Selector High Conviction Equity Fund Quarterly Newsletter No.69

September 2020

In this quarterly edition, we review performance and attribution. We discuss company results from the August 2020 reporting season.

We also turn our attention to what in our view, has and has not changed for Selector during this unusual period.

We comment on the importance of data, an ESG elephant in the room and corporate reporting creep.

To finish off, we review some of our favourite COVID reads.

Cartoon. Who was the winner? Time will tell. Source. *https://www.townsvillemagpie.com.au/*

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Selector is a Sydney based fund manager. Our team combines deep experience in financial markets with diversity of background and thought. We believe in long-term wealth creation and building lasting relationships with our investors.

We focus on stock selection, the funds are high conviction, concentrated and index unaware. As a result, the portfolios have low turnover and produce tax effective returns.

Selector has a 15-year track record of outperformance and we continue to seek businesses with leadership qualities, run by competent management teams, underpinned by strong balance sheets and with a focus on capital management.

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IN BRIEF – SEPTEMBER QUARTER

Dear Investor,

If the September quarter is to be remembered for anything, the 2020 annual reporting season might not be it. Rather, if we are to portray the current economic predicament accurately, the thinking needs to go much deeper than how a business performed under lockdown conditions.

Governments have yet to publicly acknowledge that denying the right of a business to operate, or an individual to undertake their civil liberties, is stepping very close to the line.

When a business loses its right to function, to fulfil its legal obligations, no amount of JobKeeper subsidy is going to alter the fact livelihoods are at risk and the fabric on which our democratic society is built upon begins to fracture.

During reporting season we ended up with two sets of reported company numbers; the statutory accounts, displaying warts and all of how the year panned out, and the see-through underlying profit numbers of what might have been if one off events like COVID-19 never occurred.

On this score, investors can form a view either way. On the broader question however, one that has seen the trampling of rights by authorities, a dangerous precedent has been set with all the unintended consequences such action brings.

Reminiscent of the Black Knight in Monty Python, our governments and health officials would have you think that by hacking off an arm or leg, businesses will just keep showing up. But the truth of the matter is that this is no skit or without repercussions. Businesses will stop when the money runs out or mental frailty is at its end and our national balance sheet will show the financial scars of these actions for longer than any of us would like to imagine.

At a time when companies and investors have had to significantly step up their resources concerning environmental, social and governance (ESG) matters for the greater good, it is galling that many of our own politicians have expressed views that champion self-interest, by pushing for border control without accepting any accountability.

Under such conditions it is a credit that our companies, be they public or private, can function at all. Business leaders often pillared for acting in a manner that is seen as uncompetitive and open to media scrutiny have shown true leadership, while our own politically elected Federal Government is hamstrung, unable to steer the country's strategic direction without the blessing of the states.

Accountability, a noble trait expected of a progressive society has gone out the window as evidenced by the Queensland Government and Premier Palaszczuk's decision not to produce a budget for the 2021 year, citing the pandemic. And the Morrison Government, highlighting the absurdity of the situation, has extended corporate insolvent trading relief to 2021 in a bid to paper over the cracks. Now we have a lack of accountability extending from governments to businesses.

Little wonder we have become a self-centred nation, lacking unity..

Perhaps Peter Drucker, often described as the founder of modern management, could offer a way out.

"The leaders who work most effectively, it seems to me, never say 'I'. And that's not because they have trained themselves not to say 'I'. They don't think 'I'. They think 'we'; they think 'team'. They understand their job to be to make the team function. They accept responsibility and don't sidestep it, but 'we' gets the credit…. This is what creates trust, what enables you to get the task done."

If only arrogance and self-interest could be put to one side. But unfortunately, the truth is now out, we are not in this together. Management present underlying profits to show us a way forward but when freight costs go up, staff numbers are cut, rents not paid, investments not made and state barriers erected, losses mount and motivation is lost. So, in the scheme of things, company reporting season was not that important and the financial accounts attached not entirely relevant either.

In this quarterly we provide some insight into a cross section of trading results, emanating from reporting season of companies held within our portfolio holdings. It is fair to say undertaking any comparative analysis is not without its challenges, but for the majority the long-term pathway remains positive.

In our article "The times they are a changing", we explore how COVID may alter some long-held traditions. We then turn our attention to the investment markets and detail our view on what has and has not changed.

We then delve into differing views surrounding ESG matters, a theme that continues to grow in importance. To finish off, we review some of our favourite COVID reads.

For the September quarter, the Portfolio delivered a gross positive return of **4.53%** compared to the S&P ASX All Ordinaries Accumulation Index, which posted a gain of **1.10%.**

We trust you find the report informative.

Regards,

Selector Investment Team

"From just two stores in Victoria, to more than 800 branches across three countries, our commitment remains the same and the family has not sold a single share since our role was cemented back in 1968."

Reece Chairman Alan Wilson illustrating perfectly why actions speak louder than words. Controlling 56% of this $7.8b ASX listed plumbing group, the family's commitment to the *"The Reece Way"* has been unwavering over a period spanning 61 years and is a lesson to those that speak of long-term investing and on delivering real wealth creation.

Alan Wilson
Chairman of Reece

PORTFOLIO OVERVIEW

Table 1: Performance as at 30 September 2020*

	3 Month	6 Month	1 Year	3 Year	5 Year	10 Year	15 year	Since Inception
Fund (net of fees)	3.73	23.88	(4.56)	13.83	13.92	13.54	8.55	10.73
Fund (gross of fees)	4.53	25.58	(2.45)	16.16	16.14	15.71	10.58	12.86
All Ords. Acc. Index	1.10	19.05	(8.76)	5.46	7.73	7.00	6.15	7.34
Difference (gross of fees)	3.43	6.53	6.31	10.70	8.41	8.71	4.43	5.52

Inception Date: 30/10/2004

**Performance figures are historical percentages. Returns are annualised and assume the reinvestment of all distributions.*

Graph 1: Gross value of $100,000 invested since inception

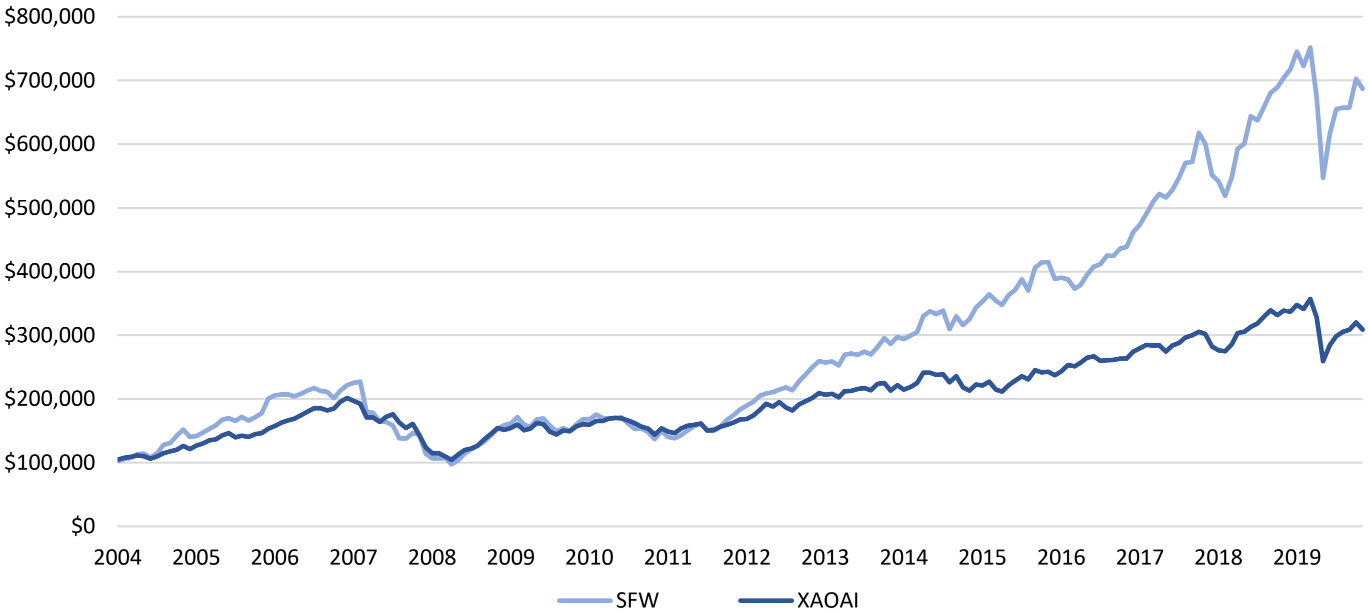


Table 2: Fund's Top 10 Holdings

Top 10 September 2020	%	Top 10 June 2020	%
James Hardie Industries	6.11	ResMed	5.80
Domino's Pizza Enterprises	6.04	Domino's Pizza Enterprises	5.77
Altium	5.23	Iress	5.25
Carsales.com	5.05	Altium	5.16
Aristocrat Leisure	5.01	James Hardie Industries	5.15
Cochlear	4.83	Carsales.com	4.73
Reece	4.77	Aristocrat Leisure	4.65
ResMed	4.57	Seek	4.60
Iress	4.20	TechnologyOne	4.58
Seek	4.02	Cochlear	4.55
Total	**49.83**	**Total**	**50.24**

Table 3: Unit prices as at 30 September 2020**

Unit Prices	Entry Price	Mid Price	Exit Price
	$2.9242	$2.9169	$2.9096

Selector employs a high conviction, index unaware, stock selection investment strategy. 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.

Table 4: ASX sector performance – September 2020 quarter

S&P ASX Industry Sectors	Quarter Performance (%)
Information Technology	12.28
Consumer Discretionary	7.72
A-REITS	6.68
Materials	2.19
Healthcare	0.32
Industrials	(0.22)
Telecommunications	(4.29)
Consumer Staples	(4.92)
Financials	(6.89)
Utilities	(9.51)
Energy	(15.15)

Table 5: Fund's industry weightings

Industry group	September 2020 (%)	June 2020 (%)
Software & Services	25.19	26.62
Consumer Services	18.26	16.76
Health Care Equipment & Services	15.00	17.37
Media & Entertainment	10.29	10.19
Capital Goods	7.89	6.31
Materials	6.11	5.15
Diversified Financials	4.47	5.20
Pharmaceuticals, Biotech & Life Sciences	3.73	4.07
Household & Personal Products	2.26	3.09
Automobiles & Components	1.96	1.39
Insurance	1.91	2.39
Consumer Durables & Apparel	1.52	0.99
Cash & Other	1.42	0.48

Investment Transactions

Purchases

During the quarter, we initiated a position in **Appen** and increased our holdings in:

- Breville Group
- Cochlear
- FINEOS Corporation Holdings – placement
- IOOF Holdings – placement
- James Hardie Industries
- Jumbo Interactive
- PolyNovo
- REA Group
- TechnologyOne

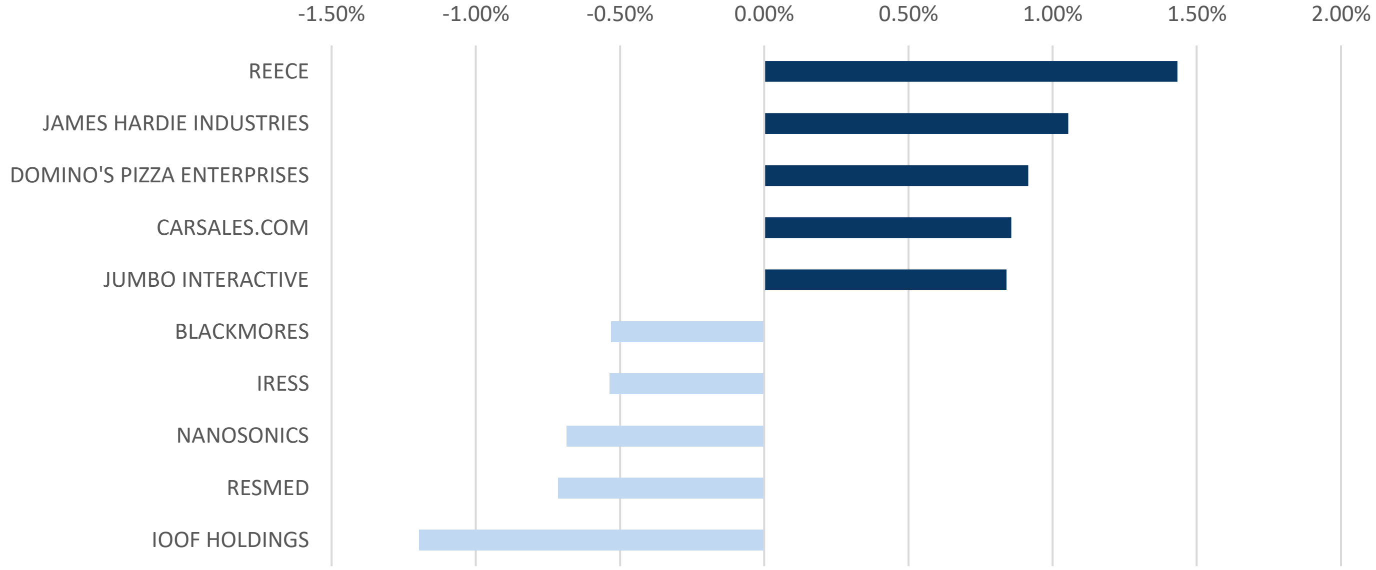
Sales

During the quarter, we reduced our holdings in:

- Blackmores
- Computershare
- Domino’s Pizza Enterprises
- NIB Holdings
- ResMed
- Seek
- The Star Entertainment Group

PORTFOLIO CONTRIBUTORS

Graph 2: Contributors and Detractors – September 2020 quarter



Top quarterly contributors

1. Reece (ASX:REH)

Refer to company reporting season commentary below.

