commentary.

2. Sirtex Medical (ASX:SRX)

See Bumps and Bruises article.

3. Flight Centre Travel Group (ASX:FLT)

See Reporting Season commentary.

4. Jumbo Interactive (ASX:JIN)

See Reporting Season commentary.

5. ResMed (ASX:RMD)

CEO Mick Farrell pointed to operational excellence initiatives as the reason for the strong performance from the sleep apnea device company during the quarter. A well-defined commitment to long term investment has put the business in this position and the company is now well placed to drive greater adoption of its products to treat obstructive sleep apnea in a highly underpenetrated market. Revenues for the second quarter rose 13.4% to US$601m, with devices and masks reporting growth of 12% and 15% respectively. Underlying net profit after tax and pre-goodwill amortisation rose 13.7% to US$119m.

Bottom Contributors

1. Blackmores (ASX:BKL)

Blackmores released their interim results during the quarter, reporting revenue of $287m, up 9% and net profit after tax of $34m, up 20% for the half. The leading vitamins, minerals and supplements company has outlined that demand from Chinese consumers remains strong, however, the routes to market continue to evolve due to regulatory changes and shifting consumer patterns. CEO Richard Henfrey has expressed his confidence in the future of both the Chinese business and the younger Indonesian opportunity. The company has commented that it is experiencing some supply issues and that the Australian retail market has been softening. In spite of this, Blackmores management expect to deliver good profit growth for the full year.

The company has a market capitalisation of $2.2b and net debt of $65m.

2. IRESS (ASX:IRE)

Financial markets and wealth management software provider IRESS delivered a marginally better net profit for the 2017 financial year compared with 2016, up 1% to $60m. While revenue growth was strong, increasing 10% to $430m, higher operating costs associated with client project deliveries saw operating margins fall. Increased operating and acquisition related depreciation and amortisation expenses also held back bottom line growth. A number of delays implementing complex solutions for clients has seen operating costs accelerate in advance of commensurate revenues. While this impacts short term profitability we get comfort from the knowledge that the systems, once in place, are very difficult for clients to switch out. Importantly, the recurring nature of IRESS's revenue and the stickiness of their offering with clients gives us confidence their strategy of continued investment will deliver a healthy return for shareholders over the long term.

IRESS has a market capitalisation of $1.7b and net debt of $164m.

3. The Star Entertainment Group (ASX:SGR)

See Reporting Season commentary.

4. Ainsworth Game Technology (ASX:AGI)

See Reporting Season commentary.

5. Impedimed (ASX:IPD)

The last six months has seen bioimpedance spectroscopy (BIS) specialist Impedimed, deliver a number of key milestones. The company has had its SOZO device approved for the monitoring of extra cellular fluid in Chronic Heart Failure patients, as well as for the assessment of at risk bilateral lymphoedema patients. The approval for bilateral lymphoedema patients almost quadruples the size of the addressable market for Impedimed in the lymphoedema space. The company also announced full enrolment of the PREVENT trial, designed to assess the effectiveness of BIS in identifying breast cancer related lymphoedema (BCRL) compared with the current standard of care.

Shortly after the end of the quarter the results of an interim analysis conducted on the first 500 patients involved in the PREVENT trial were released. Although details were limited, they appear to show a substantial improvement in the ability of BIS to detect BCRL early, thereby preventing progression to more serious stages of the disease. More details will be released in upcoming industry publications. This data, once published in a peer reviewed article and combined with the results from numerous recently completed independent studies, will make for a convincing argument to private payers (insurers) that patients covered under private health care schemes in the U.S. should receive reimbursement for monitoring using BIS.

Impedimed has a market capitalisation of $270m and net cash of $42m.

Re-investment

Re-investment of a company's retained earnings, to extend or build future revenue streams, is a business quality we seek in any investment under consideration.

Strictly in financial terms, the long-term benefits that flow from re-investment are difficult to measure and are therefore often underappreciated by investors.

Management that follow this strategy are not guaranteed success. Indeed, the most conservative and our preferred approach is that all research and development (R&D) costs be fully expensed. This approach penalises investors in the short run since reported profits will be lower. To be frank, that's how it should be. While nothing is certain in life or business, change is constant. A disciplined, long-term commitment to re-investment challenges a company's relevance and encourages sensible risk-taking. As an outcome, the financial rewards are thereby measured in years rather than months.

Listed in the tables at the end of this article are the financials of a host of businesses held by the Fund that have, for the most part, attained market leadership in their respective fields. In our examples, we have provided a five-year snapshot. Note the sizeable investment each business has made when compared to profits delivered in any given year. Equally relevant is the maintenance of that spend during periods of earnings weakness.

But investors shouldn't confuse re-investment with success, nor should they assume all R&D expenses be discretionary. Not all funds earmarked for re-investment are directed towards building new sources of revenues. Often R&D efforts are split between stay-in-business investment and spend on new endeavours; investors should at least attempt to understand the distinction.

To illustrate the point, blood plasma group CSL split their US$614m of annual investment spend during 2017 into existing market development (US$100m), lifecycle management (US$114m) and new product development (US$400m). While the first two items totalling US$214m are necessary expenditures supporting today's current product portfolio, the balance of US$400m was earmarked for the development of new drug therapies which, assuming clinical success, are still years away from market launch.

For the most part, companies rarely provide this sort of breakdown and investors are left to consider whether the money spent has been worthwhile. There are financial metrics that can be used to evaluate the effectiveness of the spend, notably a company's ability to sustain or lift the return on capital invested in the business. However, other indicators can indicate a company’s success, including market share gains driving brand leadership.

This has certainly been the case for those listed in the attached tables. Not surprisingly, the healthcare sector is one that requires continuous adaptation.

Once again CSL is a standout from an Australian perspective, having invested in and significantly grown its specialty drugs portfolio over the past decade. We spoke about the way

CSL has positioned its business in our December 2017 Quarterly Newsletter, so readers are welcome to re-visit that edition.

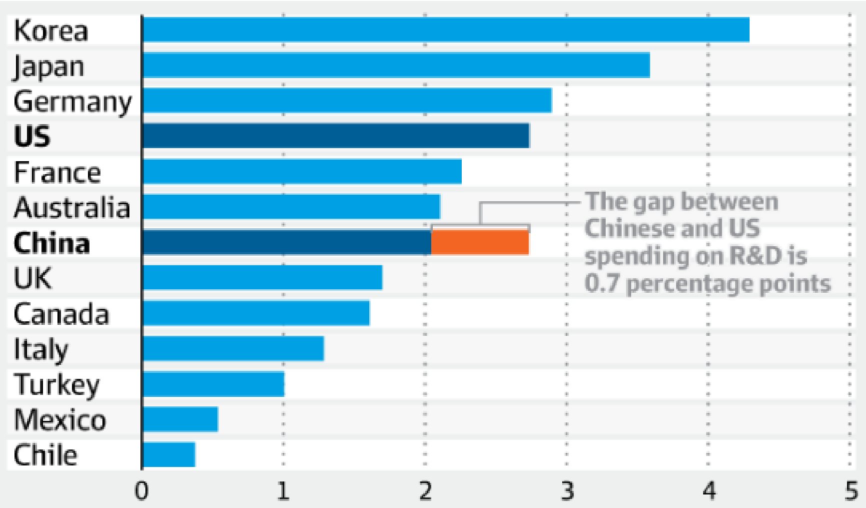
In the field of medical device companies, Cochlear, ResMed and Fisher & Paykel Healthcare have relied upon a continuous program of new product releases to extend their leadership positions in the fields of bionic ear implants and sleep apnea. This requires constant investment cycles, reinforcing why a commitment to re-invest should not be optional but rather, necessary. A point emphasised by Cochlear's newly appointed CEO Dig Howitt, who during February 2018, attended the ceremony to lay the foundation stone for the company's first manufacturing facility in China, located in Chengdu, the capital of south-west Sichuan province.

Howitt knows China well, having worked with local suppliers and having won government tenders to produce finished implants for well over a decade. The $50m investment for the new facility, which is scheduled to open in around four years, is not large in the scheme of things but will increase global manufacturing capacity by 50%. It also serves as recognition of the long-term commitment Cochlear is making to succeed in key markets.

As CEO Howitt highlighted, the decision to manufacture in China was made *"with a 20-plus year view of the market in China, and that's based on us having over 20 years' experience of operating in China. It's taken time to learn and understand and build capability, and then saying, let's look forward 20 years again."*

While companies are doing their part, the risk of our Government dropping the ball is intensifying, warns Howitt, *"At a time when countries around the world are seeing the benefits of R&D and, in many cases, increasing incentives, Australia has tightened. We just have to be careful that doesn't make us a less attractive place for R&D."*

Figure 1: Research and development expenditure (% GDP)



Source: The Australian Financial Review, Financial Times

For Aristocrat Leisure, a business that lost its way during the early 2000's, the appointment of former CEO Jamie Odell was a pivotal point in the group's renewed commitment to new product development. During 2017, the group reported fully expensed design and development expenditure (D&D) totalling $268m. Not only was this a significant step up from the $119m outlaid in 2012, but as we learnt during the company's darker financial days of the early 2000's, what was deemed new investment back then was actually maintenance spend.

In contrast, the past decade has seen an impressive rollout of top performing gaming products, giving rise to outstanding financial performance. Success has led to a rise in confidence, reinforcing the positive philosophy of re-investment.

Fast food operator Domino's Pizza Enterprises is an innovator. While management hasn't articulated the development spend in dollar terms, the group's rapid adoption of new technologies, alongside its online digital services offering is without peer within the Quick Service Restaurant (QSR) category. In a competitive market, remaining relevant to the customer is all that matters.

To this end, the use of new technologies remains a key differentiator as articulated by CEO Don Meij, *"At Domino's we use technology to solve problems and to make things easier for our customers, our franchisees and for our business. Technology and data is of value only if you use it to improve, and that is something we have done from the first use of online ordering, through to using GPS Driver Tracker to reduce our delivery times."*

These companies don't need to be sold on the merits of re-investment. They have all reaped the long-term commercial benefits, by acknowledging the need to commit up front. Others have been slower to grasp the importance of remaining customer relevant, but as is often the case, shocks are never far away.

When leading online employment group SEEK realised its business model was under threat from newer entrants, management were caught unaware. That moment of vulnerability was sufficient to drive a long-lasting change in attitude. Over the past four years, a significant step-up in re-investment has been made. Not to be caught flat-footed again, management have substantially lifted annual capital expenditure from less than $20m five years ago to a projected $120m in 2018. In addition, management is allocating further funding, upwards of $30m per annum in *"planting the seeds for future growth by investing in early-stage ventures."*

While getting left behind is an unpleasant experience, the taste of success acts as a powerful incentive to change. CEO Andrew Bassat is not backward in getting this message across, *"We believe the right thing to do is to invest and evolve our businesses to capitalise on these significant growth opportunities. SEEK is focused on doing this right and not quickly and if we do this well we are confident of delivering strong returns for our shareholders over the medium to long-term."*

The final point that Bassat makes is critical when assessing a company's ultimate worth. That is, is the company, with all the re-investments undertaken, able to deliver strong returns over an extended period. Measuring businesses purely on a metric such as the price-to-earnings ratio (PER) might tick the box in some instances but applying it across all companies without some deeper appreciation of how the numbers come together, is too simplistic.