2. James Hardie Industries (ASX:JHX)

Refer to company reporting season commentary below.

3. Domino's Pizza Enterprises (ASX:DMP)

Refer to company reporting season commentary below.

4. Carsales.com (ASX:CAR)

Refer to company reporting season commentary below.

5. Jumbo Interactive (ASX:JIN)

Refer to company reporting season commentary below.

Bottom quarterly contributors

1. IOOF Holdings (ASX:IFL)

Refer to company reporting season commentary below.

2. ResMed (ASX:RMD)

Refer to company reporting season commentary below.

3. Nanosonics (ASX:NAN)

In August, Nanosonics reported its FY20 results, largely in keeping with market expectations. The major disappointment surrounded the timing release of a new lead technology platform, which had been expected in 2021 and now likely to extend into the 2022 year. Management noted that, *"the company had identified a number of positive enhancements to our new lead technology platform that provide the possibility to deliver superior outcomes to those originally anticipated. Inclusion of these enhancements coupled with the uncertainties associated with COVID-19 on certain project milestones...*" led to the delay.

4. Iress (ASX:IRE)

In July, financial services software provider Iress announced a bid to acquire leading managed fund and ASX listed superannuation member administration provider OneVue (ASX:OVH). The initial offer of $0.40 per share was raised to $0.43 per share, on 28 September, which is at the top end of the independent expert's appraisal and values OneVue at $115m. This acquisition fits neatly within Iress' strategy of providing seamless and integrated technology solutions to the financial services industry.

OneVue is the largest single third-party fund registry in Australia with circa $490b of funds under administration (FUA) across 1,383 funds. Operationally this business segment is highly automated using proprietary technology and presents a significant growth opportunity. As owners of the financial advisor platform Xplan, Iress intends to integrate this platform with the unit registry system to enable straight through processing, creating notable efficiencies for advisors.

OneVue directors continue to unanimously recommend that shareholders support the acquisition with a vote being held in late October. Iress is well capitalised to complete the transaction having raised $170m by way of an institutional placement and share purchase plan (SPP) alongside securing further debt facilities of $105m.

Iress has a market capitalisation of $1.9b.

5. Blackmores (ASX:BKL)

Refer to company reporting season commentary below.

COMPANY REPORTING SEASON COMMENTARY

Altium (ASX:ALU)

In July, electronic Printed Circuit Board (PCB) designer Altium, pre-released its FY20 headline revenue of US$189m up 10%, below pre-COVID expectations of US$200m. The new online selling digital store model accounted for 10% of May and June sales, and is now integral to the delivery of long-term targets. Extended payment terms, which continue to be offered, and discounts to price conscious customers were also initiated during this period.

CEO Aram Mirkazemi drew on a cricket analogy to explain his thinking, *"Some fuller deliveries are offered up to keep the batsman swinging, a few stray runs conceded are insignificant, compared to the prize of winning the test match."*

The EBITDA result of US$75.6m and EBITDA margin of 40% (35.8% when normalised for AASB16 leasing and write-back benefits of contract manufacturer of printed circuit boards, PCB:NG) was ahead of market expectation. Spending was tightly controlled in the second half, aided by digital selling, without impinging on the business development. The expectation of the rule of 50, the sum of annual revenue growth (%) and EBITDA margins (%), has been maintained.

Importantly, strong business momentum continued. Altium delivered 51,006 subscribers, a 17% increase, while also surpassing the halfway mark of the 100,000 seat long-term 2025 target. The 2025 targets will, unsurprisingly, be delayed by 6-12 months due to COVID-19. Renewal rates in developed countries above 88% have also been achieved. Ongoing improvements in this metric is expected.

The reported NPAT result was down US$30.9m and reported EPS was US23.6c, reflecting a revaluation of the deferred tax assets and liabilities resulting in a one-off US$16.4m accounting charge. As a result, the outer years now benefit from a lower tax rate guided to 22-25%, down from 27-29%. Normalised EPS was US42.45c. A 39c dividend was declared. Net cash stands at US$93m up from US$80m.

This was a strong result in the first COVID affected reporting period, which has seen many companies remove guidance and cancel dividends while hitting the operational brakes to conserve cash. In contrast, behind the scenes Altium have accelerated the drive towards both industry dominance and transformation. The two go hand in hand but differ. The dominant leadership opportunity requires achievement of the 100,000 seat, US$500m revenue target by 2025-26. Alongside this clear industry leadership, transformation can take shape. This requires the execution of a strategy, which disrupts the status quo of Altium's existing business and the wider PCB industry.

Altium 365 is the pivot point. This cloud-based collaboration model offers an end-to-end solution that integrates both electronic and mechanical design elements. The result is a more seamless and connected experience across the design, development and manufacturing process. Released in May 2020, adoption has exceeded expectation; 2,633 Altium 365 seats have been sold to date, against an expectation of 1,000 in the calendar year. These seats are being used by 5,120 monthly users, a multiple of 2x. This multiple will grow to 4x as the ecosystem widens over time. Importantly, 365 is driving material workflow efficiencies, which become immediately apparent to engineers when they make the switch. The switch is not instantaneous; it is a process or transition. Given time, a network effect will become apparent.

Altium Designer 20 is the software behind the 365 platform. It can be bought as a perpetual license with an annual maintenance contract (Capex of $10k + $1.8k annually) or via an annual subscription (Opex of $3.8k annually). It should be noted that older versions of Altium Designer do not work on 365. This is a type of soft compliance; the inherent benefits of the platform will drive recurring revenue from 60% today to 80% by 2025.

In time, 365 itself will be monetised. This opportunity is not currently built into future targets. Monetisation opportunities will emerge from "Altimade", a new manufacturing clearing house model, which will be delivered via the integration of the PCB:NG acquisition and will hub manufacturing orders from the ecosystem of users on the 365 platform.

Altium have also built a standalone Chinese version of this platform model, which will sync with AliCloud and WeChat. Designed purely for that market, this model differs in that it operates via a major Chinese manufacturer rather than a clearing house owned by Altium. It is currently in beta phase of developments and discussions around partnering are underway.

Altium updated the market on the Dassault SolidWorks relationship. Having failed to exceed the $2m minimum sales targets after years of operation, it has been disbanded. The Dassault Catia 3D Experience and Altium's Concord product has been integrated and demonstrated, which CEO Mirkazemi described as reaching the pinnacle of Everest. The relationship now sits at the precipice with the ball in Dassault's court. They now have two options; pay up for the technology that their high-end customers demand or go away. We expect it may be the latter. We applaud management for taking this firm stance.

Altium has a market capitalisation of $4.8b, net cash of US$93m and no debt.

ARB Corporation (ASX:ARB)

ARB delivered a very credible financial result for FY20, which includes:

- Sales of $465m, up 4.8%.
- Cashflow from operations was $91.2m, an increase of 82%.
- Profit before tax (PBT) of $57.3m was essentially line ball with FY19.

Steady as she goes, ARB added one new store to take the network total to 67, 27 of which are company owned. ARB expects to add three stores in 2021 and will acquire any strategic sites that become available, as they have first right of refusal of franchised stores.

R&D expenses was $12m in FY20, factoring in both new products and product development for new models. Whilst the latter was not significant in the year, this is expected to grow in FY21 as multiple new vehicles are planned for release. This in turn drives both sales to fleet and original equipment manufacturers (OEM).

The underlying story of FY20 was not steady state. In fact, it was quite the opposite, like a wild ride in the back of a ute. ARB was motoring in the first half with sales tracking up 7.4%, very close to the enviable 10-year compound average growth rate of 7.6%. This continued for the first two months of the second half. Things then took a turn for the worse. Chairman Roger Brown stated sales *"dropped off a cliff, and all ARB network wholesalers stopped ordering to reduce stock",* which according to Brown is the response you would expect from good operators.

ARB was quick to cut production both locally and in Thailand, where labour laws are more punitive. In addition, ARB reluctantly cancelled orders from long-term suppliers and stood down staff. A $9.5m contribution from JobKeeper enabled R&D to continue as normal in the second half. R&D was the only department unaffected in the period. Management and the board absorbed salary cuts of 30-50%.

Sales accelerated rapidly from 1 May and continued into July, which was ARB's largest month on record. The order book stands at nearly double historic levels.

Despite this, conditions remain challenging in first half 2021. Take Victoria as an example, which is ARB's largest state by sales. The rudderless Andrew's Government ordered manufacturing to close and then reopen within a 72-hour window of incompetence. It neatly sums up the chasm that exists between business and bureaucrats who have little or no real-world experience. It also shines a light on the new risk that all businesses face in this period, as the power of the state is wielded at the expense of the common good of the nation.

Ramping up manufacturing after multiple start-stops is not as simple as zipping a North Face fleece. While the Federal Government's JobKeeper was a lifeline, it is also a clear disincentive for some to return to work. The current status of ARB's order book requires two full shifts a day, which is hard to achieve when workers are incentivised to sit on a shiny Nick Scali couch with the latest headphones from JB HiFi.

Other COVID affected markets include New Zealand, Vietnam, Africa, and South America.

Export sales grew by 16.9%, representing 32% of total sales for the period. Ownership of Beaut Utes for 11 months contributed to this growth. Exports can be higher, and we see a clear path for the company to reach a position of 50% in sales in the future. The question now is, how? Whilst business is never as straightforward as it looks, simply put we anticipate it to be the more of the same. R&D expenditure will continue to drive innovative new products, manufactured to a high standard, across a wide range of four-wheel drive vehicles. These in turn will then be delivered to ARB warehouses strategically located in growth markets around the world.

With the long-term compound sales growth cadence, referenced above, and a return to revenue rotation, whereby the bottom line grows faster that the top line, a steady state of 10% profit growth is attainable. Growth above these rates can strain systems and is less sustainable in the long run. Revenue rotation is an indicator of efficiencies in a business and for some time now, this has been masked by the relentless climb of the Thai baht against the Australian dollar. This headwind has abated and is now having a meaningful impact on the bottom line. The margin expansion, we expect, will not be price led.

Manufacturing in Thailand continues to be the best option in South East Asia for several reasons: property ownership rights, a highly efficient manufacturing permitting and approval process, access to a skilled labour force and importantly the ability to service critical manufacturing equipment. The new 20,000sqm warehouse facility dwarfs the 9,000sqm factory, which is running at full capacity as it cranks out products. We expect that in order to meet opportunities across the U.S., Europe, China and potentially Ford, the company will require a new factory that can match the warehouse footprint.

In New Zealand ARB acquired Proform Plastics, a plastic sheet manufacturer of canopies, lids and tub liners, alongside its former parent Beaut Utes. Proform has struggled under intergenerational ownership and now represents a significant global opportunity within the ARB network. Beaut Utes' retail footprint will be grown, and this established regional brand will be retained.

The U.S. is a different market to Australia. They simply do not have Kangaroos and wombats to smash into, so ARB's number one selling skew, the bulbar is less relevant. That said in the U.S., adventure four-wheel driving is a growth category. It has moved away from a market dominated by the big recreational vehicles (RV) or motorhomes and it is underserviced. While ARB does not own a retail footprint which they have long coveted, the success of the U.S. Amazon online strategy has come as a surprise, now accounting for 50% of sales in the U.S. This strategy is run by a former Amazon operator out of Venezuela on behalf of ARB.

The company wide online opportunity is now exercising the mind of CEO Andrew Brown. To date, online sales have been limited to apparel so that distributors are not disadvantaged. The success of the Amazon strategy seems to be the catalyst. Over the medium term, we see the online strategy as being more important than store rollout in Australia.

Europe, China and sales to fleet are all sources of long-term growth. In addition, ARB's partnership with Ford is reaching a critical juncture as it shifts from design and development to the sales opportunity. The partnership has not generated any revenue to date and the relationship is expected to morph. Rather than selling directly to Ford, ARB will likely sell branded products to individual dealers on an endorsed basis. The current order book does not reflect anything from this relationship.

A lot like Reece, ARB is a well-run intergenerational, family managed (in this case not controlled) public company with a unique culture and a history of pursuing a sensible long-term strategy. Multiple growth opportunities are apparent across products and geographies and R&D is helping drive clear industry leadership. ARB's balance sheet is without the burden of debt, and importantly succession planning is well thought through.

ARB has a market capitalisation of $2.2b and a net cash balance sheet of $40m.

Blackmores (ASX:BKL)

The jury is out on complementary vitamins and dietary supplements (VDS) manufacturer Blackmores. A blotched handover to previous CEO Richard Henfrey, the move into manufacturing via the acquisition of Catalent Australia at Braeside Victoria, the slowdown from China directed demand and a bloated cost base, all conspired to drive down operating profits. The numbers for FY20, delivered by newly installed CEO Alastair Symington and CFO Gunther Burghardt, were not pretty.

Management told investors the actions taken were required, to allow for the transition to a vertically integrated business model. A fresh pair of eyes has delivered a sobering assessment of what is needed to reset this business, involving the shedding of unwanted assets and the restoration of operational efficiency.

However, no matter how you cut it, the delivered numbers were numbing. For the full year, group revenue fell just 4% to $568m, while operating profits tumbled 62% to $29m and reported profits down 68% to $16m, a level not seen since 2005.

A long list of items, including a combined $14m of COVID-19 related expenses and new product re-labelling was further compounded by Braeside manufacturing inefficiencies, which knocked a further $10m off profits.

In order to implement the required changes, Blackmores did something very unusual, it tapped investors for new capital in May. In total, the group raised $141m of capital, allowing management to not only prudently cut debt but also implement its pre-announced organisational reset.

The company has targeted $50m of efficiency savings by FY23, with $25m expected to flow from an improved cost of goods performance and the balance from driving operational efficiencies. Half of these savings are earmarked into growing the group's international operations, with the balance flowing back to shareholders in the form of higher profits.

Alongside the full year results announcement, management also outlined a sobering cut to the company's employment base. Of the group's total workforce of 1,400, a 10% reduction is now planned, offset by additional roles in key international markets. This will have a short-term financial impact, as the business deals with planned one-off redundancy expenses during the first half of FY21.

The company is also selling surplus land at Warriewood, has confirmed the sale of brand products IsoWhey and Wheyless, and has voiced its intention to divest the Global Therapeutics business.

CEO Symington has been in the role less than a year, but the steps taken reflect the urgency of repositioning the business to take advantage of the group's inherent qualities. Certainly, the brand and heritage are considerable assets and reflected in the local market, where the group retains market leadership with a 16.4% share of the VDS category. Complementing this further is the BioCeuticals Group, operating as the leading practitioner brand in Australia and underpinned by its ArmaForce product.

In total, these two segments contributed $326m of reported net sales. While COVID-19 has reignited demand for products in the immunity category, growth in the general VDS segment is flat or low single digit positive. A key focus remains on building market leadership and product innovation.

In the international arena, the two broad segments include China and the rest of Asia. In China, CEO Symington has taken genuine positive steps in building a more sustainable offering. The appointment of Kitty Liu as China Managing Director and additional investment in the region is reflective of a new approach.

Focused on re-engaging with China's powerful e-commerce platforms, including Tmall and JD.com, the group is targeting a specific segment of consumers in China, the modern career woman. This has seen the company launch a premium line of new products in September, covering conception, pregnancy, breastfeeding, and children's health. It is a welcome sign of renewed focus on an important and lucrative market. For the year, China sales declined 16% to $103m, a far cry from its peak in 2018 when sales hit $143m.

Elsewhere in International, the news is all positive and the result a standout. For the year, sales rose 30% to $139m and operating profits almost doubled to $14.4m, illustrative of the strength of the brand in the key markets of Thailand, Malaysia and Singapore. Although the group bundles this region under one heading for reporting purposes, the newer market of Indonesia continues to power ahead, with management pointing to further strong growth across the region.

Turnarounds are never easy and take longer than first envisaged. Management have taken decisive actions in a relatively short period of time. The business is now backed by a strong balance sheet with minimum net debt, coupled with a renewed focus on simplifying the operating model and reinvesting in key market segments.

With international sales now representing over 40% of group sales, the business is poised to deliver sustainable top-line growth and an improving operating margin. Management have not shielded away from the task, noting that the three-year target of tripling margins from the current 5% level remains the base case.

There is much to do, and management are new and unproven, but a renewed focus on the brand, driving scale, improving operating efficiency and reinvesting to support international growth has considerable merit.

Blackmores has a current market capitalisation of $1.2b and is in a net cash position following the recent retail component of the capital raising.

Breville Group (ASX:BRG)

Breville's execution in a particularly difficult period is evidence of the high-quality management team at the helm. FY20 saw the company enter new markets, including Spain and France. The supply chain is being improved, and the move to direct distribution across Europe, along with a simplified brand proposition, is clearly delivering a step change in growth. The shift from a distributor to a direct sales model has significant runway ahead.

In terms of FY20 business financials, revenue of $952m up 25% and normalised EBIT of $113m up 14% both met expectation, as did the normalised NPAT of $75m. The result included several one-offs, including the write down of an IT platform and increased provisioning for COVID impacted retailers who have been forced into store shutdowns. The retailers who could not transition online suffered. Interestingly, the result also included one-off write-backs for COVID reduced salaries, lower short-term incentives and marketing costs that were cut, but will return as markets normalise.

Cash flows were strong. Management called out a working capital benefit of circa $22m due to destocking, which will normalise as inventory is delivered to sold out retailers.

Additional operating profits from the Distribution business will continue to be applied to R&D, with an incremental $4.4m of EBIT strategically being reinvested in FY20. R&D for the period totalled $34.4m. EBIT margin expansion is not targeted, rather it is capped and reinvested.

The final dividend of 20.5c and full year payment of 41c per share exceeded expectations. It should also be viewed in the context of dividends being slashed across the wider market. Inventory and costs have been well managed, and the balance sheet has been fortified by the May 2020 capital raising, which delivered $100m net cash with the addition of approximately 6m new shares to the register.

In the period, all regions delivered double digit revenue growth. When drawn on the opportunity of a market where the brand is already established, CEO Jim Clayton offered Australia as an example. The Breville brand has 89 years of sales history in Australia and continues to deliver double digit sales growth driven by product innovation.

The company is proving strong short-term execution does not have to come at the expense of the long-term opportunity. Here CEO Clayton is delivering on the promise of an increased global market share. While the business is being simplified, it is being set up to deliver at scale. This means near term new geographies, including Mexico, Italy and Portugal can be plugged into the supply chain, marketing channels, direct distribution and the product innovation delivery cycle of the business. In addition, there is the potential for acquired growth that can also be seamlessly integrated into this operational platform, without having to adopt any of the legacy systems that come attached to a given acquired product set. These opportunities can then be delivered across the Breville and Sage brands globally.

CEO Clayton has articulated an ambitious strategy to deliver a solutions platform. This would take shape by providing digital content to connected devices, by offering a complete seamless cooking experience rather than a tool that requires learned skills to master. Such an ecosystem has the potential to drive new demand. The first product on this platform is the Breville Smart oven called the Joule Oven Air Fryer with content linked to Chefsteps.com, delivered via iPhone and other standard IOT platforms.

Breville has a market capitalisation of $3.5b and a net cash balance sheet of more than $100m.

Carsales.com (ASX:CAR)

Coming off the back of a strong first half result, leading online automotive listings business Carsales.com was on track for a record year but was hindered by the onset of the COVID-19 pandemic. For the year, the company reported revenue of $395.6m and net profit after tax of $202m, both figures down 5% from last year. This result reflects the difficult trading conditions navigated as countries attempted to manage the health crisis. Despite this, investments in international markets continue to provide significant opportunities for Carsales, with these businesses now contributing 19% of total look-through operating profits (EBITDA).

The result is significantly muddied by the COVID-19 Dealer Support Package rolled out to support customers in light of the pressures being felt across the industry. This support package saw advertising charges waived over April and reduced by 50% over May. Taking into account the support package and other one-offs, the company reported adjusted revenue of $423.1m and net profit after tax of $138.2m, an increase of 1% and 6% respectively. These figures reflect the ongoing expansion of core business margins as the company reduces costs, exits underperforming businesses and refocuses on growing lower margin businesses to profitability.

On the domestic front, despite increased social distancing, dealer sales volumes and traffic to the website remained resilient assisted, in part, by Carsales' support package. This encouraged dealers to continue to invest in depth products despite being a tough discretionary spend environment. The Media business was already facing a challenging new car market, which was further complicated as car manufacturers significantly decreased advertising budgets in response to the continued decline of new car sales over the period.

While the effects of COVID-19 have similarly been felt internationally, both South Korea and Brazil delivered strong results for the period. Wholly-owned Encar (South Korea) delivered revenue of $71.2m and operating profits (EBITDA) of $38.5m, an increase of 17% and 20% respectively. This result was underpinned by the Guarantee Vehicle Inspection and Dealer Direct (similar to Carsales' Instant Offer product) services. Webmotors (Brazil), of which Carsales has a 30% ownership stake, delivered revenue of $74.6m and operating profits of $30.4m, an increase of 10% and 4% respectively, despite its ongoing regional expansion plan being muted by COVID-19. On a look-through basis, investments in international businesses contributed revenues of $105.5m and operating profits of $45.1m to Carsales, increasing 13% and 20% respectively. While the majority of these businesses are market leaders in their respective fields, the markets in which they operate are in their infancy and provide a long runway for growth.

At the end of June, the company had a net debt position of $378.5m and a strong liquidity position with $180m in available cash. Carsales has a market capitalisation of $5.5b.

Cochlear (ASX:COH)

In an all too familiar theme for this reporting season, a strong first half operating environment was cut short in the second half, as the COVID-19 induced shutdown took its toll on critical health services. For Cochlear, leading global bionic ear manufacturer, a weakened second half was recorded across the group's three core earning segments. Reported numbers were further sullied by the messy patent litigation settlement that, whilst remaining open to a U.S. Supreme court appeal, was fully expensed in the year end reported numbers.

From a headline perspective, cochlear implant unit sales declined 7% to 31,662, with second half numbers falling 26% as surgeries globally closed during the COVID pandemic. Sales revenue held up well, falling just 6% to $1.3b. A deliberate decision by management to maintain operational strength across the organisation also led to staff numbers, manufacturing capability and critical R&D spend being maintained throughout the year.

This decision to look beyond the immediate earnings hit resulted in underlying net profit declining 42% to $154m. The impact of patent litigation expenses totalling $416m and several one-off items, covering asset write-downs and the receipt of government grants, resulted in a reported loss of $238m.

As messy as the numbers may appear, some things are clear:

1. Gross margins were maintained at 75%.
2. Critical operating expenses, including R&D, were maintained and were up 3% to $749m.
3. Despite the pending slowdown in demand, inventory levels were up 28% to $224m.
4. Yet working capital was down 54% to $280m as management focused on collecting cash and tightening where necessary.
5. This led to cash flow (excluding patent litigation) coming in at $262m, just $33m shy of the $296m level achieved in 2019.
6. The balance sheet is now clean, with some outstanding technology assets written off and a net

cash balance of $457m, post the $1.1b equity raising and patent litigation payment.

Entering FY21, the company is providing some early comments. In the key developed markets of the U.S., Germany, Japan, South Korea, Australia and China, implant demand is strong. This is being offset by variability in developing regions, including India and Latin America. Surgeries are returning to a degree of normality with both children and adults reflecting a pre-COVID setting. In combination this has seen implant revenues across June and July running at 85% of the comparative 2019 levels.

This return to surgery has also led to market share gains for the company, as competitors have either struggled to keep up, or in the case of Advanced Bionics encountered clinician resistance following the ongoing product recall of its HiRes cochlear implant.

A key highlight, further vindicating management's commitment to R&D spend, was the record number of new product approvals covering both the traditional implant space and the acoustic hearing segment. These approvals included:

1. Cochlear Nucleus Kanso 2 Sound off-the-ear (OTE) Sound Processor.
2. Cochlear Nucleus 7 Sound Processor for N22 implant recipients (N22 implant being the company's first commercial implant release in 1982, with more than 17,000 recipients).
3. Cochlear Nucleus Profile Plus with Slim 20 Electrode (industry leading implant).
4. Custom Sound Pro fitting software (enhancing the fitting process).
5. Nucleus SmartNav System (supports surgeons in placing the implant electrode).
6. Remote Check (allows patients to complete an at-home hearing test with results viewed online).

Major capital expenditure projects, including new offices in the U.S. and manufacturing facilities in China, were completed during the period, with formal regulatory approval now pending.

CEO Dig Howitt has not provided formal earnings guidance for FY21, preferring to update shareholders at the company's annual general meeting in October. Operationally the business is currently running at breakeven cash flow levels, with management aiming to keep operating expenses flat, while R&D investment is forecast to lift to within the $190m-$195m range.

Having positioned the business strongly, the two key long-term objectives management have called out include:

1. **Retaining market leadership** – underpinned by world class technologies and supported by leading customer service.
2. **Grow the hearing implant market** – by lifting awareness, driving reimbursement outcomes and delivering clinical evidence.

Cochlear has chosen to invest to lead the industry. Across all functions the company has invested heavily, and this is driving increased market awareness, particularly among the adult population. COVID-19 has impacted surgeries, but the long-term demands for hearing solutions remains unchanged. While many businesses are expecting to exit this period in better shape, we would call out Cochlear as one with a stronger business moat and the capability to deliver meaningful and sustainable market share gains.