Again, if we focus on Cochlear and consider *Table 1*, we can see that the sales line has risen over the period, while earnings before interest and tax (EBIT) initially lagged, before accelerating in the last two years. Despite this mismatch, management maintained its core investment spend, with R&D rising consistently over time. The numbers involved are not to be sneezed at, with $150m alone invested during 2017. This compares to the $224m net profit delivered that year and almost matches the $158m earned during 2012.

These are significant dollar commitments, with the purpose of improving today's products whilst pursuing newer revenue streams. As noted earlier, simply spending money on R&D doesn't guaranteed long term success but without it, a company's long-term competitive position is severely weakened.

So next time you are assessing the prospects of a business, don't consider the profits in isolation from the ongoing re-investment required. It may be recorded as a cost in the financial accounts today, but the very future of that business and what an investor is willing to pay should depend on it.

Table 1: Cochlear Financials

AUD$m	2012	2013	2014	2015	2016	2017	2012-2017
Revenue	705.0	715.0	821.0	942.0	1,158.0	1,239.7	5,580.7
R&D[1]	**(119.3)**	**(124.7)**	**(127.6)**	**(128.0)**	**(143.1)**	**(151.9)**	**(794.6)**
EBIT[2]	215.3	178.9	150.0	206.4	262.6	315.6	1,328.8
Adjusted NPAT[3]	158.1	132.6	109.6	145.8	188.9	223.6	958.7
R&D/Revenue	***16.9%***	***17.4%***	***15.5%***	***13.6%***	***12.4%***	***12.3%***	***14.2%***
R&D/NPAT	***75.5%***	***94.1%***	***116.4%***	***87.8%***	***75.7%***	***67.9%***	***82.9%***

Source: Cochlear financials, SFML research

Table 2: CSL Financials

USD$m	2012	2013	2014	2015	2016	2017	2012-2017
Revenue	4,616.4	4,950.4	5,334.8	5,458.6	5,909.5	6,615.8	32,885.5
R&D	**(370.0)**	**(427.0)**	**(466.0)**	**(463.0)**	**(614.0)**	**(645.0)**	**(2,985.0)**
EBIT	1,270.0	1,461.0	1,604.0	1,714.0	1,556.0	1,690.0	9,295.0
Adjusted NPAT	1,023.9	1,211.0	1,307.0	1,379.0	1,242.4	1,337.4	7,500.7
R&D/Revenue	***8.0%***	***8.6%***	***8.7%***	***8.5%***	***10.4%***	***9.7%***	***9.1%***
R&D/NPAT	***36.1%***	***35.3%***	***35.7%***	***33.6%***	***49.4%***	***48.2%***	***39.8%***

Source: CSL financials, SFML research

Table 3: ResMed Financials

USD$m	2012	2013	2014	2015	2016	2017	2012-2017
Revenue	1,368.5	1,514.5	1,555.0	1,678.9	1,838.7	2,066.7	10,022.3
R&D	**(109.7)**	**(121.2)**	**(124.4)**	**(114.9)**	**(118.6)**	**(144.5)**	**(733.3)**
EBIT	302.9	379.6	412.3	426.6	446.3	457.2	2,424.8
Adjusted NPAT	265.6	332.5	357.5	371.0	384.1	408.2	2,118.9
R&D/Revenue	***8.0%***	***8.0%***	***8.0%***	***6.8%***	***6.5%***	***7.0%***	***7.3%***
R&D/NPAT	***41.3%***	***36.4%***	***34.8%***	***31.0%***	***30.9%***	***35.4%***	***34.6%***

Source: ResMed financials, SFML research

Table 4: Fisher & Paykel Healthcare Corporation Financials

NZD$m	2012	2013	2014	2015	2016	2017	2012-2017
Revenue	466.7	507.3	568.6	644.0	818.5	869.5	3,874.6
R&D	**(42.0)**	**(45.7)**	**(54.1)**	**(65.0)**	**(73.3)**	**(86.0)**	**(366.1)**
EBIT	97.8	114.1	144.4	170.1	211.1	241.7	979.2
Adjusted NPAT	64.1	77.1	97.1	113.2	143.4	169.2	664.0
R&D/Revenue	***9.0%***	***9.0%***	***9.5%***	***10.1%***	***9.0%***	***9.9%***	***9.4%***
R&D/NPAT	***65.5%***	***59.3%***	***55.8%***	***57.4%***	***51.1%***	***50.8%***	***55.1%***

Source: Fisher and Paykel Healthcare Corporation financials, SFML research

[1] Research & development expense
[2] Earnings before interest and tax
[3] Net profit after tax

Table 5: Aristocrat Leisure Financials

AUD$m	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2012-2017**
Revenue	843.3	808.7	847.6	1,576.1	2,128.7	2,453.8	8,658.1
D&D[4]	**(117.8)**	**(118.9)**	**(122.7)**	**(191.4)**	**(239.2)**	**(268.4)**	**(1,058.4)**
EBIT	139.7	140.2	160.4	338.3	597.1	781.2	2,156.9
Adjusted NPAT	91.7	107.2	120.2	242.5	403.2	547.4	1,512.2
D&D/Revenue	***14.0%***	***14.7%***	***14.5%***	***12.1%***	***11.2%***	***10.9%***	***12.2%***
D&D/NPAT	***128.5%***	***110.9%***	***102.1%***	***78.9%***	***59.3%***	***49.0%***	***70.0%***

Source: Aristocrat Leisure financials, SFML research

Table 6: Technology One Financials

AUD$m	2012	2013	2014	2015	2016	2017	2012-2017
Revenue	164.3	180.6	195.1	218.7	249.0	273.3	1,281.0
R&D	**(33.5)**	**(35.6)**	**(37.9)**	**(41.0)**	**(46.0)**	**(49.9)**	**(243.9)**
EBIT	29.5	35.5	40.5	46.6	53.3	64.1	269.4
Adjusted NPAT	23.6	27.0	31.0	35.8	41.3	44.5	203.1
R&D/Revenue	***20.4%***	***19.7%***	***19.4%***	***18.8%***	***18.5%***	***18.2%***	***19.0%***
R&D/NPAT	***142.3%***	***131.9%***	***122.3%***	***114.7%***	***111.3%***	***112.1%***	***120.1%***

Source: Technology One financials, SFML research

Table 7: Altium Financials

AUD$m	2012	2013	2014	2015	2016	2017	2012-2017
Revenue	55.0	60.9	70.7	80.2	93.5	110.8	471.1
R&D	**(7.1)**	**(10.5)**	**(7.1)**	**(13.7)**	**(18.2)**	**(21.2)**	**(77.8)**
EBIT	5.4	20.4	17.3	21.4	24.8	31.4	120.7
Adjusted NPAT	12.3	13.0	11.3	15.4	23.0	30.0	105.1
R&D/Revenue	***12.9%***	***17.2%***	***10.0%***	***17.1%***	***19.5%***	***19.1%***	***16.5%***
R&D/NPAT	***57.5%***	***80.6%***	***62.7%***	***89.1%***	***79.2%***	***70.5%***	***74.0%***

Source: Altium financials, SFML research

SFM

[4] Design and development expense

Bumps and bruises

Our opening quote features one of Wall Street's most successful money managers, Peter Lynch. During his thirteen-year career managing the Fidelity Magellan Fund, it was the top-ranked general equity fund. Lynch retired in 1990, but his approach to investing and the lessons he learnt during his career were documented in two best-selling books, *One Up on Wall Street* and *Beating the Street*.

Our article titled *"Bumps and bruises"* explores Lynch's idea, that the best investments are not without some heartache. Over the past two quarters, we have seen two of our holdings, Aconex and Sirtex Medical, subject to takeovers. In both instances, U.S. based corporations, Oracle and Varian Medical Systems, saw fit to offer share price premiums of close to 50% to secure board approval.

While the final offer prices of $7.80 and $28.00 for each Aconex and Sirtex Medical share were lower than their all-time highs, they still represented multiples of their $1.90 and $1.00 respective listing prices some years earlier.

Knowing the starting point and how it ends, but not the road in between is what this article is all about. Wind back the clock to the early months of 2017 and things were not so rosy. Aconex had stumbled, registering revenue growth rates and operating profits lower than market expectations. All along re-investment was maintained and given high priority.

Over at Sirtex Medical, investors were given plenty of reasons to abandon ship. The loss of the CEO, the commencement of a class action lawsuit against the company and disappointing outcomes from long-awaited trials should have been sufficient to put up the white flag.

In these cases, our decision to stay the course followed an acknowledgement of the shortcomings of each business but a determination that the thesis for each investment remained intact.

In the case of Aconex, a business aiming to displace the construction industry’s traditional paper and email-based processes with a cloud-based Software-as-a-Service model, the offering was both new and disruptive. We outlined our thoughts on the company in our December 2016 Quarterly Newsletter.

Being new and disruptive, the path forward is never a straightforward one. Aconex's financial update in February 2017 was not entirely what investors were expecting. The change in revenue outlook and its commensurate impact on operating profits had a large impact on investor sentiment and was accompanied by a significantly lower share price.

Downgrades are never pleasant, but our reading of the situation was not as dire as the market’s, nor did it derail our thesis. As we summarised in our December newsletter article, *"Aconex ticks the boxes of key investment attributes we seek. The management team are transparent and committed to the execution of the business strategy. The business appears to be a leader in its field with a defensible competitive advantage. An ungeared balance sheet* *with net cash of $49 million, combined with a cash generative operating model should see little need for further capital."*

As the saying goes, when it rains, it pours. At Sirtex, the possibility of elevating the company's SIRT liver cancer treatment from salvage setting to a first line setting was management's aim when undertaking a series of long duration trials. The results, when published in 2017, were not what the company or investors had hoped for. While level one evidence was not forthcoming, the treatment's leading position in the salvage setting was not jeopardised.

The loss of the CEO was not ideal and the restructuring, while an unwelcome distraction, was necessary following the disappointing trial results. But at its core, there remained a solid business in need of renewed focus. The appointment of Andrew McLean as new CEO was a positive first step in the rebuilding phase. The subsequent drop in share price belied the company's strong history of revenue and profit growth, along with a balance sheet carrying net cash of circa $93m.

The company's half-year update, released in January 2018, provided sufficient evidence that good progress was underway. The subsequent takeover offer from Varian Medical Systems followed soon after. On the conference call discussing the offer, U.S. based Varian CEO Dow Wilson noted that it had been watching Sirtex Medical's progress for two years, stepping up its interest when the company stumbled during 2017. Confident that the business had a solid future, it chose to act, launching a board endorsed $1.5b all-cash takeover offer.

The fact that two ASX listed businesses, with global operations, attracted the interest of other global players shouldn't come as a surprise. No one plans for takeover offers, we certainly didn't, but our decision to not only retain but add to our positions following their respective stumbles was underpinned by our belief that the business case for each remained intact, despite the bumps.

We suffered a few bruises on this journey no doubt, but that is to be expected. ***SFM***

Papau New Guinea site visit with Oil Search

Table 8: Oil Search timeline

Date	Events
Jul 2003	Oil Search acquires Chevron Texaco assets US$96m includes operator status of PNG Oil fields
Feb 2006	2005 FY result Total production 10.84 mmboe NPAT US$200.2m
Jan 2007	Evaluation of PNG LNG determines it is more attractive than a 3000km gas pipeline to Australia
Feb 2007	2006 FY results Total production 9.17 mmboe NPAT US$207.5m
Feb 2008	2007 FY results Total production 9.8 mmboe NPAT US$140.8m
Mar 2008	PNG LNG partners sign joint operating agreement
May 2008	PNG LNG Gas agreement signed with PNG Govt and project enters FEED
Feb 2009	2008 FY results Total production 7.46 mmboe NPAT US$240m
Oct 2009	Oil Search raise A$895m for PNG LNG & growth opportunities
Dec 2009	PNG LNG project partners approval paves way for construction to start
Dec 2009	PNG LNG secures US$14b in funding
Feb 2010	2009 FY results Total production 8.12 mmboe NPAT US$133.7m
Mar 2010	PNG LNG clears final condition to proceed
Feb 2011	2010 FY results Total production 7.66 mmboe NPAT US$185.6m
Dec 2011	PNG LNG budget increased from US$15b to US$15.7b reflecting FX impact
Feb 2012	2011 FY results Total production 6.69 mmboe NPAT US$202.5m
Nov 2012	PNG LNG budget up from US$15.7b to US$19b reflecting FX impact, work stoppages & weather
Feb 2013	2012 FY results Total production 6.38 mmboe NPAT US$175.8m
May 2013	Operations commence at 3.2km long Komo Airfield
Feb 2014	Oil Search acquire 22.8% (17.7% post government back-in) of Elk/Antelope for US$900m funded via placement to PNG Government.
Feb 2014	2013 FY results Total production 6.74 mmboe NPAT US$205.7m
Apr 2014	Production starts from Hides Gas Conditioning Plant
May 2014	First shipment from PNG LNG, the nameplate project capacity is 6.9 MTPA
Feb 2015	PNG LNG project achieves financial completion
Feb 2015	2014 FY results Total production 19.3 mmboe

Date	Events
	PNG LNG project operating above nameplate capacity of 6.9 MTPA Core NPAT US$353.2m (after impairments)
Sep 2015	Woodside proposal to merge with Oil Search
Feb 2016	2015 FY results Total production 29.25 mmboe PNG LNG project operating above nameplate capacity at 7.4 MTPA Core NPAT -US$39.4m (after US$399.3m impairment on Taza)
May 2016	Oil Search makes bid to acquire InterOil in US $2.2b transaction. Enters parallel agreement with Total which would see Oil Search stake in stake in Papua LNG increase to 29%.
Jul 2016	ExxonMobil lodges competing bid for InterOil and Oil Search opts not to increase offer. Entry of ExxonMobil provides greater alignment between stakeholders for the development of Paupa LNG.
Feb 2017	2016 FY results Total production 30.24 mmboe PNG LNG project operating above nameplate capacity at 7.9 MTPA NPAT US$89.9m
Nov 2017	Acquires oil assets on Alaskan North Slope for US$400m + US$450m option that doubles position
Feb 2018	2017 FY results Total production 30.3 mmboe PNG LNG project operating above nameplate capacity at 8.3 MTPA (Oct >8.9 MTPA) NPAT US$302.1m

Source: Oil Search disclosures

Bias

Over the years, we had met with the Oil Search (OSH) Investor Relations team, led by Ann Diamant on several occasions. Ann was an equities analyst in her prior life, and has now worked alongside Oil Search CEO Peter Botten for 15 years. When our line of questions invariably turned to ESG, Ann would suggest that we should *"visit PNG and see it from the ground."* That suggestion challenged our bias.

Our only other exposure to Papua New Guinea was via the media, and without question we had formed a bias. This led to reservations that stopped us from investing in Oil Search. Initially, these concerns were ESG related. What we have learnt since then is that you need to be mindful that bias doesn't become an excuse.

In March 2008, ExxonMobil and Oil Search committed to the PNG LNG project. This was a significant turning point for both PNG and Oil Search. It was also the catalyst for the initial debt financing of US$14b, provided by a syndicate of major international banks. Financial completion was achieved in 2010. The timeline above plots some of the milestones achieved over a 15-year period.

Today, PNG LNG is an integrated development that includes gas production and processing facilities that extend from Hela, Southern Highlands, Western and Gulf provinces to Port Moresby in Central Province. ExxonMobil PNG Limited operates PNG LNG on behalf of co-venture partners including Oil Search. The facilities are connected by over 700 kilometres of onshore and offshore pipelines. This includes a gas conditioning plant in Hides (HGCP), and a liquefaction plant (two trains) with LNG storage serviced by the ship loading facility near Port Moresby.

Our first of several trips to PNG was in November 2012. We visited and met with management from the largest superannuation funds, the banks, the listed brewery, property developers, finance companies, trading companies, agricultural operators (pigs, chickens and even crocodiles), a packaging company, an oil refiner, retailers of electrical goods, fast food operators and the largest chain of chemists.

Most of these businesses were listed on the sleepy PNG stock exchange. They are regulated and follow the same accounting standards under which we measure an Australian business. From these visits we gained an understanding of some of the cultural challenges that exist and how business, both large and small view the local political situation. While we don't invest outside Australia, some opportunities were interesting. A monopoly brewery who was part owned by a global major, had growth options, traded on a price to earnings ratio of less than 12x and had a healthy dividend yield, seemed like a reasonable bet to us.

A tour of infrastructure and assets

Over US$19b has been spent on infrastructure for PNG LNG to date. Oil Search has a 2P reserve and 2C resource life of 45 years in PNG. In addition, Oil Search has ample resource and exploration upside from the likes of P'nyang and Muruk respectively, and this is before Alaska is taken into account. (Oil Search announced a significant upgrade of the resource at P'nyang after the close of the quarter)

On the global cost curve, Oil Search has proven itself as a low-cost operator. Execution to date by the JV partners has been strong. The two train 3.45 MTPA PNG LNG gas liquification plants have a nameplate production run rate of 6.9 MTPA and yet today, they produce at a rate of 8.5 MTPA.

The political situation in PNG is stable. No doubt, if you dig a little, you will have questions and you can certainly find fault. But then again, political issues are not limited to developing countries. Many Australian business leaders fear a Shorten Labour Government, as we do. A Trump Presidency was feared across the U.S. and the entire world, for good reasons. Few would have thought a Trump Government would survive, let alone kick goals on tax reform, and potentially trade (yet to play out) and geopolitics (also yet to play out).

As reporting season came to a close we were all set for the 2018 Oil Search site visit to PNG. For us, this trip wasn't about ESG, it was a chance to see some of the major PNG LNG assets from the air.

On the ground, we hoped to gauge the level of co-operation that exists between the two separate Joint Ventures. (PNG LNG and Papua LNG). Oil Search, U.S. public company ExxonMobil and the minorities under the table below make up the PNG LNG Joint Venture. PNG LNG will be paid a tariff per million cubic feet (mmcf) of gas produced from Elk/Antelope by the Papua LNG joint venture, between Oil Search and the French oil and gas giant Total. This agreement paves the way for the sharing of infrastructure that can drive billions in capital equipment savings. The PNG Government has a seat at the table of both joint ventures, and has been a vocal supporter of the sharing of infrastructure.

Table 9: PNG LNG Project Partners

PNG LNG PROJECT CO-VENTURERS	% Interest
ExxonMobil (operator)	33.2
Oil Search	29.0
Kumul Petroleum (PNG Government)	16.8
Santos	13.5
JX Nippon	4.7
MRDC (PNG Landowners)	2.8

Source: Oil Search 2017 Annual Report

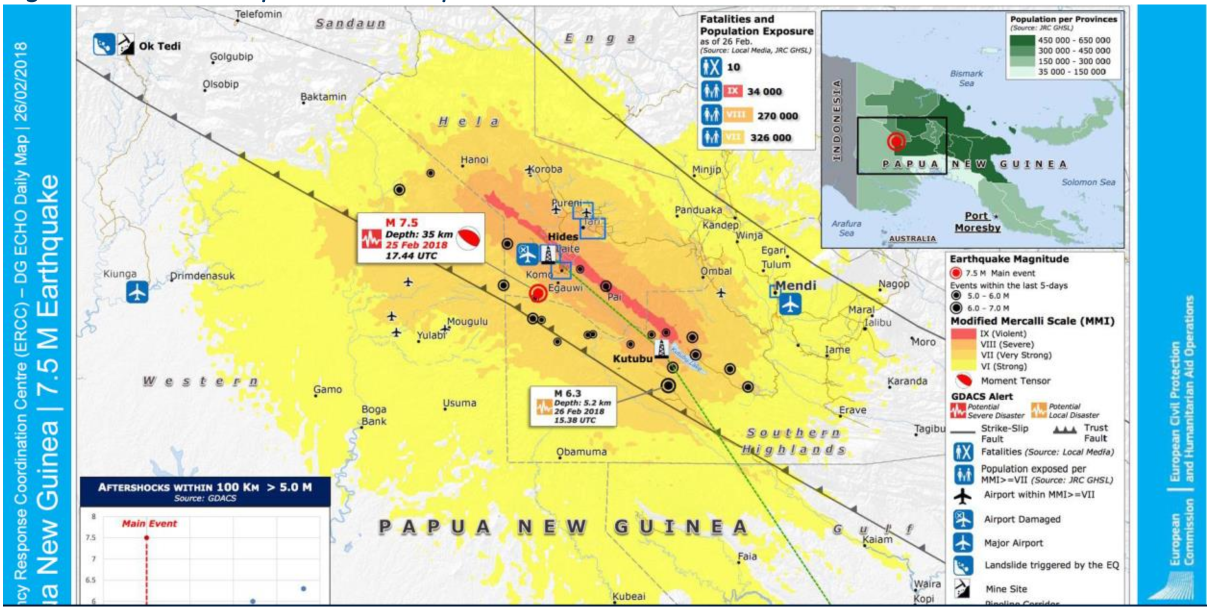
The immediate goal is to finance and develop another three gas liquification trains alongside the first two. Two new trains will exploit discoveries at Elk/Antelope under the Papua LNG structure and an additional train will bring P'nyang and foundation fields into production under the original PNG LNG project. The intention here is that separate molecules (from separate fields) are fed into separate trains, as this drives stability and performance of the trains. It also simplifies ownership and financing arrangements. On a combined basis, these new trains will deliver an additional 8 MTPA of production by 2022.