Cochlear has a current market capitalisation of $14b and a net cash position of $457m.

Computershare (ASX:CPU)

Global registry service provider Computershare faced headwinds over the last quarter, primarily due to lower interest rates and economic instability resulting in a muted annual performance. The company reported a full year revenue decline of 1.9% to US$2.3b, of which 78% is recurring, with net adjusted earnings declining 20% to US$305m. This result highlights the growing operational resilience of the business, with countercyclical segments, U.S. Mortgage Services and Employee Share Plans, helping offset broader revenue declines.

Margin income continues to face challenges from lower interest rates, subdued participation in employee share purchase plans and volatile market conditions. As this segment generates income from the interest earned on client balances held, the sustained current low rate environment saw margin income revenue decline 18.3% to US$201m. Management reiterated FY21 margin income guidance of US$100m.

Issuer Services also suffered, as broader economic uncertainty put a dampener on Corporate Actions and Stakeholder Relationship Management earnings. This was in part offset by the largest segment contributor, Registry Maintenance, which maintained stability over the period. In total, excluding Margin Income, Issuer Services delivered earnings of US$183.7m, a decline of 8.7%.

Mortgage Servicing offered positive insights into the current market condition, with mortgage postponement requests stabilising and a reduction in delinquency (late payment) rates. In the U.S. market, Computershare has grown the Mortgage Services business to service groups of loans through its Mortgage Servicing Rights (MSR) purchase, in return for an annual fee over the lifetime of the loan. Generally speaking, as interest rates increase, the price of MSR fall, resulting in improved returns on invested capital. While Mortgage Services increased revenues by 4.1%, earnings suffered due to the delayed platform migration for U.K. Mortgage Services, leading to additional costs of US$36m. In total, the segment delivered earnings of US$33.4m, excluding Margin Income, a decline of 43%. Importantly, synergies from the platform migration, which has now been completed, should flow through from September.

Business Services delivered a mixed result, with a reduction in class actions largely offset by higher bankruptcy applications and increased corporate trust activity. Earnings were flat over the period at US$32.5m.

Management remains focused on improving the underlying, recurring revenue of the business and delivering long-term value for shareholders. To that effect, management refrained from cutting staff and maintained operational excellence throughout the COVID-19 lockdown period. Over the next three years, Computershare is expecting to remove circa US$150m of costs from the business, while continuing to pursue attractive market opportunities.

Despite maintaining a dividend of AUD23c per share, capital management remains prudent with net debt to EBITDA of 1.93x, comfortably below covenant levels. For FY21, the company has provided guidance for a 10% increase in earnings, excluding Margin Income. Including Margin Income, adjusted earnings per share are expected to fall by 11% to USD 50c next year.

Computershare has a market capitalisation of $6.7b and net debt of US$1.24b.

CSL (ASX:CSL)

Despite being gripped by analysts fear of the unknown prior to its pre-result announcement, CSL delivered a strong performance and met expectations across the board. Revenue of US$9.2b constant currency (cc) was up 9%, while EBITDA of US$3.3b was up 15% cc. By way of contrast, finance costs were US$144m representing healthy interest cover. It should be noted here, CSL is one of the few companies who do not feel compelled to include a slide on debt in their presentation deck. EBIT was also up 15% in cc, representing 170 basis points of margin expansion and net profit after tax (NPAT) was US$2.2b, up 17% cc, adjusted for the US$144m currency headwind.

Importantly, the group delivered a continuous reliable supply of critical medicines to at-risk populations across the globe. Cash flow improved more than 50%, partially driven by the change in distribution in China (discussed later) to US$2.5b. A final dividend of AU$1.48 per share was declared. Total dividends for the year were AU$2.95, up 11%.

Conservative forward guidance of 6%-10% revenue growth and NPAT US$2.10b-US$2.27b, reflects a prudent board and management team facing the unknown without fear or trepidation.

CSL Behring, the group's blood products powerhouse, increased sales by 8% in cc. Driving this result was a combination of the strong performances within the portfolio; sales in Immunoglobulins increased by 22%, powered by Privigen up 20% and Hizentra up 34%. Approved for Primary Immune Deficiency (PID) and Chronic Inflammatory Demyelinating Polyneuropathy (CIPD), Hizentra is a unique product and is capturing more than 60% of subcutaneous patient starts.

The Haemophilia B franchise was driven by 25% growth in Idelvion, which has become the standard of care for Haemophilia B patients, delivering higher factor levels and 14-21 day dosing depending on individual market approvals.

Offsetting the performers was Albumin, down 36%, as CSL transitioned to its own distribution model in China. This was expected and in line with guidance. Albumin grew in all other markets. Specialty products grew 10%.

Regionally, CSL Behring delivered strong double digits' growth in the U.S. and Europe. This was offset by a weaker Asia Pacific, driven by the change to Albumin distribution in China. CSL Behring's EBIT margin was steady at 31.2%.

Analyst concern has centred on plasma collection in the COVID pandemic world. CSL has nine months' supply in the pipeline. During the period CSL opened 40 new centres, bringing the total to 261 centres in the U.S. and 277 globally. CSL's rapid expansion of centres has been designed to counter tight supply that existed well before COVID. In FY20 supply contracted 5% on FY19, with fourth quarter collections likely down 30%. Cost of collection has also increased as hygiene measures have been ramped up to meet pandemic expectation. The focus is now on a drive to reinvigorate lapsed plasma donors.

CSL's manufacturing facilities and collection centres are listed as critical infrastructure and are fully functional. The FDA has simultaneously provided some relief by reducing the mandated plasma inventory hold period, from 60 days to 45 days, which makes plasma available earlier in the cycle, while giving the pipeline a once off boost. This hold period is zero days in Australia, and it is feasible the FDA could revisit this cycle timing to alleviate critical shortages if this becomes a patient risk. Industry bodies supported by CSL are advocating for change. While challenges remain in collections, CSL is best placed to deal with these issues based on its unrivalled global scale and efficiency. In FY21, CSL has plans to open an additional 20-30 centres.

Influenza operator Seqirus delivered an equally strong result. Revenue of US$1.3b was up 11% cc. and EBIT was US$260m, representing a margin of 20.4%. This was a 74% increase on FY19 at the EBIT level. All metrics exceeded the targets laid out when the loss-making precursor to Seqirus was acquired from Novartis in 2015, in what CEO Perrault considered an exceptional result in the face of considerable analyst doubt.

Seqirus has been a clear pandemic beneficiary, as Governments around the world seek to vaccinate their populations against the flu to prevent hospitals being overrun from a combination of COVID and Influenza. Supply from the northern hemisphere manufacturing campaign has been extended through November and December. Real world data is driving this demand on the back of the enhanced effectiveness of Flucelvax and FLUAD. In the U.S. market, which currently represents over 60% of Seqirus revenue, CSL is well placed to deliver up to 60m doses.

R&D was 12% of revenue and CSL fully expensed US$922m in FY20. Highlights in the period included:

- Positive Phase II results for Garadacimab in hereditary Angioedema, which found it was well tolerated and reduced attacks by 99% in patients.
- The global rights to UniQure, a late stage gene therapy candidate for Haemophilia B, were acquired. This open label trial is currently in phase III. A potential first, this gene therapy provides long-term patient benefits and could be in market in 2022.
- In Cardiovascular, CSL112 has completed the AEGIS-II futility study. An independent committee has unanimously recommended the trial be continued.
- CSL112 (ApoA-1) Phase III reached a milestone; 10,000 patients have been enrolled to date, which is slightly ahead of recruitment planning.
- CSL has also committed to multi initiatives directed at COVID. In monetary terms this investment amounts to US$125-US$175m.

CSL has a market capitalisation of $134b and net debt of US$4.8b, or 1.3x net debt to EBITDA.

Domino's Pizza Enterprises (ASX:DMP)

Domino's Pizza Enterprises has transitioned to the new COVID-19 world in better shape than others. The very nature of the business, centred around home-based food delivery, has certainly enabled the group's 2,668 global store footprint to thrive under restrictive lockdown conditions. But executing under such fluid conditions as COVID, while maintaining the exacting health standards of operational excellence and building the brand and franchisee network is no easy feat.

On a comparative basis, Domino's FY20 result delivered global network sales up 13% to $3.3b, underpinned by same store sales (SSS) growth of 5.8%. This illustrates the underlying health of the business on a like-for-like basis. Importantly, online orders represented 72% or $2.4b of total sales. The group's nine country operations saw 163 new stores added, expanding the network along with the addition of 13,000 new employees. The biggest expansion took place in Japan with over 75 new stores added, taking the country tally to 674.

Financially, comparing the numbers to FY19 and excluding the impact of new leasing (AASB16) standards, Domino's lifted operating profits (EBIT) 3.6% to $229m and underlying net profits rose 3.3% to $146m. The company lifted full year dividends to $1.19, while strong cash flow conversion of over 110% saw the business cut net debt by $70m to $447m. This resulted in a very healthy leverage ratio of 1.5x and a strong return on capital employed metric of 18%.

Operationally the standout region was Japan. Only seven years young, Japan's success is illustrative of the collective power of the brand and management excellence. CEO and Japan President Josh Kilimnik, a veteran of the Domino's ethos having joined in 1992, has transformed the region's operations.

Since taking over full ownership of the Japanese territory from previous owner Bain Capital, Domino's and Kilimnik's executive team have repositioned the pizza category offering to capture a broader audience. No longer is it reserved for special events, as it has historically been, instead now regarded as an everyday meal option.

Management have expanded the menu offering, introduced new price points and reinvigorated both the delivery and carry-out business. The result speaks for itself, with total network sales growth of 26% and same store sales growth of 18%, driven by online sales up 31%.

Japan delivered net revenues of $661m in total, only surpassed by Australia's $693m. Operating profits (EBITDA) lifted 42% to $103m, exceeding Europe's $83m contribution, despite operating with fewer stores. Finally operating margins of 15.6% are reflective of an improving trend.

CEO Don Meij commented on the success of Japan, *"In my 33 years, the weeks and months that the whole country of Japan has been able to deliver numbers (SSS and like-for-like growth) that I've never seen."*

Such is the confidence within, that having shifted the product offering and noted the broad customer acceptance, management have lifted the long-term store count opportunity from the previous 1,000 to 1,500 by 2032.

Europe, which encompasses six geographical regions, is also on a strong upward trend. The present numbers belie the positive trajectory currently underway. In a not too dissimilar situation to Japan, the company has been establishing the team and regional base for several years. Acquisitions in France followed by Germany have required time to implement the right culture setting and acceptance of the Domino's high-volume mentality. Despite the difficulty of COVID-19, total network sales rose 5% and same store sales grew 3%, from a combined store network that grew by 78 to 1,161.

If we were to call out one region that is likely to surprise in the years to come it would be France. Led by French speaking CEO and President of France Andrew Bradley, the region has solid foundations. Most importantly, the executive team is strong and respected by the franchisees. Secondly, the country's emerging leaders' system is attracting record participants expressing interest to join as future franchisee owners.

Of the region's 415 stores, France boasts the highest average number of stores per franchisee at 3.3, with all the metrics of store ownership numbers pointing up. France CEO Bradley notes store numbers will accelerate to 500 over the next 18-24 months, at which point national television coverage will further underpin both store expansion and network sales.

Germany, with 330 stores under the leadership of CEO and President Stoffel Thijs, is also expected to follow the path set by the group's other regions. Having just completed the transformation of earlier acquisitions, the expectations of aggressive new store openings to satisfy the region's 84m population base is obvious.

Finally, the much-maligned Australian franchisee network is showing renewed progress. Still the largest contributor to group earnings, network sales grew 4% to $1.2b, while an enforced shutdown in New Zealand impacted ANZ operating profits, which declined 6% to $129m.

Having traversed a difficult regulatory environment, the business demonstrated resilience and operational improvement, with franchisee profitability hitting new highs. With only 10 new stores opened during the period, focus remains on improving the store network, driving higher franchisee store ownership from the current average of two, and converting more than half of the existing 119 corporate stores to franchisee ownership over the next two years.

Overall, the group has started the year with strong momentum, with 24 new store openings and network sales up 18.5%, including SSS up 11%. For those investors prepared to look out five or ten years, the path to a 5,000 plus global store network, backed by an exceptionally strong and aligned executive team and continuation in the level of operational performance delivered thus far, offers a clear and compelling investment case to stay the course.

Domino's Pizza Enterprises has a current market capitalisation of $7b with net debt standing at $447m.

Flight Centre Travel Group (ASX:FLT)

Global travel operator Flight Centre Travel Group faced its most challenging year since its establishment in 1982. In the context of previous turbulent periods, including the aftermath of September 11 in 2001, the SARS virus and most recently the global financial crisis, this is no mean feat. But COVID-19 has done what other major periods of travel dislocation previously avoided, the almost complete shutdown of domestic and international travel.

The financial impacts of such a draconian impost was borne out in the full year results, underscored by the 99.4% decline in Australian outbound travel during the final quarter of FY20. This capitulation in travel demand manifested itself in a number of accelerated operational and business outcomes.