The next six months progress to Front End Engineering and Design (FEED) is the critical path. Projects that pass FEED almost always get to Financial Investment Decision (FID). For FEED, the agreements with the Government are key. Conveniently, a catalyst for a deadline exists in the APEC meetings to be held in PNG in November 2018. Again, Trump plays a major role here. The announcement that the U.S. President will attend APEC and tour the country is a historic first for this island nation. PNG Prime Minister Peter O'Neill would dearly love to announce a globally significant US$12b-$13b investment spearheaded by a U.S. multinational when he has the full attention of the world, and of course Trump by his side.

A change of focus

Our focus changed from infrastructure to ESG with the onset of the first earthquake that rocked the PNG Highlands in the early hours of the morning of 26 February 2018. The initial shock of the quake measured at a magnitude of 7.5. In the following days reports trickled in of multiple aftershocks. Oil Search reported that all staff were safe and minimal damage had been sustained to its assets, however, a full production shut down was underway to determine the integrity of the infrastructure owned by Oil Search and the PNG LNG project. The Southern Highlands region sits on active fault lines and is subject to geological activity. Modern infrastructure is designed to be fit for purpose and it initially appeared to have held up well under the circumstances.

Figure 2: The earthquake in a snapshot



Source: Oil Search Relief Effort – Background and Update

While the PNG LNG project infrastructure escaped major damage, many local communities were devastated. Key life sustaining infrastructure including market gardens, subsistence farmland, clean water, and sanitation were destroyed overnight. Whole villages were cut off from all forms of communication, health and aid.

For Oil Search, in terms of ESG, this was the real deal. Under these circumstances, public policy, statements of good intention and documents are cast aside as evaluation, action plans and execution become the benchmarks of ESG.

Our first reaction was one of surprise when we learnt that management was prepared to push forward with the investor tour and site visit at a time when it was seemingly exposed. But when you stand back and assess the culture at Oil Search, it is different. It reflects a management team that has developed around its CEO, Peter Botten. It's refreshingly real and raw. It's a combination of deep local experience, passion and a *"warts and all"* approach.

Oil Search hosted an Alaskan Landowner's Corporation (a group Oil Search will partner with in the Alaska North slope project) in PNG in the days immediately following the earthquake. At the same time, they had mobilised as the *"first responder"* and co-ordinator of the regional disaster relief program. So, with our safety concerns allayed we set off on an ESG tour to gain a unique first-hand insight and experience.

First-hand accounts

On the Thursday evening we were scheduled to fly to Ambua Lodge approximately 100km from the Ridge camp in the Hela Province. Local weather conditions change rapidly, from heat and humidity to heavy rain and this can dictate travel in the Highlands. Instead of flying out to Ambua Lodge we overnighted at the Ridge Camp. The camp was only about 60% full. After having been largely evacuated, staff were returning as services restarted.

Camp staff are very well catered for in a large open mess hall. This building sustained minor damage from the earthquake. A 3m square section of foam type roof tiles had collapsed and the floor space was roped off. Along with an accommodation block that was also restricted, it was one of the few visible signs of damage in the camp.

Photo 1: Ridge Camp damage

Source: SFML PNG site visit

At dinner, Selector shared an empty table for eight with Richard, who was head of the Ridge Camp security detail. Richard, an Australian expat, has been with Oil Search for eight years and has a military background with the Australian Defence Forces. At the Ridge Camp he is responsible for about 128 security staff. He was also on deck on the night of the earthquake.

Richard recounted that he had been woken by the first shake at 3:44 am. As he attempted to get out of bed in the dark, he was thrown across the room and found himself underneath an upturned bookcase lying across his bed. A second attempt to get dressed saw him tossed again, this time into the cabin door which collapsed under his weight. He recounted similar stories that his staff had experienced.

It was with some good fortune that the staff at Ridge Camp suffered no injuries that night and little damage was evident on inspection at first light. Richard noted a supply storage room looked like it had been "*turned upside down and required a clean–up*" operation. He also speculated that the timing of the event likely prevented casualties and even deaths. The outcome may have been different if full day time shifts had been in operation at the time of the quake.

Some 600 non-essential staff were evacuated from Oil Search sites in the following days. Apparently, the remaining skeleton staff at camp, including Richard, were on edge for the next 10 days when a series of aftershocks and night musters were experienced at Ridge Camp and other sites. During the turmoil and darkness, a disappointing outcome was looting and theft.

Photo 2: Oil Search Central Processing Facility

Source: SFML PNG site visit

In our second encounter, the following morning, Selector shared breakfast in the Ridge Camp mess hall with Alan. Alan was Worley Parsons' lead independent structural engineer. He was on site to undertake risk assessments. His role was to survey and report on the damage sustained to operations. Alan's first impression was genuine surprise to find very little damage to the Highlands facilities. As a result, most of the camp had been progressively re-opened after its temporary closure.

Key outstanding issues included the accommodation block, mentioned above. It had shifted on its footings and was to remain closed until it was determined to have stabilised and resettled. The Central Processing Facility (CPF) located near the Ridge Camp had come through largely unscathed. It consists of three separation towers that separate water, gas and oil.

The towers are secured by one metre long bolts that are designed to flex and allow movement in the event of geological events. Significant movement did occur during the recurring shocks. Alan described the extent of damage as the need for new washers and retightening of bolts. Similarly, one of the fire water tanks had superficial cracks and was leaking which required remedial work.

Large boulders had struck the PNG LNG pipeline in the course of the initial shocks and aftershocks. At the time of our visit the integrity of the 700km pipeline was believed to be largely intact. While a shutdown was in effect, gas flares had been restarted at the CPF near Moro and at the LNG facility in Port Moresby, both of which we visited.

Photo 3: Komo Airstrip damage

Source: SFML PNG site visit

The piece of kit that we didn't see was the Ridge Refinery. It sits close to the CPF and provides diesel and jet fuel to the group's operations, including aviation fuel. It is fed by a well located nearby. This fully depreciated plant was nearing the end of its useful life and required refurbishment. With the damage it reportedly sustained, Peter Botten considered it was likely a write-off. The kit will likely be replaced in its entirety for $5m. This should drive greater operating efficiencies.

Road infrastructure in and around the sites we visited were damaged. During our trip this was even evident from one day to the next, as heavy rainfall resulted in overnight landslips that needed to be cleared so our small 4WD convoy could pass between the Ridge and Moro camps on the second morning. On the roads we encountered local landholder groups who are contracted and employed to scout, clear and reopen roads each day using heavy equipment including road graders.

The U.S. are coming

It's now clear that President Trump won't be able to land Air Force One in the Southern Highlands. The US$2b worth of highlands infrastructure that makes up the 3.2km Komo airstrip sustained severe damage, as depicted in *Photo 3*. The airstrip is built on compressed volcanic soil, so the damage sustained didn't come as a surprise to our tour guides. Today, for ongoing supply purposes in the region, the JV partners require approximately 900m of functional runway. The strip's original length enabled massive Antonov aircraft to deliver 88 cargos of materials for the project. It will be interesting to follow the plans for the reconstruction of the strip.

Photo 4: Moran well pad damage

Source: SFML PNG site visit

As an aside, local speculation has long linked the existence of this little known, heavy transport airstrip in the Pacific Ocean, to the U.S. Government and its military interests in the region. Shortly after completion, on 2 February 2015, the PNG Government quietly issued a release approving the Komo airstrip for military purposes on a case by case basis.

It was built under the watchful eye of former ExxonMobil CEO Rex Tillerson (2006-2016), who went on to become the 69th United States Secretary of State under President Donald Trump, before being removed by a Tweet from Trump. Politically things may be heating up in the sleepy Pacific Isle nations. As noted, President Trump will attend the November 2018 APEC meeting in PNG, while a recent article in the Australian Financial Review suggested that China is currently negotiating with the Government of Vanuatu to build a military base, less than 2,200km to the south of the PNG capital Port Moresby.

Back to reality, and the processing facility at Agogo and well pad at Moran also sustained damage requiring repairs before production can be restated. In *Photo 4* above, taken from the air, the edges of the pad have been lost to the jungle below. Damage to infrastructure includes storage sheds and notably the two bright red trucks, one teetering on the edge of the pad and one three quarters of the way to the bottom of the slope.

As we flew over these assets, it became evident that damage could have been far greater. The destruction of entire mountain sides was a spectacular reminder of how local communities have suffered.

Many thickly forested hills are now deeply scarred. The earthquake literally carved off huge chunks of these ancient highlands and dumped them in the rivers below. Other sections of forest and mountains are untouched.

Financial impacts

The total financial impact on Oil Search will become clear when guidance on 2018 production is provided with the 1Q 2018 results on the 23 April. The collective view of the JV partners at present is that production will not restart until May 2018. It's not quite a full quarter of lost production, but with an allowance for unknowns, it way well come close.

Photo 5: Highlands landslides

Source: SFML PNG site visit

Research released by brokers attending the investor tour jumped to the conclusion that Oil Search would require a capital raising as a result of its current capital commitments and the production shut down. Our view is slightly different. We believe Oil Search has several levers within its current capital budgets that can be pulled before a capital raising needs to be undertaken.

We have no doubt Oil Search will raise capital if it is essential. Where we differ from the brokers is on the reasoning behind a potential raising. The scenario that would lead to a raising is an oil price in the range of US$40-US$50 for a sustained period, rather than the current production shut down. Our view is three-fold.

Firstly, Oil Search budgets operate with an assumed oil price that sits materially below its peers, making them inherently more conservative. Secondly, Oil Search has US$1b of capital expenditure already built into its budget, this is clearly a lever that can be adjusted. Thirdly, the budget also assumes $800m of dividends which could be underwritten by a dividend reinvestment plan if required, and yes this is a quasi-raising. Finally, there is potential to delay Juha or P'nyang if required. The step out well at Muruk will also play a role here.

Any capital raising would most likely be timed to coincide with the Final Investment Decision (FID). Oil Search's history, of project development and delivery in PNG, suggests the stock will rise as milestones are reached. Oil Search management simply don't think it makes sense for shareholders to sit on billions of dollars in excess capital approaching these events.

ESG in PNG

Selector has a strong ESG framework and policy. Importantly it is integrated into our research process, rather than being an add on. We could have quoted from it here. But in keeping with today's FAANG world (Facebook, Amazon, Apple, Netflix, Google/Alphabet), if you want to understand a concept you generally start with Google. So, we googled the following questions.