Most significantly, management have moved aggressively to realign the business cost base to weather the storm and provide sufficient runway for a gradual return to operations. Knowing when this may occur is certainly unclear and made even more difficult with Governments providing little in the way of constructive guidance on when international travel and domestic border restrictions will be lifted.

The International Air Transport Association (IATA), perhaps the most authoritative source on international travel recovery, has suggested global air travel could take until 2024 to fully recover. This situation is fluid and obviously does not consider the potential for a successful vaccine outcome.

For the financial year, the group recorded a statutory loss of $894m. Several substantial items came into play here, including COVID-19 related costs of $103m and business impairments totalling $158m. Even excluding these items, the business still managed to record an operating loss (profit before tax) of $510m. While total transaction values (TTV) came in at $15.3b, down 35% for the year, the company felt the full brunt of costs without any meaningful revenue generation during the group's most profitable final quarter of the financial year.

In April, the group shored up its balance sheet and undertook a dilutive $700m equity raising, issuing shares at $7.20 per share, as well as committing to a detailed simplification and cost reduction plan. It is a credit to the executives that under such extreme operating conditions, the company's annual operating cost base was reduced from a circa $2.7b ($225m per month) to a $780m ($65m per month) operating cash outflow by 31 July, equivalent to 31% of the group's pre COVID cost base. In doing so, the company stood down a significant number of staff and cut discretionary costs in most business segments.

The company ended the year in a better position than most expected, but still incurred a hefty current net monthly loss run rate of circa $53m. Management, led by co-founder CEO Graham Turner and alongside key long-term executives CEO Leisure Melanie Waters-Ryan and CEO Corporate Chris Galanty, have put in train the necessary first steps to restore profitability.

In Leisure, the company has accelerated plans to move further online, complemented by a smaller but more profitable retail store base. Currently, the Leisure division remains the most impacted of operations, with domestic travel restrictions hindering a vital segment of business. And while domestic travel is expected to return in the near term, the same cannot be said of the more lucrative and higher margin international travel segment. Under these circumstances further refinement to the model is expected over the course of the year, bringing with that a further material reduction to the current monthly cost burn of $43m.

In Corporate, the business goes from strength to strength and underpins our positive view on the long-term opportunity to materially grow global share as a current top five player. The business generated some

$7b of TTV during the year, a drop of 23% from the peak TTV sales of $9b recorded in 2019.

Importantly, the company has continued to invest aggressively on digital technology and driving scale benefits from its two brand-led strategies of FCM (for large clients) and Corporate Traveller (for small to medium enterprises). These two business segments offer a highly differentiated product offering, an end-to-end solution within its technology platform and delivers the company net operating margins of 3% on TTV, compared to Leisure currently running at 1%.

Despite the events of COVID, the Corporate division recorded an underlying profit of $74m for the year and continues to win significant new contracts, which are more recurring in nature. With all this in mind, the business is well poised to significantly expand on its current one percent global corporate travel market share.

At financial year end, the business had a net liquidity position of $1.1b available to meet day-to-day operational needs. The company is taking further steps to refine costs and drive additional revenues across the group's global operations. Importantly, management has confirmed that at the current business cost structure, the company will be operating at a breakeven level at 40% (TTV of $10b), compared to the previously recorded TTV level of $24b set in 2019. Any growth beyond that level will result in a much higher proportion of revenues converting into profits.

While the short-term outlook is uncertain, CEO Turner has indicated travel restrictions are likely to ease during 2021 and beyond. The restructured cost base and greater financial discipline is expected to result in higher profits off a much lower overall TTV base, underpinned by the increasing dominance of the Corporate travel offering.

Flight Centre Travel Group has a current market capitalisation of $2.8b and operates a net cash position.

FINEOS Corporation Holdings (ASX:FCL)

FINEOS – the global market leader for life, accident and health (LA&H) insurance globally – has announced the acquisition of Limelight Health, a leading U.S. software business in its field. The acquisition is expected to complement the company's existing capabilities and significantly expand its addressable market.

Founded in 2014, Limelight is a provider of quoting, underwriting and rating solutions for insurance carriers. Through its highly configurable cloud-based platform offering, the company focuses on streamlining and automating critical workflows for its customers. Its headquarters are in San Francisco and currently employs over 120 staff.

To date, FINEOS' platform has focused on providing back-office solutions across various insurance functions. While these products have been well received by the market, the company acknowledges that many insurance carriers are seeking a solution that can successfully integrate both front and back office functions. Limelight fills this gap, making the acquisition attractive for enhancing the growth potential of the now collective group.

Fortunately, due to client demand, integration between various modules has already commenced. As both platforms operate utilising the same cloud provider, medium term cost savings are expected while benefits relating to leveraging workflow processes across the group are expected in the near term.

FINEOS had previously flagged the need to bolster its North America presence, which represents 59% of current revenues, increasing to 64% when combined with Limelight. Like FINEOS, Limelight operates under a highly experienced, founder-led management team who will be responsible for spearheading significant growth in North America. Through the acquisition, the group will immediately have access to boots on the ground, including an established sales team ten strong.

Despite being in its relative infancy, Limelight has successfully grown at a compound annual rate of 41.4% since 2018 and delivered US$14.4m revenue this financial year. While still loss making at present, the strategic significance of the business has valued the transaction at circa $104m, with 25% of this to be paid in scrip.

In order to facilitate the purchase, FINEOS tapped investors on the shoulder to support a $85m equity issuance. Both management teams are very supportive of the transaction, with Limelight employees taking much of their compensation in FINEOS scrip rather than cash. Post the acquisition, FINEOS will retain circa €40m in cash.

In terms of performance this year, aside from the acquisition, FINEOS exceeded expectations adding nine new customers and increasing revenues 39.8% to €87.8m. This has enabled the company to invest €28.4m in R&D, an increase of 24%, funded from free cash flow.

We are supportive of management's long-term strategy in building a cohesive, unified platform to service insurance carriers.

FINEOS has a market capitalisation of $1.5b and net cash of $39.8m.

IOOF Holdings (ASX:IFL)

Financial services provider IOOF handed down a pre-announced full year result, which was heavily impacted by the addition of the ANZ Pensions and Investments (P&I) acquisition and COVID-19. These two events made comparing financial results with prior periods difficult, noting that IOOF formally took ownership of the P&I business from 1 February 2020, while COVID's negative impact on equity markets directly affected fees earned on funds under management and administration.

The company's pursuit of a simplified business model, focused specifically on providing financial advice, administration and investment management, also resulted in the sale of a number of non-core operating businesses, including Ord Minnett and Perennial.

When combined, the company recorded gross margin revenues down 16% to $578m, while operating expenses lifted 25% to $384m. Higher regulatory costs resulting from the Banking Royal Commission, impacted costs by $18m while COVID market related impacts sliced $28m off revenues. This saw underlying EBITA fall 14% to $177m, while net profits dropped by 59% to $124m, due to the staggered impact of the P&I acquisition.

It should be noted that shareholders are yet to see a full twelve-month contribution from the P&I business, having contributed net profits of $31.3m for the first five months of ownership. The company has indicated that of the $68m worth of synergies expected to flow, $18m has to-date been delivered, with another $25m expected in FY21 and the balance earmarked by the end of FY22.

Under this scenario and assuming all things being equal, our expectations are for this newly acquired business to deliver net profits of circa $108m by the end of FY22. In addition, the company is also carrying $19m of annual losses from the separately acquired ANZ wealth management advice licensees. IOOF are committing to a breakeven outcome for these advice licensees by the end of FY23. It should be remembered that IOOF paid a total consideration of $850m for the combined ANZ Wealth business and suffered considerable delays in settlement due to the Hayne Royal Commission into banking and financial services.

Market conditions, margin pressure and fund flow will no doubt play an important part in realising this outcome. Management, led by CEO Renato Mota, are committed to a future business model that removes cross-subsidisation of services, most evident in the financial advice segment. To that end, IOOF is committed to an advice-led wealth management operating model, which is client focused and underpinned by in-house proprietary technology to deliver the lowest cost model within the industry.

The $30m acquisition of Wealth Central in August is an important step in fulfilling its desire to deliver an in-house, online client engagement tool that creates a better and more transparent advice experience. In a market where scale and the digital experience becomes even more crucial, IOOF has highlighted technology as being the key point of differentiation.

CEO Mota noted, *"We've invested heavily into technology in the last 5 years to create what we think is the most contemporary platform from a technology perspective, both from an architecture as well as the software and application perspective and continues to evolve."*

The company is also reviewing its internal adviser network, with a preference towards more salaried advisers and as already noted, a move away from providing subsidies to uneconomic providers.

Finally, a point of considerable interest remains in relation to remediation provisions that have stemmed from the royal commission. Having undertaken a voluntarily review of client files and sampling a cohort of financial advisers to establish possible incidents, IOOF initially set aside $223m in 2019. As of June 2020, only $6m has been paid out, leaving an ongoing provision of $217m, with expectations of a more definitive update on what pay-out should be expected by the end of calendar year 2020. Suffice to say, we would not be surprised to see a fair majority of this provision returned to shareholders in the fullness of time.

MLC acquisition

IOOF further surprised the markets and investors with a bold undertaking, the acquisition of the NAB owned MLC business. CEO Mota described the deal as transformational and on every metric, it is hard to argue otherwise. The major banks in this country have shown a clean pair of heels in exiting this industry and the NAB retreat provided an opportunity that was too significant and important to ignore.

The broad aspects of the deal are that:

1. IOOF will pay NAB $1.44b for the MLC business.
2. The business is highly complementary across the three segments of financial advice, administration and investment management.
3. MLC is Sydney based, with over $308b of Funds Under Administration and Advice (FUMA), with 1.1m members and 3,200 full-time staff.
4. MLC earned net revenues of $827m, with underlying profits of $89m in 2020.
5. The combined IOOF-MLC business would give rise to market share leadership in both adviser numbers (1,884) and platform funds under administration ($196b) and second in terms of Superannuation administration ($173b). In total, the group would represent over 2.2m members with a combined FUMA of $510b.
6. IOOF management have intimate knowledge of the MLC business, with an expected regulatory sign off expected by June 2021.
7. IOOF has committed to synergy targets of $150m by the third full year of ownership, which will incur a one-off implementation cost of $360m.
8. On a combined basis this would lead to increased group net revenues of $1.4b and underlying net profits of $313m post synergies.
9. IOOF notes the $1.44b acquisition cost is equivalent to a 7.4x acquisition multiple assuming these synergies are met and 16.2x pre-synergies, leading to an earnings per share accretion of circa 20%.

It is always unsettling for shareholders to hear management describe acquisitions as *transformational.* No doubt this is an important deal within the industry and few we suspect had IOOF emerging as the likely victor. But such has been the timing that it has come at a significant cost to existing IOOF shareholders in the form of a highly dilutive equity raising. The company is raising $1.04b and issuing 297m of new shares, at $3.50 per share, to add to its existing 350m share base. Further, the delay in gaining regulatory approval will result in the group carrying a near doubling of new shares without any earnings contribution.

Strangely, while the markets response is understandable the opportunity is not only significant but, in our opinion, carries far less risk than what the scale of the task may indicate. Importantly, IOOF has considerable experience in these matters and we take comfort that CEO Mota is committed to a client first culture and is prepared to engage with regulators in simplifying the advice industry.

The integration of both the P&I business and the MLC transaction, when approved, will be undertaken simultaneously. New executive, Chris Weldon has been appointed as Chief Transformation Officer, to drive the integration process and is responsible for getting the advice licensee business from loss making to breakeven.

Weldon will report directly to CEO Mota who noted that with the P&I integration underway, the process was far more straight forward. *"So much of the capabilities already exist and have been constructed in a very robust manner to support what was already a large acquisition. We are not supporting 2 integrations here. We are supporting a single integration process and program that is now larger but nonetheless has the same outputs, the same inputs, the same challenges and variables."*

Post the raising, the company is forecast to have a debt leverage position of 0.8x, based on the 2020 combined business operating profits (EBITDA) of $349m pre-synergies and well within the company's targeted leverage range of 1.0x-1.3x.

The company's decision to embark on the MLC acquisition so soon after completing the delayed P&I purchase has drawn differing views from the market. The size of the deal and the very dilutive nature of the capital raising is not a situation that we are particularly happy about, but note that things of this nature, involving acquisitions, are not entirely within one's control.

Currently the share register remains decidedly unsettled, with plenty of work on the company's side to better educate and inform investors of the merits of both the P&I and MLC deals. For our part, we have confidence that CEO Mota and the team can execute on the opportunity, but important future financial markers need to be supplied over the near term, illustrating that both the business strategy and reported synergy targets on the $2.29b capital outlaid on these two deals can be delivered.

IOOF has a current market capitalisation of $2.0b post the recent capital raising.

James Hardie Industries (ASX:JHX)

Global fibre cement manufacturer James Hardie posted a flat underlying profit of US$89.3m for the first quarter ending June 2020. The numbers, however, hide the significant progress underway as the company transforms operations under the leadership of CEO Jack Truong and CFO Jason Miele.

Now into its second year of its initial three-year plan, CEO Truong updated investors with a clear message; the business was accelerating through the COVID-19 crisis, picking up market share and driving improved operating performance.

The most tangible illustration of this performance was reflected in the working capital. Here the aim of introducing LEAN manufacturing capabilities, combined with an integrated and customer engaged supply chain system, drove two important and connected outcomes.

Firstly, the ability to gain greater customer visibility into future product demand signals and secondly, allowing management to better plan for these product requirements. The result, a greatly improved customer supply chain outcome, meeting end demand requirements while driving down the group's global inventory levels from US$305m to US$258m.

This US$47m drop in inventory is illustrative of management's step change approach and represents CEO Truong's intentions to take market share *'and'* deliver strong returns. Why is this important to emphasise? Because it demonstrates management's aim of growing the top-line, does not need to come at the expense of capital discipline.

During the first quarter both were evident, despite the backdrop of COVID. Focusing specifically on the U.S., the group's biggest market, volumes in the exterior business grew 1% in the quarter with growth of 7-11% expected in the second quarter. Market share gains resulted, as the group leveraged its scale, evident in higher operating profits up 15% to US$131m and widening margins, which lifted from 26% to 29%.

Rest of world operations covering Australia, New Zealand, The Philippines and Europe are at different stages of performance. Europe in particular was impacted by country shutdowns and lack of sufficient scale to offset higher production costs.

The group's financial discipline was best reflected in higher cash flows, up 35% to US$189m, while a prudent decision to suspend dividends assisted in a lower net debt outcome of US$1.0b, providing a conservative leverage ratio (net debt/EBITDA) of 1.65x, down from the previously indicated 1.9x.

Capital expenditure is also being lifted from earlier guidance of circa US$80m to US$110m, as both the greenfield site in Prattville, Alabama in the U.S. and the brownfield expansion at Carole Park in Australia are set to take advantage of future increased product demand.

For the full year 2021, the company has guided investors to a net profit range of US$330m-US$390m, which compares to the US$353m achieved in 2020.

James Hardie's current market capitalisation sits at $14.7b.

Jumbo Interactive (ASX:JIN)

The growth of online lottery play, now accounting for 28% of Australian ticket sales as opposed to 23.5% last year, continues to present a significant opportunity for Jumbo Interactive. This has accelerated with COVID-19, with many brick and mortar retailers experiencing severely reduced foot traffic as the elderly have sheltered at home. For FY20, Jumbo successfully grew the total transaction value (TTV) of ticket sales facilitated through its platform by 8.7% to $348.6m. This resulted in revenue increasing 9.1% to $71.1m, with net profit after tax remaining steady at $26.5m.

One of the major headwinds faced over the year has been the reduction in lottery jackpots exceeding $15m, down to 39 compared to 49 last year. While prize pools are expected to fluctuate due to the random nature of lotteries, jackpots are key drivers of both transactional volume and customer acquisition for Jumbo, although the latter is changing. Pleasingly, when comparing like-for-like jackpots over time, Jumbo has successfully increased transaction volumes for comparable prize pools.

In the year, the company's active customer base grew 9% to 827,411 with an average spend of $383. In light of subdued jackpot activity, the number of dormant customers increased to 25.6% from 13.6% last year. Jumbo have historically refrained from marketing heavily in a low jackpot environment. However, they are reassessing this strategy, as customers who join when prize pools are low have shown a greater propensity to continue to transact. While this will increase the average cost per customer acquisition, long-term TTV should benefit from the broader customer base.

Post year end, Jumbo has extended its long-term relationship with gambling entertainment group Tabcorp by way of a 10-year reseller agreement until July 2030. While the new costs to the business are substantial, the certainty provided by the length of the agreement offers significant value. Under the new arrangement, Jumbo has agreed to pay an upfront extension fee of $15m for the full term and a per ticket service fee phasing in at 1.50% in FY21, and progressively ramping up to 4.65% in FY23. This fee is based on the net buy price at which Jumbo purchases their tickets from Tabcorp and excludes any premium Jumbo charge. This is expected to reduce the group’s revenue margin from circa 20% to 16.5%, with some of this impact mitigated over time. The commercials took into consideration Jumbo’s scale and the value Tabcorp’s lottery licences provide to the company.

While Jumbo has historically sold tickets into Western Australia (WA) under their licence with Tabcorp, the new agreement will prohibit this activity. Jumbo is currently engaging with Lotterywest, the provider of lottery services for WA, in relation to various resale options in the region. The company is confident a deal will be reached shortly and sales into WA will not be disrupted. In addition, Jumbo is seeking to extend the breadth of any agreement to include a Software as a Service (SaaS) component. If successful, this transition will likely move forward in stages.

Moving beyond its traditional ticket reselling business, Jumbo’s SaaS platform “Powered by Jumbo”, enables lottery operators around the world to adopt the company's digital offering to manage their ticket sales. Having already secured five leading charity lottery operators as customers, with estimated aggregate ticket sales of $140m, the company is expecting to grow this part of the business substantially. At present, Mater Lotteries is the first client fully operationalised, with the remaining contracts expected to be online by the end of the year. The market opportunity is significant, with Australia, the U.K. and Canada, representing a total addressable market of $26b.

While “Powered by Jumbo” is an appropriate offering for mid to large lottery operators, it is not well suited for smaller organisations. The strategic acquisition of Gatherwell last year is expected to fill this gap as well as provide “Powered by Jumbo” a foothold in the U.K. Currently, Gatherwell services 67 principal councils and 1,300 schools, facilitating the sale of over 130,000 tickets per week. And so far this acquisition is proving merit; Gatherwell has contributed revenue of $1.5m and underlying net profit before tax of $0.4m for the seven-month period since the acquisition, as well as a TTV increase of 32% to $12.6m for the year. We expect further acquisitions or partnerships to act as beachheads into new markets.

While no formal guidance has been given, management has maintained an aspirational target of $1b ticket sales processed on the Jumbo platform by FY22.

Jumbo has a market capitalisation of $790m, no debt and cash of $72.3m at June year end.

NIB Holdings (ASX:NHF)

COVID-19 should be a health insurer’s best friend. At this very juncture, during a pandemic, nothing should reinforce the importance of healthcare cover more and in some respects, NIB's headline policyholder numbers seem to suggest that is the case.

Focusing specifically on the Australian Residents Health Insurance market (ARHI) segment, NIB lifted policyholder numbers for the year from 615,871 to 619,079. This represented 42% of total industry growth and a market share of 9.2%, up from 9.0%. The ARHI division remains the core of group operations in what is a highly competitive and regulated market. Premium rises are sought each year, requiring Government sign off. In addition, the few privately run health providers compete against a long tail of not-for-profit mutual operators.

The backbone to our healthcare system treats every policyholder as an equal, one that prevents insurers from pricing premiums according to an individual's risk profile. The industry terms the mechanism of compensating those insurers via a model known as the risk equalisation and community rating, or one that transfers funds from insurers with lower than average claim costs to those with higher than average claim costs.

CEO Mark Fitzgibbon best describes this as a flag fall, or the inherent cost borne by all policyholders before any claims are made. Currently every policyholder contributes approximately $900 per year into the risk equalisation bucket. With an aging population and if left unchanged, CEO Fitzgibbon suggests this number could jump to $1,800 per policyholder, illustrating the pressure on our health system.

Certainly, the COVID-19 pandemic has opened industry dialogue to the sustainability of our current health system settings. NIB is driving forward with a clear data led analytical agenda, where the role of the private insurer will expand beyond the four walls of a hospital. The company has teamed up with U.S. health care operator Cigna, in a joint venture operation named Honeysuckle Health.

While we are in the very early stages on how healthcare may look like in the future, CEO Fitzgibbon is unflinching in his confidence that we are on the cusp of *"profound transformation"*. Speaking at the Amazon Web Service (AWS) Summit Online Fitzgibbon elaborated further,

"We are rapidly moving towards a future of more concerted disease prevention. With more and more data, and by applying machine learning, we're increasingly able to predict disease risk in individuals and with that, hopefully prevent many or more precisely treat the risk of that disease.

We will see more and more virtual and digital health…it will seem very odd that once upon a time we saw doctors face to face with the obvious risk of cross-infection and sitting in waiting rooms with lots of sick people.

Sooner than what many of you may anticipate, especially because of COVID-19, we will simply connect with doctors via telehealth and have symptom checkers and other diagnostic tech at home or wherever we happen to be in the world to allow doctors to diagnose and treat us.

In this world, prevention truly trumps our past and present preoccupation with cure; we become about healthcare rather than sick care and we'll probably get to live to be 200 by the end of this Century."

This approach speaks more about how the company and specifically Fitzgibbon are prepared to disrupt and exploit opportunities. While not all investments work out, it is not a 'bet the farm' approach. That said, the company's move into travel insurance is feeling the sting from COVID-19. Having outlaid a total of $130m in capital over recent years, the group's NIB Travel division recorded a loss of $19.7m during 2020. The group is bracing for further losses during 2021, while the question of whether the investment thesis behind travel still stacks up, is likely to require a little more time to properly ascertain.

In New Zealand, NIB is providing healthcare insurance equivalent to that offered in Australia. It continues to make meaningful headway in a market where health insurance is predominately publicly funded. However, the rise of long waiting lists for surgeries has given rise to a secondary market for health insurance. Southern Cross Health Insurance, a non-profit organisation, is currently the largest operator with a 60% share, followed by NIB New Zealand with circa 30%.

For the year, premiums lifted 11% to $240m and operating profits rose 18% to $23m, leading to a lift in net margin to 10.4%.

In Australia, the group's International Health Insurance Division, which covers international students and workers on visa intake, still delivered premium growth of 12% to $123m. However, greater margin pressure hit operating profits, falling 36% to $22m. Even at this reduced level, this division generates very healthy net margins of 18.1%.

Finally, the ARHI division reported premiums up 3% to $2.1b, with underwriting operating profits falling 11% to $134m. Net margins came in at 6.3%, remaining in line with management's long-term guidance of operating within the 5-6% range. However, in getting to this number, NIB set aside some $90m in future claims provisions resulting from COVID-19. The full impact of COVID on surgery numbers and how quickly they may return to "normal" levels is yet to be determined. The $90m provision is NIB's best estimate under the circumstances, since policyholders are continuing to pay for cover but restricted in undertaking surgery in some cases.

The average premium increase of 2.9% planned to come into effect from 1 April 2020, but was postponed for six months until 1 October 2020, represents the group's lowest premium rise in 17 years.

As a group, the business delivered total net premium growth of 4% to $2.4b, with underlying operating profit falling 26% to $150m (inclusive of the additional $90m provision). For the year, fully franked dividends of 14 cents per share were paid, including a final dividend of 4 cents per share.

While no outlook guidance was provided, management continues to target 2-3% policyholder growth and net margins of circa 6% in the all-important ARHI division, with a continued focus on reducing management expenses and on delivering digital health outcomes.

NIB has a current market capitalisation of $1.9b, with net debt of $233m.

PolyNovo (ASX:PNV)

Manufacturer of bio-resorbable polymer solutions, PolyNovo delivered another year of strong progress in terms of both strategic development and the financial metrics it posted. The company's first commercialised product, the NovoSorb Biodegradable Temporising Matrix (BTM), is disrupting the wound management industry by providing an organic, fully resorbable alternative to the incumbent animal derived biologic applications.

Led by CEO Paul Brennan, the company continues to see strong momentum. For the full year, PolyNovo recorded BTM revenues of $19.1m, up 104%, and achieved record revenue of $5.9m in the June quarter, amidst a period of significant disruption across hospitals. No guidance was provided, however, management believes sales can double in FY21, based on a combination of in surgery assistance and expansion of the digital marketing campaign where required.

Strategically, management are focused on growing BTM sales across new and existing markets in order to become the standard of care. Key to this success is the large U.S. region, which PolyNovo entered in 2016 using a direct sales and marketing team. The progress to date has vindicated this decision, with management assuming control of the way the product is marketed to surgeons. Further investments in the U.S. sales and marketing team are expected in FY21, as the group focuses on penetrating this market with BTM and in preparation for the launch of new products in the future. A gross margin north of 90% justifies this investment.

FY20 also saw PolyNovo enter the European market after attaining CE mark accreditation. Pleasingly, the DACH region consisting of Austria, Germany and Switzerland has achieved early sales traction, while the U.K. is also starting to see positive momentum with sales into five National Health Service (NHS) hospitals in July. Europe, although only approximately 30% of the US opportunity, is expected to be a meaningful contributor to revenue growth going forward.

PolyNovo has an array of R&D projects that leverage their patented NovoSorb bio-resorbable polymer. The platform technology will drive innovation of future devices, including hernia, breast, muscle repair and diabetes. The near-term opportunity is in hernia, now expected to be launched into the U.S. market in FY22, after experiencing some delays in commissioning the new purpose-built manufacturing facility and clean rooms. Stage 1 of the build is complete, and Stage 2 will see capital expenditure fall below $3m in FY21. On completion, the expectation is the factory will have capacity to deliver upwards of $100m in sales.