What is ESG?

ESG (environmental, social and governance) is a generic term used in capital markets and used by investors to evaluate corporate behaviour and to determine the future financial performance of companies.

The Environmental, Social and Governance (ESG) Criteria is a set of standards for a company's operations that socially conscious investors use to screen investments.

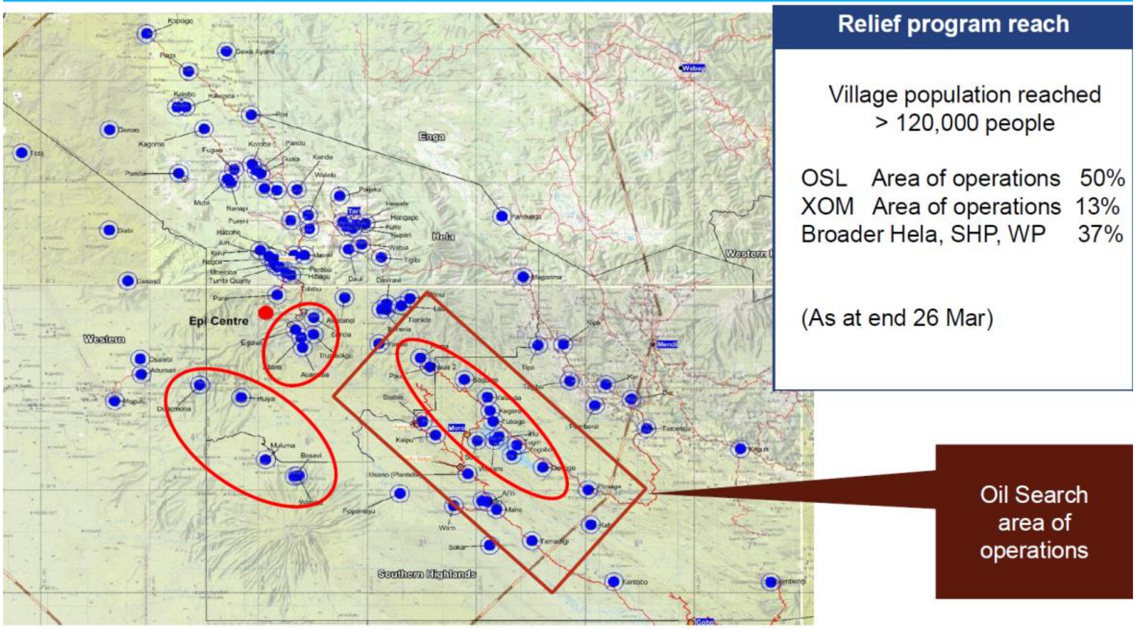
What does an ESG analyst do?

An ESG Analyst researches Environmental, Social and Governance risks, opportunities and capabilities. The role is usually found in investment management and private equity firms, who want to assess the ESG impact of a potential investment, or actively search for opportunities to invest in positive ESG projects.

ESG in real time

While Selector was on the ground in PNG a major disaster relief program was in full swing across the communities of Hela, Southern Highlands, Western Province and also the Gulf Province which was impacted by river pollution.

Figure 3: Oil Search Relief Program



Source: Oil Search Relief Effort – Background and Update

In Oil Search's area of operations approximately 30 villages were devastated. These villages often consist of a series of subsistence and market gardens. Mountain side gardens were lost to land slips and simple infrastructure was destroyed. When fencing is damaged, pigs escape and then consume entire gardens leaving villages without any source of food or trade. These gardens can take seasons and even years to become productive again. The loss of clean water catchments leads to outbreaks of diarrhea, which left untreated spread rapidly through villages leading to high rates of infant mortality.

In the days immediately following the earthquake Oil Search donated $5m for procurement and distribution of food and aid. After some prompting from the Government, ExxonMobil found $1m and Santos also made a direct cash contribution via Oil Search.

The dual challenge for the relief effort was gaining access to the affected communities to provide food and aid, and importantly, to gather sufficient information to develop a cohesive plan of action. On both these fronts, the government and global aid agencies, including the United Nations, were largely powerless to help. Nationally, no planning or resourcing exists to tackle these type of natural disasters or humanitarian events.

With major road arteries either non-existent, cut off or destroyed, the availability of Oil Search's Moro Airfield, with both fixed and rotary wing aircraft, became critical to the delivery of supplies and medical aid.

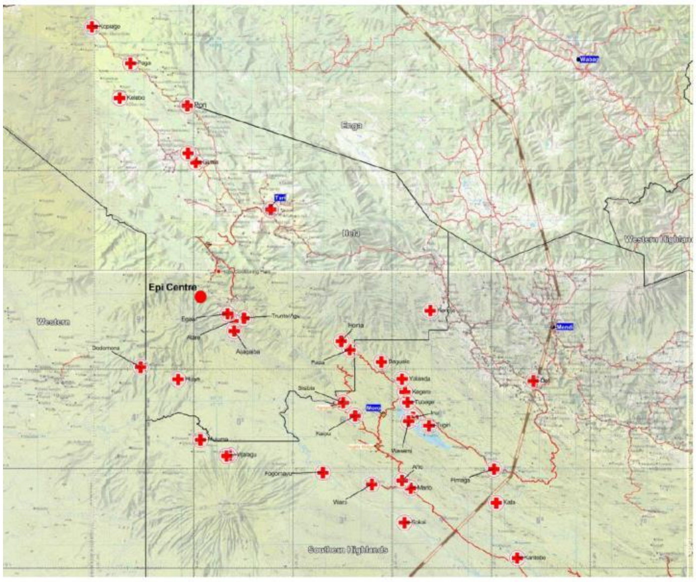
Oil Search was thrust into the role of first responder, as the only organisation on the ground in PNG with the ability to provide end to end disaster relief management.

Photo 6: Highlands roads rendered impassable by landslides

Source: SFML PNG site visit

Initially, Oil Search would acquire the relief aid required, respond with medical support and deliver the acquired supplies alongside donated goods from numerous agencies to the impacted areas. Oil Search's first supply drop occurred on Sunday 1 March and the campaign was fully mobilised by Wednesday 4 March. They also moved to immediately bolster existing health clinics with supplies to enable first line treatment. The Moro Camp Clinic already acts as a key community health facility in the region. Moro became a central hub for operations.

Figure 4: Oil Search Medical Treatments Undertaken



Medical Treatments

886 Medical Treatments
(447 in villages)

31 evacuations to
POM, Hela PH, Moro

(As at end 26 Mar)

Source: Oil Search Relief Effort – Background and Update

The Oil Search response team consisted of 63 full time staff, including a national co-ordination team of 10, while the Moro logistics and distribution team comprised 20 staff. Thirteen doctors and nurses were on hand, and a village delivery team of 20 were assisted by half a dozen pilots.

Using up to 30 aircraft, Oil Search simultaneously delivered supply drops, administered medical assistance and collected survey data for other aid agencies to use in follow up campaigns. Each night Oil Search provided updated data and mapping of the relief campaign to the Government and global aid agencies.

Photo 7: Evacuation from Moro Airfield to Port Moresby

Source: SFML PNG site visit

In the first 21 days Oil Search delivered 160 tonnes of food and supplies into villages. This included 252 sling load deliveries by helicopter. Over 166 village visits were made to 89 individual villages, reaching more than 120,000 people. In terms of medical supply, 79 x 250kg health centre kits were delivered and the integrity of 18 heath centres was assessed. Some 886 medical treatments occurred of which 447 were in villages. 31 evacuations were undertaken to Port Moresby, Hela and Moro. Our flight out of the Moro Camp included the evacuation pictured below.

The response from Oil Search was beyond any ESG remit or policy written on paper. As per our google definition, if you were to evaluate corporate behaviour, full marks would be awarded here. This is the cultural piece that has been the backbone of the success of Oil Search and its operations in PNG. Events like this make it very clear that Oil Search are playing an essential role in not only the economic framework but also in the very survival of social networks within PNG. ***SFM***

Reporting Season Commentary

Ainsworth Game Technology (ASX:AGI)

Slots machine operator Ainsworth Game Technology's latest result reflects a multi-year period of product development, with revenues of $120m and net profits of $13.6m representing multi-year lows.

CEO Danny Gladstone is once again aiming to deliver strong second half unit sales, predominantly in the U.S. market, to meet company guidance of full-year operating profits of $58m. This isn't without risk and Ainsworth is battling a strong competitor in Aristocrat Leisure as well as a product pipeline that is yet to deliver fully.

While the business remains in a holding pattern, the group's intellectual property and global gaming licences provide a considerable barrier to entry. The company has limited borrowings, totalling $39m, providing a level of protection considering its business exposure to Latin American customers.

Ainsworth has been a disappointing investment to date, and we continue to review its position in the portfolio.

Altium (ASX:ALU)

Electronic printed circuit board (PCB) software developer Altium delivered a result which demonstrated excellent operational performance, consistent with management's long-term plans. Group revenues rose 30% to US$63m while operating profits were up 51% to US$19m on an underlying operating margin of 33%.

Led by CEO Aram Mirkazemi, Altium's suite of electronic PCB products are gaining significant traction in all global regions, with the recent release of Altium Designer 18 delivering 22% seat growth over the period. The company is on track to hit its internal goal of growing subscription customers to 40,000, with seats rising 4% to 35,977 during the half. Recurring revenues now make up more than 57% of annual revenue, with the company on track to hit its internal goal of 40,000 by 2020.

The company confirmed its expectations of delivering US$200m of revenues and margins of at least 35% by 2020, implying operating profits of US$70m, compared with current forecasts for 2018 of US$135m in revenues and profits of US$45m.

Altium has a market capitalisation of $2.5b and net cash of US$36m. They expect to fully expense software development costs of circa US$15m for the full year.

ARB Corporation (ASX:ARB)

We profiled ARB in our December 2017 Quarterly Newsletter, a review that illustrated the company's ability to deliver long-term performance. At its core, ARB is run by the founders and a core management team that continues to execute a simple but effective business plan. One that invests up front, delivering great products, whilst servicing a loyal and growing customer base, both locally and offshore.

For the half year, ARB delivered sales up 12.4% to $208m, with net profits up 13.4% to $26.5m. CEO Roger Brown noted the group's strong performance, with all divisions delivering growth, particularly in the Australia Aftermarket and Exports segments, where sales rose 10% to $137m and 20% to $56m respectively.

The group's key focus remains growing the top line, noting that the forward order book for ARB products remains as strong as management can recall. New wholly owned facilities were opened in Victoria during the period, illustrating management's preference to own strategically important assets, thereby allowing the business to control its own destiny.

At December year-end the number of ARB stores totalled 61 with 25 company owned. U.S. sales continue to grow, with this region now representing 50% of export sales. While no formal guidance was provided, the company confirmed growth in the second half had continued, with demand for ARB products remaining healthy.