Financially, PolyNovo ended the period recording an operating loss of $1.1m. Management remains confident growth can be funded organically using a combination of available cash, existing credit lines and from the uplift in expected revenues, along with the very high gross margins of the business.

PolyNovo has a market capitalisation of $1.5b and available cash of $11.6m.

REA Group (ASX:REA)

For FY20, REA CEO Owen Wilson stated he was delighted with the resilient performance of the business against the unprecedented economic backdrop. The first hurdle being the 2019 Financial Services Royal Commission, which squeezed the life from lending institutions nationally. A strong, albeit short-lived recovery was then closely followed by the onset of COVID-19.

Revenue for FY20 was down 6% to $820.3m. This was driven by a 12% decline in national residential listings, as vendors retreated and eager buyers were side-lined by a cascade of Government orders, including the banning of onsite property inspection and home auctions.

In the face of these challenging conditions, we give management a big tick as they have executed strongly, evidenced by the rapid reduction of operating expenses, which was down 9% for the year. This delivered *"operating jaws"* or EBITDA margin expansion to 60%. Here management have clearly demonstrated costs can be flexed to meet conditions in the market. EBITDA was down 5% to $492m and net profits down 9% to $268m.

Leading customer support measures have also driven strong industry engagement and are reflective of management's execution. New product features and innovations continue to deliver value, while expected price rises have not been implemented for short-term gains at the expense of customers. Importantly, CEO Wilson is confident future price rises can be achieved as REA continue to deliver measurable value and return on investment through innovation. Continued penetration of the highest yielding *"Premiere"* offering resulted in a record number of customers committing to depth products.

Realestate.com.au is the number one Australian property site and REA has the largest and most engaged audience. Sixty percent of Australia's 18 years and over population visit monthly and the site generates 3x more visits than the nearest competitor. Over 61% of users are exclusive to realestate.com.au.

On the global front, while Malaysia was strong, Asian revenues were down slightly by 2%. In Asia, net impairment charges totalling $142m were recorded in the period. While part of this impairment pertains to the 13% stake in Elara, this fast-growing Indian business remains of strong interest. In North America, the share of losses from the group's 20% stake in Move, was down to $7.2m, which was a 14% improvement.

Strong operating cashflow of $419m saw debt reduced by $70m, while $155m of dividends were paid, amounting to $1.10 per share for the full year.

Looking out to FY21 and although listings in Sydney have seen a strong start to the year, Melbourne has seen a 60% drop in listings. Perhaps not surprising given the rollercoaster ride of stage 4 lockdowns and business restrictions in the *"Victorian fun park"* of the Andrews-led state government. As a result, Victorian customer support for agents and vendors has been extended out to the end of September 2020, while all other state-based support has run its course.

REA has guided to no increase in core operating costs, which will drive continued positive operating jaws. Specifically, the first quarter operating costs will be down 5%-10% as the business is flexed to meet conditions.

Net debt stands at a little over $100m with undrawn facilities of $149m, in addition to an overdraft facility of $20m providing additional liquidity. REA has a market capitalisation of $15b.

Reece (ASX:REH)

Being deemed an essential service has certainly softened the COVID blow for plumbing group Reece, but what is even more impressive has been the powerful strides taken in the key U.S. market. Barely two years since acquiring Morsco in a $1.9b deal, the nucleus of a long duration growth story is becoming evident.

In Australia, where the genesis of the business began some 100 years ago, growth is harder to come by. Already the dominant local player with a national store network of 639 outlets, Reece delivered sales of $2.9b, up 1%, while operating profits of $308m saw margins drift to 10.6%.

In the U.S., reported sales rose 20% to $3.1b. On a constant currency basis, the rise was more muted at 7% but even allowing for this, the positive direction is impressive. Margins were maintained at 4.8%, with management focused on reinvesting into the business. The group ended the year with the branch network up five stores, now sitting at 184. This included the addition of six Todd Pipe & Supply stores acquired during the year and the natural opening and closing of existing outlets.

Currently, CEO Peter Wilson is refraining from aggressively opening new outlets until the right format is identified. The group has three store pilots under consideration, with a likely decision of direction still some 18 months away. In the interim, focus remains centred on the core principles:

1. Continue to engage and understand the needs of the local market.
2. Focus on building long-term partnerships.

3. Build an e-commerce platform that provides an end-to-end solution.
4. Drive leadership qualities across the group.
5. Underpinned by a commitment to the group's embedded values and culture – The Reece Way.

For the year, total revenues rose 10% to $6b and operating profits rose 5.5% to $461m, with margins of 7.7%. The company chose to raise additional equity during the latter stages of the year, largely in response to an uncertain COVID environment. In total $647m was raised and firmly supported by the Wilson family who participated in the raising and remain the largest investor, with a collective 56% shareholding base.

The group ended the year in a financially sound footing, with net debt of $761m, or a leverage ratio of 1.4x (net debt/EBITDA). Service commitments and inventory levels were not compromised despite the heightened level of community disruption. This was reflected in inventory levels remaining relatively constant at $968m, albeit with a material decline in the working capital ratio from 20.7% to 18.4%. Such is the level of cash flow performance that the group is well positioned for a continued rapid paydown of debt over the near term.

Operationally, the group also announced important leadership changes. CEO Wilson will oversee group operations and be well supported by country CEO's, Gavin Street (former group CFO) leading the Australian operations and long-term executive Sasha Nikolic in the U.S.

Importantly, these appointments reinforce the long-term growth strategy the Wilson family have articulated to investors. Focus remains on building out a sustainable and differentiated service offering, underpinned by digitally enabled solutions and the group's online customer platform maX.

Management have a culture and philosophy of looking long-term and reinvesting back into the business. It has the track record and now an opportunity to take those learnings into the significantly broader U.S. market. The Wilson family have never taken short cuts in building out the business offering, and we suggest investors do likewise and stay the course.

Reece has a current market capitalisation of $8.4b and net debt of $761m.

ResMed (ASX:RMD)

The full year 2020 financial result was never going to be a straightforward exercise. The economic fallout from COVID-19 has severely punished some businesses but equally rewarded others. In the latter camp, global respiratory leader ResMed delivered a very strong fourth quarter and full year result.

In terms of financials, group revenues rose 13% to US$2,957m, while underlying operating profits climbed 24% to US$891m and underlying net profits up 32% to US$693m.

Benefiting from a global wide surge in ventilator demand, ResMed more than tripled its normal production levels to deliver in excess of 150,000 invasive and non-invasive units during the second half of the financial year, led by its flagship Astral product. While operations are continuing to run at full capacity, management is forecasting a significant drop in demand, when compared to fourth quarter levels, as health authorities begin to reopen services.

The impact on traditional obstructive sleep apnea demand was clear during the June quarter. As management noted, *"We estimate that the incremental net revenue benefit from COVID-19 related impacts was in the order of $20 million, reflecting estimated incremental ventilator and related accessory revenue of $125 million, partially offset by an estimated $105 million impact on our sleep revenue relative to our pre covered forecasts."*

As we step out into 2021, management have provided a preliminary revenue outlook for July in what remains a very fluid situation, *"Turning now to our first quarter FY21 outlook. At a high level, we expect to see continued demand for ventilators, but at a significantly lower level compared to Q4 FY20. Additionally, we expect to see a continued headwind for sleep device sales in Q1 in response to the temporary reduction in the diagnosis of new patients. Mask and accessories have continued to demonstrate resilience over the past 3 months, which reflects the insulating value of the large patient installed base. Consistent with these remarks, for the first month of Q1 FY21, we recorded group revenue growth in the low single digits. However, like many other companies, we are experiencing pervasive uncertainty in the current environment. And as a result, our forecast and possible future revenue outcomes remain dynamic."*

CEO Mick Farrell also noted that as markets reopen, the expectation internally was for a U-shaped business recovery, with group revenue growth likely to dip in the first quarter of 2021 and see improvements in each subsequent quarter, *"As I stated earlier, we expect a steady sequential quarter-by-quarter sort of U-shaped recovery of the sleep apnea, COPD and asthma patient flow throughout fiscal 2021. Clearly, a highly effective vaccine or a highly efficacious treatment for COVID-19 could, of course, turn that U-shape into a dramatic V-shaped recovery. However, we are not counting on that. And an event like that remains upside from what we call our expected or likely case scenario."*

Commensurate with that outlook, management is also pointing to some costs remaining elevated over the near term as a result of COVID, including air freight, which will lead to gross margin headwinds heading into the new year.

Putting aside the degree to which markets reopen, the long-lasting impacts of COVID will be a positive tailwind for the business. Globally, the company is looking to address a global footprint of 936m sleep apnea suffers, over 380m chronic obstructive pulmonary disease suffers (COPD) and over 340m people living with asthma.

To that end, ResMed has outlined three key operating priorities as noted by CEO Farrell in the recent conference call, *"We have 3 operating priorities that guide our daily focus here at ResMed. Number one is to grow and differentiate our core sleep apnea, COPD and asthma businesses across global markets with over 1.6b people across these 3 chronic disease states. We know that delivering our innovative solutions to these underpenetrated markets is our clear number one priority. Our number two priority is to design, develop and deliver world-leading medical devices as well as digital health technology solutions to better engage physicians, providers and payers as well as patients so that we can improve clinical outcomes so we can reduce costs, and we can enhance the patient experience. Our number three priority is to innovate and grow the world's best seamless software solutions for care that is delivered outside the hospital. We think ResMed is uniquely positioned to deliver on these 3 priorities."*

Focusing specifically on the software-as-a-service (SaaS) segment, group revenues are now running at US$354m per annum, with underlying growth in the mid-single digits. As the shift to out of hospital grows, this segment is expected to grow in importance. The growing push into digital health is best reflected in ResMed's Propeller platform solution. The group have partnered with Novartis to co-package its Propeller solution, a digital platform technology with the pharma company's new asthma therapy. This will enable remote monitoring of patient health and better data collection to help facilitate greater patient care.

Finally, the health of the business can be best reflected in some key financial metrics, namely:

1. Gross margins improving to 60%.
2. Underlying operating margins (EBIT) lifting from 27.4% to 30.1%.
3. Fully expensed research and development spend at US$202m, equivalent to 6.8% of revenue.
4. Balance sheet net debt reduced to US$717m, representing a leverage of less than one times at 0.7x.
5. Maintenance of a quarterly dividend of US$0.39 cents for the final quarter.

ResMed has a current market capitalisation of US$25b.

Reliance Worldwide Corporation (ASX:RWC)

"Resilient at the core" is how Reliance summed up the FY20 result. This was largely attributed to the U.S. and Australian markets, whilst significant COVID impacts were felt across the U.K. and Europe. Despite the difficult conditions, the company delivered a strong operating performance, with an uplift in cash flow and reduction in debt. The very fact that a final dividend was declared is reflective of this. At the headline:

- Sales of $1.2b increased 5%.
- Adjusted EBITDA of $251.3m was down 9%.
- Adjusted NPAT was $130.3m down 18%.

Significant highlights include a 56% uplift in cash flow to $278.3m and a cash conversion (gross operating cash flow/reported EBITDA) rate at an impressive 128%. While this reflects the reduced manufacturing shifts and lower inventory levels, the all-important metric of customer service levels, shown by *"in stock rates",* remained high.

Strong cash flow was also key to the substantial $124m reduction in outstanding debt. Net debt now stands at

$302.2m or 1.39x net debt to EBITDA. A final dividend of 2.5c takes the full year payment to 7.0c per share. Management, led by CEO Heath Sharp, was clearly delighted with the result considering the circumstances they faced in the second half of 2020.

The U.S. outperformed in COVID, evident by the sales split. The FY20 revenue uplift of 6.1% constant currency (cc) was fuelled by the 10.7% growth recorded in the second half as home repairs went into overdrive. It is not hard to see why, when the pipes are running almost 24/7 during lockdown, compared to the twice daily, shorter peak usage in normal periods.

Sales in Asia Pacific were down 2% for the full year and flat in the second half, on a cc basis. As noted, sales in the U.K. and Europe were significantly impacted by the pandemic, with government mandated business closures artificially suppressing demand. EMEA as a result, which includes the U.K. and Europe, recorded sales down 13% for the full year and a 23.4% decline in the second half.

At the low point in May, sales were running at 35-40% of the pre-COVID levels. Management significantly reduced manufacturing and distribution activities in response and 400 staff were also placed on furlough.

A restructure of the U.S. operations resulted in a consolidation of manufacturing in Alabama and the closure of operations in Tennessee. When combined with restructuring changes in the U.K., savings of $25m are expected by the end of FY21. This is in addition to the $31m in run rate synergies achieved at John Guest to date, of which $13.8m were extracted in the reporting period.

One-off costs associated with the restructure in the U.S. and U.K. amounted to $10.7m. An impairment charge of $22.7m was also recorded, driven by a review of the Spanish Pex pipe operation, ceasing investment in non-core disruptive initiatives and a net reduction of 82 FTE's across the group.