ARB has a current market valuation of $1.5b, with no net debt.

Carsales.com (ASX:CAR)

Leading online automotive listings business Carsales.com delivered a solid first half result with revenue up 12% and net profits rising 11% to $200m and $61m respectively. Carsales has three primary business segments being, the traditional domestic online business, the finance and related services division and the international business. Under the leadership of CEO Cameron McIntyre, management are continually refining these offerings.

The core online advertising business posted 9% revenue growth to $142m, with all segments, dealer, private and display recording growth. Investment in the platform and product remains a priority, while key customer metrics, including time to sell and conversion rates, continue to improve. Revenue from dealer and data services rose 7% to $21m, reflecting its reliability. As the dealer and data services offering has differentiated itself from its competitors, demand has steadily increased.

Finance revenue, underpinned by the Stratton joint venture, reported an improved half, having overcome the regulatory impact that hit the car financing industry in 2017. While revenue rose 23% to $32m, operating profits rose 11% to $5m. A full rebound in profits will take some time as management look to build a more sustainable offering, one reliant on higher conversion rates and better operational efficiencies rather than large one-off volume-based bonuses.

International operations include wholly-owned SK Encar (South Korea), DeMotores (Argentina), SoloAutos (Mexico) and part-owned WebMotors (Brazil 30%) and Chileautos (Chile 83%). On a *"look-through"* basis, the international businesses contributed revenues of $25.1m and operating profits of $8.4m. While the majority are leaders in their respective fields, the markets within which they operate remain in their infancy and provide a long runway for growth.

During January, the company completed the acquisition of 50.1% of SK Encar, taking their ownership to 100% of the Korean business. Carsales.com paid $240m for the stake, which saw net debt rise to $415m. While no formal guidance was provided, the company expects conditions in the second half to be similar to those of the first.

The group's current market valuation, including debt, sits at $3.7b. The core online domestic business is expected to deliver operating profits of $180m during 2018. Applying a 20x multiple to these operations largely justifies the current valuation. While this multiple may seem aggressive, the group's strong competitive advantage in the core domestic business would lend considerable support to such a valuation. Under this scenario, investors are effectively applying no value to the business' ability to deliver long-term growth from its international portfolio of assets.

Cochlear (ASX:COH)

Global bionic ear manufacturer Cochlear delivered a first-half result consistent with its intentions of remaining an industry leader.

Revenues rose 6% to $640m, while reported net profit fell 1% to $110.8m. Reported profits were impacted by one-off U.S. tax adjustments of $5.5m and the timing of government tender contracts. Actual implant volumes fell 2% to 15,972 but rose 5% after adjusting for the impact of Chinese Government tender units. Most importantly, implant sales in developed regions rose a robust 12%, led by the U.S. market which gained 15%.

In overall terms, implants delivered 62% of total sales with revenues of $363m, services which include product upgrades totalled $162m or 25% of sales, with the balance from acoustics, incorporating Baha implants at $85m.

The standout region continues to be the America's, where the company has benefited from its newest product release the Nucleus 7 sound processor and the continuing direct to consumer sales model. Sales rose 15% to $317m, representing 50% of group sales while implant unit growth of 15%, was well ahead of the market growth, leading to share gains.

The company continues to invest in the critical areas of selling and marketing, which rose 14% to $189m and research and development, up 12% to $81m. CEO Dig Howitt noted the importance of this spend, as underpinning its commitment to the group's 475,000 implant recipients, as well as its ongoing investment in new product development.

Management maintained full-year net profit guidance of $240m-$250m, while interim dividends increased 8% to $1.40 per share, fully franked. The company has a market capitalisation of $10.2b, carrying net debt of $137m.

Computershare (ASX:CPU)

Global registry service provider Computershare reported a positive half-year result and discussed their renewed confidence in the group's strategic priorities. Regarding financials, revenues rose 11% to US$1.1b, with operating profits jumping 20% to US$293m, along with dividends up 12% to AUD19 cents per share, equivalent to a 62% payout ratio.

CEO Stuart Irving called out four key points of specific importance:

1. Management's strategic priorities of driving services growth, improving profitability and delivering improved capital management outcomes. Good progress is being made on all these fronts.
2. Business *"optionality"*, referring to the earnings potential that rests in many of the businesses within the group. Of specific note is the US$17.3b of average client cash balances that Computershare retains in the normal course of business, generating in the process a recurring level of interest income. For the half this rose from US$66.6m to US$79.6m, equal to 27% of group profits and illustrating the significant positive leverage that resides within this division should interest rates rise as is widely expected.
3. Earnings quality is high, with strong free cash flow enabling debt reduction, the pursuit of strategic investments and higher dividends.
4. Confirmation that full-year earnings guidance remains on track, with current year EPS now expected to grow by a minimum of 12.5%, equal to US62 cents per share.

Computershare has a current market value of $9.3b, carrying net debt of $1.1b and is on a prospective 2018 PER of 21x.

CSL (ASX:CSL)

Global blood plasma leader CSL delivered a first-half result described by CEO Paul Perreault as *"exceptional"*. Group revenues rose 13% to US$4.1b, while operating profits grew 35% to US$1.5b, resulting in a 23% increase in interim dividends to US79 cents.

The business benefited from three main drivers being:

1. Strong immunoglobulin (Ig) demand, with sales revenue up 13% as new products Haegarda (hereditary angioedema) and Idelvion (hepatitis B) benefited from a successful launch and ongoing consumer demand.
2. Influenza sales under the group's Seqirus division continues to progress as planned, with a shift into the higher valued FLUCELVAX contributing to first-half revenues of US$791m and operating profits of US$185m. Seqirus is on track to break even for the year, with the majority of profits earned in the first half.
3. Improving production efficiency, with the number of plasma collection centres topping 180. Group operating margins benefiting, with 39% earned in the period compared to 33% during 2017.

CEO Perreault summed up the performance, *"Our results reflect the effectiveness of our patient-focused R&D pipeline, robust demand for our differentiated products, and market leadership positions around the world. Investments in R&D, production and commercial capabilities have positioned us well for sustainable growth and help us deliver on our promise to patients with rare and serious diseases."*

The company is guiding investors to a full year net profit of US$1.55b-US$1.6b, with fully expensed research and development expenses of circa US$800 earmarked for the year. CSL has a market capitalisation of $72b, with net debt of $3.6b.

Domino’s Pizza Enterprises (ASX:DMP)

Domino's Pizza Enterprises posted a softer than expected result for the first half of 2018, reporting network sales up 7.1%, revenue up 5.2% and net profit after tax up 5.5%. The results were driven by mixed performances across the company's three divisions, Australia and New Zealand, Europe and Japan. Same-store sales (SSS) growth in the Australian region was downgraded from 7%-9% to 6%-8% for the full year. The European division put a number of issues experienced in the previous period behind it, delivering SSS growth of 7.7%. Japan turned in a subdued result, with SSS falling 1.9%. The weakness in the Japanese result was due to a promotion which was poorly received by consumers as well as a weakening in the Yen versus the Australian Dollar.

As of late, Domino's has weathered a disruptive period. Employee underpayment at the hands of a number of franchisees and poorly handled management sell downs have seen the company subject to intense media scrutiny. The employee underpayment issue is one that Domino's has been addressing for some time. We have seen the systems that have been implemented to address these issues and are confident they will go a long way to resolving the problem. A zero-tolerance approach to employee underpayment has also seen franchisees who fail to comply with company and regulatory requirements swiftly exited. Domino's and its franchisees have been absorbing substantial wage increases for a number of years. Once the new enterprise bargaining agreement has been finalised, and these increases have been fully absorbed, it is expected that franchisees will see a step change in earnings growth.

Despite the weaker result, management reiterated their guidance for net profit growth in the region of 20% for the full year, which would see the company deliver approximately $142m of underlying net profit. To deliver that, Domino's will need SSS growth in both ANZ and Japan to accelerate from the level delivered in the first half. Management are confident this is achievable as the businesses will be cycling relatively weaker comparable periods. Organic store growth, as well as contributions from recently acquired and converted stores in Europe, will also be a key driver of the net profit growth. Domino’s has a market capitalisation of $3.5b, net debt of $396m and is currently undertaking a share buy-back program.

Flight Centre Travel Group (ASX:FLT)

Flight Centre, Australia's leading travel group, reported underlying profit before tax of $139m, up 23% compared with the corresponding prior period. The result beat expectations and was ahead of management's targets. Consequently, the company expects to earn underlying profits of between $360m-$385m for the full 2018 fiscal year, compared with previous guidance of $350m-$380m.

A particularly weak result in the six months to 31 December 2016 makes the most recent performance look strong, and management have cautioned investors not to extrapolate the strong growth into expectations for the full year. The result is nonetheless pleasing. Total transaction value (TTV) grew 8.7% to $10.16b and TTV per employee increased 7%, from $481,000 to $513,000. Revenue increased 5.4% to $1.37b, growing slower than TTV as the income margin fell. The dilution was largely the result of growth in lower margin businesses such as corporate travel and online.

The reduction in income margin (Revenue/TTV), however, was more than offset by an increase in net operating margin (Pretax Profit/TTV). Slower cost growth, strong productivity gains and network optimisation all helped on this front. A renewed focus on cost control has seen global support structures streamlined, non-core functions outsourced, and marketing spend optimised. Numerous loss-making, or marginally profitable businesses have been exited or downsized, and the company is now embarking on a strategy of merging smaller brands into three main networks. The merging of brands will reduce complexity and allow support structures to be streamlined further. Mass-market brands will all become Flight Centre branded, Premium will become Travel Associates and Travel Partners while youth businesses will become Student Flights and Student Universe.

While the financial results delivered for the half were positive, it is perhaps more pleasing for long-term investors that the management team have demonstrated an ability to look inwards to identify areas of weakness and put in place plans to improve. Flight Centre has become a large and complex business through years of organic and inorganic growth, and management could be criticised for not having focused enough on keeping the business optimised. Now that this process is underway, we are even more confident the company will be able to generate strong value for shareholders in the future.

Flight Centre has a market capitalisation of $5.8b and net cash of $270m.

IPH (ASX:IPH)

The transition to a new CEO Andrew Blattman took effect on 20 November 2017, replacing the retiring CEO David Griffith. In handing down his first results as CEO, Australia's largest patent and trade mark attorney group delivered a financial performance that was both disappointing and below market expectations. For the period revenues rose 9% to $101m while underlying operating profits fell 9% to $33.2m. Reported net profits declined 11% to $19.7m, while after considering a number of non-recurring items, underlying earnings fell 9% to $24.3m.

Part of the issue was a stronger currency impact, as the majority of revenue is received in U.S. dollars. The business also suffered from the ongoing impact from the America Invents Act (AIA), which pulled demand forward during the 2016-2017 period. Finally, the acquisition of New Zealand's leading patent attorney firm AJ Park contributed less than originally expected, following its acquisition in October for a total consideration of $60.9m.

If there was cause for some optimism, it related to the growth rate in current patent filings. While the total patent filings within Australia fell 2% to 17,858 during the period compared to the previous year, filings by IPH companies rose 8% from 8,111 to 8,747. Similarly, trade mark filings rose from 2,251 to 3,195, reflecting the AJ Park acquisition and increased activity.

These improved filings are a forward and leading indicator of future work, providing earnings visibility and recurring income streams.

The market's response to management's earnings release has been less than positive with the share price falling significantly. The change of CEO is perhaps one aspect driving this action, but more damaging has been the continual share sell-down by principals of businesses acquired. At the December balance date, of the 197m shares currently on issue, a total of 9m shares or 5% are due to be released from escrow between now and October 2019.

For the full year, IPH is noting an improving second half across both the Australian and Asian operations. A full six-month contribution from newly acquired AJ Park will also drive earnings. Market consensus has the group delivering full-year revenues of $219m, along with net profits of $52m.

The company has a current market valuation of $677m, carrying net debt of $15m and placing the group on a prospective PER of 13x and a fully franked yield of 6.7%.

James Hardie (ASX:JHX)

It’s rare for everything to go your way in any one period, but for James Hardie's CEO Louis Gries the third quarter was one where all aspects, across all regions, moved in the business’ favour. For the third quarter, the group delivered a solid 9% sales lift to US$495m, while gross profit rose 18% to US$182m and adjusted net profit was up 33% to US$70m.

The group's U.S. operations continued its recovery path, posting net sales of US$377m, up 7%, while operating profits of US$101m benefited from volume and price growth of 2% and 5% respectively.

It has been an unusual year for the group with the typically weaker third quarter being the strongest to date. Manufacturing issues have been improved upon while the process of winning back lost clients is ongoing. Particularly mindful of the pitfalls in giving forecasts, management remain confident that the operational issues that plagued the group during 2017 are being rectified, while the positive momentum the business is experiencing is expected to flow into 2019.

As Gries outlined, *"The capacity constraints which arose dampened our demand in fiscal year 2018, despite our capacity increasing compared to the prior corresponding periods. We are on track to increase manufacturing capacity, improve the performance of our North American manufacturing network and drive improved primary demand growth."*

The company continues to guide to a full year 2018 adjusted net profit of US$260m-US$275m, which compares to the US$249m delivered in 2017. The group's market capitalisation sits at US$7.8b, along with a current net debt position of US$597m, noting that the already announced acquisition of European based Fermacell will see a further US$627m of debt added. The acquisition will see the group's leverage target range of one-to-two times, measured as net debt to adjusted operating profit (EBITDA), exceeded for a period.

Jumbo Interactive (ASX:JIN)

Online lotteries retailer Jumbo Interactive reported a strong interim result for the six months to December, growing revenue 21% to $19.3m and net profit 21% to $5.3m. A strong run of medium-sized jackpots drove higher lottery participation, increasing ticket sales from $69m to $89m. Following the abandonment of the group’s German foray, the business has refocused on the Australian market which has seen operating margins rise sharply. Margins are expected to continue to rise over the long term as the group capitalises on its inherent operating leverage.

The company will also benefit from a recent ban on synthetic lotteries, which effectively shuts the door on its key competitor, Lottoland. Competitive tension should fall following Lottoland’s exit, resulting in lower marketing costs in acquiring new customers.

Changes to the structure of the most popular Australian lottery, Powerball, should also increase the number and size of jackpots for players, a key driver of participation. Although this may lead to a short-term dip in player activity, in the medium to long-term this is expected to support increased activity levels.

Jumbo Interactive has a market capitalisation of $214m and net cash of $34m.

MYOB Group (ASX:MYO)

Accounting software provider MYOB tabled its full-year 2017 result during February, reporting revenues up 12% to $416m, with underlying operating profits rising 11% to $190m, giving rise to slightly lower margins of 46%. Reported net profits rose 10% to $102m, with an 11.5 cent fully franked dividend declared, equating to a 66% payout.

The group's stated strategic priorities remain consistent with prior periods and include:

1. Growing the online subscriber base,
2. Lift the customer lifetime value, via annual revenue per user (ARPU) and retention rates,
3. Increase the group's Total Addressable Market (TAM) via online payments,
4. Further penetrate the business segment via its Enterprise offering, and
5. Consider strategic opportunities.

Focusing on the first two points, the company recorded a 35% increase in small-to-medium enterprises (SME) online subscribers, from 225,000 to 304,000. The rise represents a combination of new SME's and the ongoing migration of active, non-paying users. When all users are considered, both SME's and accountant practices, the number of online subscribers total 399,000, up 60% for the year. CEO Tim Reed noted the acceleration in client transition from desktop to online (currently 40% penetrated) has the group on track to reach one million online subscribers by 2020.

The lift in online subscribers was also accompanied by a rise in ARPU. For the calendar year, the annual SME ARPU rose from $406 to $424, with group retention rates improving from 80% to 82%. Over the immediate future, this remains management's clear intent, to drive further adoption, lift retention and improve ARPU. The nature of the subscription-based business, where more than 96% of revenue is recurring, underscores the long-term attractiveness of this model.

For the year the company re-invested, via research and development expenditure, a total of $67.8m or 16.3% of group revenues. Of this amount, the company expensed $32.5m, with the balance of $35.3m capitalised on the company's balance sheet.

MYOB has a market capitalisation of $1.9b, with net debt of $378m.

Nanosonics (ASX:NAN)

During the period we initiated a position in Nanosonics. Although the company has been in operation for more than 17 years, it is still early in its lifecycle. Their flagship product, the Trophon EPR is a device which disinfects ultrasound probes that have a high risk of causing infections in subsequent use.

Trophon has seen a strong uptake in the United States and Australia, as a growing body of evidence suggests that existing infection prevention practices are inadequate. A key driver of uptake is the release of clinical guidelines which suggest or even mandate the use of Trophon to disinfect probes. Recent guidelines announced in the United Kingdom and Germany are expected to drive strong uptake in Europe in the near term.

For the six months to 31 December 2017, the company delivered operating profits of $3.7m, up 3% compared with the prior corresponding period. However, the result was substantially lower than the six months to 30 June 2017 largely due to a substantial increase in operating expenses. The growth in expenditure is the result of an increase in the sales and marketing headcount as well as elevated investment in group research and development (R&D). Sales and marketing resources have been increased to capitalise on the positive momentum the company has experienced due to clinical guideline releases. R&D expenses, on the other hand, have increased as Nanosonics pushes ahead with the development of new products in the infection prevention space.

Nanosonics has a market capitalisation of $706m and net cash of $65m.

NIB Holdings (ASX:NHF)

Health insurer NIB delivered an overall steady profit result for the first half, with group revenues up 9% to $1.1b, while underlying operating profits rose 1.3% to $96.4m and underlying net profits were relatively flat at $76.8m. On the surface this could be viewed as disappointing, noting CEO Mark Fitzgibbon's summation that, *"The domestic Australian health insurance market is as soft as I can recall."*

Despite this backdrop, NIB continues to take market share, accounting for a 36% share of industry policyholder growth during the half despite a current market share of just 8%, while also benefiting from lower customer churn. The group's ongoing white label partnerships with the likes of Qantas and Suncorp continue to offer avenues of growth without compromising the loyalty that exists within the NIB brand.

While the Australian Resident Health Insurance (ARHI) division battles a tougher domestic environment, management's decision to invest in non-ARHI businesses is gaining traction. For the half, these adjacent businesses accounted for 31% of group profits, up from 23% a year earlier. These operations are all connected with insurance and include workers and student insurance, travel and medical insurance as well geographical expansion in New Zealand.

Despite tougher health insurance conditions, Fitzgibbon remains confident of maintaining annual policyholder growth for ARHI in the range of 3%-4% while non-ARHI operations will continue to grow in importance, with management targeting 50% of operating profits from these operations over the medium term.

Reflective of their confidence, NIB upgraded full year operating profit guidance from $155m to at least $165m. NIB has a current market value of $2.7b, with a gearing ratio[5] of $229m.

Reece (ASX:REH)

Australia's leading plumbing supplier Reece delivered record sales for the half, up 10% to $1.3b, leading to net profit growth of 10% to $105.7m. This level of performance when viewed over a longer period is even more impressive, equal to 12% and 15% compound annual growth for sales and profits respectively, over the past five years.

Underpinning the group's strategic intent is the commitment to customer service, comprising inventory availability, a focus on supplying exclusive and compelling products and with an ongoing investment in digital solutions.

The company completed the acquisition of water irrigation business Viadux during the half, in keeping with management's pursuit of sensible bolt-on opportunities. Post the company's 5:1 share split, issued capital now totals 498m shares.

Reece has a current market capitalisation of $5.4b, with net debt of $50m.

Reliance Worldwide Corporation (ASX:RWC)

Plumbing group Reliance unveiled a strong 2018 interim result with group revenues rising 28% to $363m and operating profits up 25% to $79m. Led by CEO Heath Sharp, the business is underpinned by its leading, SharkBite branded, push-to-connect (PTC) plumbing product category.

Available in over 23,000 retail, hardware and wholesale outlets throughout the U.S. the business enjoys an unrivalled footprint that has positioned the group for continued growth. This is underpinned by the PTC category which remains in the early stages of market share acceptance.

Focused exclusively on what the company defines as the *"behind the wall"* plumbing market, Heath is spearheading a sensible, measured approach to deepen the distribution network while expanding the range that plumbers can add to their basket.

[5] Gearing ratio = gross debt/(gross debt + shareholders equity)

Investors who reacted negatively to the recent sell down by founder and current Chairman Jonathan Munz, citing cause for concern, may in the fullness of time, look back with some regret.

The company has a market value of $2.3b, net debt of $243m and is on track to expense a total of $17m in research and development for the full year.

SEEK (ASX:SEK)

Leading online employment and education platform SEEK released its results for the six months to 31 December which revealed an acceleration in its core business. The results validate the re-investment strategy the company embarked on roughly four years ago. Group revenue rose 26% to $620.3m from $492.4m a year earlier. Over the same period operating earnings rose 20% to $221.2m.

While some of this revenue and earnings growth was an outcome of the consolidation of Online Education Services, in which SEEK moved to a controlling position during the year, the underlying growth was robust. ANZ Employment revenue grew 15%, while International revenue lifted 10%. This led to ANZ operating earnings rising 15% and International operating earnings up 3%. The lack of earnings growth in the International business is the result of heavy re-investment in product functionality. This strategy was one SEEK embarked on in the ANZ business some time ago, and it has seen hirers' willingness to spend on ads and new services such as *"Premium Talent Search"* increase. If this approach is followed in the International business, it is expected that earnings will accelerate in future periods.

Investors should be clear that a failure to grow earnings in the short term is not the result of a strategic blunder. Rather, it is a well-considered plan to ensure SEEK maintains a strong leadership position in markets which represent future revenue and earnings opportunities with the aim of multiplying the size of the core Australian business.

What is clear, is that management’s strategy of re-investing is generating substantial momentum within the core business. SEEK has a market capitalisation of $6.6b and had net debt of $402m at the end of the half, an increase that was driven largely by the Zhaopin privatisation.

Sims Metal Management (ASX:SGM)

Under the leadership of new CEO Alistair Field, global scrap leader Sims Metal posted an improving profit profile, with first-half underlying net earnings jumping 36% to $81m, on revenue up 25% to $3.0b. Underpinning the result was a pick-up in global scrap volumes and higher commodity prices. The North American region benefited from past restructuring efforts, delivering sales volumes up 12% to 3.0m tonnes and operating profits of $65m, up 112%. Similarly, Australian operations contributed operating profits of $44m, up 70% on volume growth of 890,000 tonnes, equal to 3%.

Offsetting these operations were the group's European Metals business and the Global E-Recycling Unit, each reporting lower operating profits of $12.6m and $6.5m respectively.

Management confirmed that both were impacted by events that are unlikely to re-occur, indicating stronger second half performances.

While general market conditions remain favourable, the company continues to benefit from the structural changes underway in China. Here, the Government's intention to lower pollution levels has seen steel-making capacity reduced, leading to lower levels of exported steel. In addition, the growing shift towards electric arc furnaces (EAF) in steel production is also driving higher demand for ferrous scrap.

The CEO Field has made a number of key executive appointments, tasked with driving better business execution, a greater focus on people and culture and directing capital spending to existing operations as well as strategically aligned acquisitions.

The company is financially well positioned, with annual capital expenditure of $180m-$200m committed over the forward years and a net cash position of $390m. A fully franked dividend of 23 cents was paid for the period, representing a 58% payout. For the half, an annualised return on capital of 10.5% was achieved, in keeping with the original target set in 2013. Management is confident of maintaining that rate for the full year.

Sims Metal Management has a market capitalisation of $3b.

The Star Entertainment Group (ASX:SGR)

Casino operator Star Entertainment Group delivered broad-based growth across all operations when measured on a non-statutory basis. The results are largely influenced by the international high roller players (VIP) and their respective win rates. For the half, while revenues rose 3% to $1.3b, reported operating profits fell 34% to $200m and net profits 77% to $33m. Under normalised reporting, where long-term VIP win rates are applied, net profits would have been $120m, up 12%.

Obviously, this has an impact on actual cash flows, but over time the long-term VIP win rates of 1.35% even out. Looking beyond the lower win rate, one of the most pleasing aspects of the result was the return of the VIP customer, with turnover up 49% to $31b, translating to stronger visitation throughout the casino assets of Sydney, Brisbane and the Gold Coast.

The second significant outcome involved the completion of major capital works on the Gold Coast assets, prior to the start of the Commonwealth Games. This has seen domestic gaming rise 22% over the half, indicative of the latent demand for quality infrastructure.

Further significant work is earmarked for both the newly won Queen's Wharf Brisbane Integrated Resort and expansion at the Sydney Star Casino. For 2018, the company is spending circa $565m with all projects expected to be completed prior to the opening of competitor Crown Resorts new Sydney casino in 2021.

The company has a current market value of $4.2b, with net debt of $1.0b. Normalised operating earnings of $560m is expected for 2018, placing the group on a total enterprise multiple of 9.6x. Dividends of 7.5 cents were maintained for the half. ***SFM***

Company visit diary March 2018 Quarter

January

Date	Company	Description
23-Jan	RMD	ResMed Q2 FY18 Results Briefing
24-Jan	DMP	Domino Pizza Enterprise DB DMP Analyst Briefing Call
25-Jan	DTS	Dragontail GS Management Meeting
30-Jan	IPD	Impedimed Q2 FY18 Results Briefing
30-Jan	NVT	Navitas HY18 Results Conference Call
31-Jan	SRX	Sirtex Medical SRX Acquisition Call
31-Jan	SRX	Sirtex Medical Macquarie Management Meeting

February

Date	Company	Description
1-Feb	NVT	Navitas SFML Management Meeting
2-Feb	JHX	James Hardie Industries Q3 Conference Call
2-Feb	JHX	James Hardie Industries Macquarie Management Meeting
6-Feb	MFG	Magellan Fin HY18 Results Conference Call
7-Feb	CAR	Carsales.com HY18 Results Conference Call
7-Feb	IEL	Idp Education Macquarie Management Meeting
7-Feb	NCK	Nick Scali Macquarie Management Meeting
8-Feb	CAR	Carsales.com SFML Management Meeting at CS
8-Feb	CAR	Carsales.com DB Management Meeting
8-Feb	IEL	Idp Education Management Meeting
8-Feb	CL1	Class UBS Management Meeting
8-Feb	CAR	Carsales.com Taylor Collison Management Meeting
9-Feb	CAR	Carsales.com Macquarie Management Meeting
12-Feb	JBH	JB Hi-Fi HY18 Results Conference Call
13-Feb	GBT	GBST Holdings HY18 Results Conference Call
13-Feb	COH	Cochlear Interim Result Conference Call
13-Feb	REA	REA MS Management Meeting
13-Feb	GBT	GBST Holdings CLSA Management Meeting
14-Feb	DMP	Domino Pizza Enterprise HY18 Results Conference Call
14-Feb	CPU	Computershare HY18 Results Conference Call
14-Feb	CSL	CSL HY18 Results Conference Call
14-Feb	COH	Cochlear CLSA Management Meeting
14-Feb	DMP	Domino Pizza Enterprise MS Management Meeting
15-Feb	BRG	Breville HY18 Results Conference Call
15-Feb	ASX	ASX HY18 Results Conference Call
15-Feb	3PL	3P Learning HY18 Results Conference Call
15-Feb	3PL	3P Learning Macquarie Management Meeting
15-Feb	GBT	GBST Holdings SFML Management Meeting

Date	Company	Description
15-Feb	BRG	Breville Macquarie Management Meeting
16-Feb	IFL	IOOF Holdings HY18 Results Conference Call
16-Feb	SGR	The Star Entertainment HY18 Results Conference Call
16-Feb	DMP	Domino Pizza Enterprise SFML Management Meeting
16-Feb	IPH	IPH Macquarie Management Meeting
16-Feb	ASX	ASX GS Management Meeting
19-Feb	NHF	NIB Holdings HY18 Results Conference Call
19-Feb	SEK	SEEK HY18 Results Conference Call
19-Feb	JIN	Jumbo Interactive HY18 Results Conference Call
19-Feb	IFL	IOOF Holdings Macquarie Management Meeting
19-Feb	SGR	The Star Entertainment Macquarie Management Meeting
19-Feb	ALU	Altium HY18 Results Conference Call
20-Feb	BAP	Bapcor HY18 Results Conference Call
20-Feb	VRT	Virtus Health HY18 Results Conference Call
20-Feb	ALU	Altium SFML Management Meeting
20-Feb	OSH	Oil Search FY18 Results Conference Call
20-Feb	ALU	Altium Deutsche Bank Management Meeting
20-Feb	SGR	The Star Entertainment Macquarie Management Meeting
20-Feb	SGM	Sims Metal Management GS Management Meeting
20-Feb	VRT	Virtus Health MS Management Meeting
20-Feb	VRT	Virtus Health UBS Management Meeting
20-Feb	SOM	SomnoMed UBS Management Meeting
20-Feb	SEK	SEEK SFML Management Meeting
21-Feb	SGM	Sims Metal Management SFML Management Meeting
21-Feb	SYD	Sydney Airport FY17 Results Conference Call
21-Feb	WTC	Wisetech Global MS Management Meeting
21-Feb	BAP	Bapcor UBS Management Meeting
21-Feb	ARB	ARB Corporation HY18 Results Conference Call
21-Feb	IFL	IOOF Holdings SFML Management Meeting
22-Feb	WTC	Wisetech Global Macquarie Management Meeting
22-Feb	IRE	IRESS FY18 Results Conference Call
22-Feb	IFM	Infomedia HY18 Results Conference Call
22-Feb	BKL	Blackmores HY18 Results Conference Call
22-Feb	FLT	Flight Centre Travel Group HY18 Results Conference Call
22-Feb	FLT	Flight Centre Travel Group DB Management Meeting
22-Feb	NEA	Nearmap MS Management Meeting
22-Feb	BKL	Blackmores SFML Management Meeting
23-Feb	FLT	Flight Centre Travel Group Macquarie Management Meeting
23-Feb	MYO	MYOB Group FY Results Conference Call
23-Feb	NAN	Nanosonics HY18 Results Conference Call
26-Feb	VRT	Virtus Health SFML Management Meeting

Date	Company	Description
26-Feb	RWC	Reliance Worldwide HY18 Results Conference Call
26-Feb	FLT	Flight Centre Travel Group SFML Management Meeting
27-Feb	IRE	IRESS SFML Management Meeting
27-Feb	IFM	Infomedia SFML Management Meeting
27-Feb	NAN	Nanosonics UBS Management Meeting
28-Feb	AGI	Ainsworth Game Technology HY18 Results Conference Call
28-Feb	NHF	NIB Holdings SFML Management Meeting
28-Feb	ABC	Adelaide Brighton Macquarie Management Meeting
28-Feb	AGI	Ainsworth Game Technology SFML Management Meeting
28-Feb	RWC	Reliance Worldwide SFML Management Meeting

March

Date	Company	Description
1-Mar	NWL	Netwealth Group UBS Management Meeting
1-Mar	MVF	Monash IVF UBS Management Meeting
1-Mar	NVL	National Vet Care UBS Management Meeting
2-Mar	JIN	Jumbo Interactive SFML Management Meeting
2-Mar	PWH	Pwr Holdings UBS Management Meeting
6-Mar	TNE	Technology One UBS / SFML Management Meeting
6-Mar	FPH	Fisher & Paykel Healthcare DB Management Meeting
12-Mar	OSH	Oil Search Investor Trip to PNG
13-Mar	OSH	Oil Search Investor Trip to PNG
13-Mar	OFX	OFX Group Investor Day
14-Mar	OSH	Oil Search Investor Trip to PNG
15-Mar	OSH	Oil Search Investor Trip to PNG
16-Mar	OSH	Oil Search Investor Trip to PNG
20-Mar	NVT	Navitas SFML Management Meeting
22-Mar	SOM	SomnoMed MS Micro-Cap Conference
27-Mar	N/A	GS Battery Conference
27-Mar	SGR	The Star Entertainment Management Meeting & Site Visit
28-Mar	JIN	Jumbo Interactive QLD Management Meeting
29-Mar	SGR	The Star Entertainment Strategic Partnership Conference Call