Earnings and margin were impacted by reduced overhead recoveries from lower manufacturing volumes of $18.5m. Positive impacts included John Guest synergies of $13.8m, lower copper input price of $5.8m and continuous improvement benefits of $5.5m. Government support included $4.1m across EMEA, while New Zealand and Canada contributed $0.5m.

While there are many moving parts to this result, our assessment is that Reliance is entering the new world in better shape. The board appears to be more functional under the Chairmanship of Stuart Crosby. Management has done much of the heavy lifting of integrating a major acquisition and restructuring operations and can now focus on a simplified task of basket expansion around its core competency of plumbing fittings.

R&D will also be redirected to this end and the balance sheet is in good shape with net debt, as stated above, of $302m.

No outlook was provided. The first two months of the year have seen a good start, with a continuation of strong sales in the U.S. and a recovery of sales in EMEA. Management are cautious about extrapolating these early results, which could reflect both a pull forward of sales and pent up demand. Both potentially may not be sustained.

Reliance has a market capitalisation of $3.1b.

Seek (ASX:SEK)

Seek management, led by CEO and co-founder Andrew Bassat, remain committed to a business strategy less confined to short-term time targets and more centred around maximising the long-term opportunities available. The paranoia around looming competitor threats, underpins the necessity to maintain core product and technology spend, while continuing to get behind new disruptive business offerings.

Over the past three years, this approach has been a consistent thematic and has led to the company deploying significant investment capital into new ventures, while transitioning the company's core online employment to a new flexible pricing model. The company has continued to ramp up product and technology investment, hitting $114m in 2020 compared to $41m in 2016, while annual losses connected within the group's early stage ventures program running at $40m.

In a normal environment, investors are forgiving, but COVID-19 has created additional pressures. This was reflected in the sharp drop-off in employment demand, felt in all global operations during the last quarter of the financial year. While full year revenues held up well, coming in at $1.6b, operating profits fell 9% to $414m and a more pronounced decline of 51% to $90m was reported at the underlying net profit line. The group also reported impairments of some $203m predominately relating to disappointing operating performances in the markets of Brazil and Mexico. Seek also confirmed that Federal Government JobKeeper support of $8.4m was received during the final quarter of 2020.

The company's balance sheet has also come under investor scrutiny, with reported year end net debt at $900m resulting in a leverage ratio of 2.2x. This is expected to be tested further in 2021, with the company providing an early 'illustrative' earnings scenario with operating profits (EBITDA) of $330m, down 21%, continued early stage venture losses of $45m-$50m and net profits of $20m, down 78%.

The situation is obviously fluid, and management have taken a 'best guess' view of where things may land. Despite these sobering numbers, funding is not an issue, prudent cost control is ongoing and dividend payments suspended.

Importantly, the actions of management are reflecting the internal values of protecting staff, maintaining consistency of services and building out the long-term opportunities on hand, all at the expense of short-term profits and market consensus numbers.

To this point, the case for the continued funding of product and technology spend and new business investment is supported by the ongoing generation of strong revenue growth, in excess of 35% across the group's key business areas within the early stage venture program:

1. Online education and learning.
2. Human Resources Software-as-a-Service.
3. Contingent labour platforms.

To date, the company's financial report denotes a current carrying value for the collective start-up ventures totalling $373m. This compares to an indicative fair value of $562m, pointing to an uplift of $188m. Whilst only indicative, it purports to the inherent value residing within Seek through these investment holdings and masked as losses on the group's net profit line.

The group is also gaining traction in the Chinese online employment market through its 61% interest in leading operator Zhaopin. While China was the first market impacted by COVID, it has accelerated from the trough and is now operating at similar levels to last year, with billings down just five percent. Management is taking the opportunity to reset this business, with a clearer focus on reducing unnecessary sales costs and simpler customer plans, providing the opportunity for higher operating yield (margins). For the year, Zhaopin delivered revenues of $3.5b and operating profits of $587m, of which Seek's share equated to $124m.

COVID-19 has also forced the established education providers to rethink and embrace online learning as a necessary option. Through Seek's Online Education Services (OES) joint venture with partner Swinburne, the signing of Monash University under a ten-year agreement, offering postgraduate university courses, is a significant step forward. Management note the 'end-to-end' online degree solution that OES offers, which operates in partnership with the major universities and backed up by excellent student service, is quite unique. This structural shift is accelerating as other university providers look to transition away from a concentrated campus model. For the year, OES delivered revenues of $137m and operating profits of $35m, of which Seek's ownership sits at 80%.

Finally, the underlying strength of the Seek model is best reflected in the traditional online employment businesses operating in Australia and Asia. Ongoing investment is driving platform unification across all operating markets, lifting productivity and speed to market of new offerings. The introduction of a better aligned 'pricing to value' model, while early in the rollout, has gained strong support and likely to deliver better long-term outcomes for both Seek, in terms of yield (margins), and recruiters in providing enhanced placement solution options.

During 2020, the Australian online employment segment delivered revenues of $387m and operating profits of $223m, leading to an increase in margins of 58%. In Asia, revenues hit $163m and profits $73m, providing margins of 45%. Collectively, this powerhouse division delivered revenues of $550m, operating profits of $297m and margins of 54%.

Seek CEO Bassat has chosen to stick to a long-term plan, maintaining all permanent staff at full pay, while continuing to invest in the business and through the company early stage ventures program. The short-term financial consequences of this are on full display, but beyond COVID these deliberate investment actions are more likely to position the business well in a fast-changing environment.

Seek has a current market capitalisation of $7.6b.

The Star Entertainment Group (ASX:SGR)

It is difficult to undertake the business of entertainment when you are in lockdown, but that is the position casino operator Star Entertainment found itself in during the back half of FY20. The group owns and operates three casinos in Sydney, Brisbane and the Gold Coast, with a collective staff network of 9,000. Suffice to say, a forced shut down during the COVID pandemic was a hard blow for the company. Having exited the first half in excellent shape and enjoying strong operating performance, this lockdown required speed of execution and a renewed focus on containing costs.

For the full year 2020, Star Entertainment recorded top line net revenue of $1.5b, down 31%, with EBIT and net profit (before significant items) of $75m and $18m, down 78% and 92% respectively.

Given the circumstances, management provided a breakdown of financial performance comparing pre-COVID and post-COVID. Focusing specifically on Sydney, a market that was less influenced by the high roller VIP business, operating profits for the eight months to February (pre-COVID) were running at $168m. For the remaining four months of the year, operating losses of $2m were recorded.

As these numbers illustrate, the collapse in earnings occurred post February. This was a result of the cessation of gaming activities, which led to the decision to stand down over 90% of employees, or 8,500 staff, in a move to rein in the monthly cash burn of $43m. This allowed the group to cut monthly operating expenses to just $10m from April, effectively mothballing operations.

Net JobKeeper payments of $9.6m were received in the final quarter of 2020, with this Federal Government initiative likely to contribute a similar amount in the first quarter of 2021. The requirement to stem the cash burn is obvious but made even more urgent when you are carrying a heavier debt burden. In this case, Star ended the year with net debt of $1.4b, up $410m, reflecting a heavier capital program, including completion of the Sydney Sovereign Room for premium (platinum) players and ongoing investments in the new Queens Wharf Brisbane casino.

In all fairness to management, the company was well on its way to a more efficient, capital light business model. This was reflected in the $45m cost out program delivered in the first quarter of calendar year 2020. Further, the newly completed $250m Sovereign Room was finished on time and on budget, providing a competitive response to Crown's upcoming new Sydney casino opening. Management also fortified its competitive moat position by completing a new NSW gaming tax agreement and period of electronic game exclusivity out until 2041. On the Gold Coast, the Queensland Government finally terminated the process for a second casino licence, while the $1.6b joint venture Queens Wharf Brisbane casino finalised funding terms as expected.

Having re-opened in Sydney on 1 June, with a maximum capacity of 900 patrons per area, the casino's activities were further curtailed on 24 July to 300 patrons per area, when further restrictions were applied. In Queensland, casinos reopened on 3 July.

Despite the current draconian trading conditions, the new financial year has started on a positive note with management confirming domestic gaming revenues were running at 80% of the 2019 level and operating margins comparable to 2019 margins, excluding the JobKeeper benefit. The customer base driving these earnings are also considered to be of higher quality; domestically driven from regularly playing patrons, compared to high roller players (VIP) that can deliver volatile win-loss outcomes, thus exposing the group to potentially higher bad debt provisioning outcomes.

This was evident during the year, with the company announcing a pre-tax doubtful debt significant item provision of $84m. While management is confident the bulk of this outstanding debt will be collected, current international travel restrictions are providing some roadblocks.

As things stand, the business is cash flow positive on a monthly basis, sufficient to meet all capital expenditure requirements and allowing for a meaningful reduction in debt. Based on the most recent update by management, the group's casinos are generating monthly positive operating profits (EBITDA) of circa $45m. Capital expenditure projects for 2021 are limited to $250m, offset by $300m of potential asset sales including the Sydney car park.

Sufficient debt funding is in place, but the group maintains monthly dialogue with its bankers, illustrating that while things are manageable, they could be better. To that end, the group has delivered excellent cash conversion and when operating conditions return to a more normal setting, the business is likely to de-leverage very quickly.

As the calendar year end approaches, the state's newest casino the $2.2b Sydney Crown Tower is earmarked for opening. While the casino is not directly comparable to the Star, because of player restrictions surrounding electronic gaming machines (slots), an impact in the short-term will be felt as patrons consider the alternative.

Star management have invested heavily in facilities, including the new Sovereign Room, undertaken considerable player analysis and strengthened the group's loyalty program. Beyond the near term, these additional casino offerings are likely to expand market demand.

Star Entertainment Group has a current market capitalisation of $3b and reported net debt of $1.4b. ***SFM***

THE TIMES THEY ARE A CHANGING

Positive change comes by way of a crisis

Despite COVID-19 being thrust upon us, the very nature of it required an urgent and immediate response. The adage of old habits die hard perfectly applies to the world pre-COVID. Today, we are not afforded that luxury.

In a crisis, we go back to basics and then look to the future with a different lens. Businesses are now looking out and the learnings from this crisis are leading to change and adaptation.

The annual reporting season, which kicked off in August is illustrative of how the working world is adopting new approaches with some unexpected outcomes.

Productivity

Perhaps the most striking feedback involved work productivity. The old-world thinking would suggest having an entire workforce at home would lead to lower output and the risk of disengagement. The response has been quite the opposite. In most instances, productivity has gone up, with longer working hours an unexpected outcome and Zoom meetings now the norm.

Management are also more highly engaged, embracing virtual town hall meetings to connect with staff in all regions of the world. Such an approach allows for a cultural connection and one not dictated by distance. It also opens the spectrum of what may be possible down the track. While the traditional nine to five working day may still hold true for many, remote working options and greater employee flexibility is an inevitable and positive COVID outcome.

Google's announcement in July, confirming employees could continue to work from home until July 2021, makes it the first major technology-based business to extend remote work arrangement as a result of COVID. With a total global workforce in excess of 200,000, such a radical move will unsettle long established business practices while profoundly altering daily life.

Recruitment

Talent is a business's most important asset and companies that do not heed the call will pay a high price. An organisation’s cultural footprint will play an increasingly important role in attracting and retaining the right ambassadors.

Even in the current high unemployment setting, COVID has altered the conversational piece away from one solely centred on remuneration, to an all-encompassing assessment on achieving a better work life balance.

Environmental, Social and Governance

Much has been written about the environmental, social and governance (ESG) framework that companies and boards are now having to live and breathe. As we have previously outlined, ESG has all the right intentions but those that undertake this task as simply a box ticking exercise will be misaligned with its intentions.

ESG is a pathway to a better place. Some businesses are more naturally inclined to lift the bar, while others are dragged along kicking and screaming. In the fullness of time the attainment of ESG outcomes will be a critical point of difference and our engagement with executives, accompanied by company data metrics is but a first step to the ever increasing higher standards now expected of all people and businesses.

Reinvestment

The penny is finally dropping. Companies succeeding today did not get there by chance. The uniqueness of the business offering is obviously an important input, but even more so is the unrelenting commitment to invest profitable dollars back into the business. It is no coincidence that some industries, namely the health and technology related sectors, have always understood this connection, but its importance is now resonating to a growing audience.

Along with management, the level of research and development (R&D) investment is one of the key distinctions of a successful business. Any investor that is prepared to look beyond the short-term, should look to the level of annual R&D spend as an important indicator of future success.

Digital

What began as a structural shift to online adoption has turned into a stampede. Whether it is at the front end in serving customers or at the backend of business operations, no longer is it a question of whether one commits but more critically, how quickly it can be done.

COVID has simply accelerated a pathway already in train. Our investments across a number of software-as-a-service (SaaS) providers, including the likes of FINEOS Corporation Holdings, TechnologyOne and Altium, is illustrative of operators well placed to exploit this trend.

Dividends

The mantra for investors should read, less is more over the long run. Many investors will probably argue that voting for a lower dividend stream is not what rational and sensible investors do. Fortunately, COVID has forced the hand of many company boards, which have for too long paid out too much in annual dividends.

Returning capital to shareholders is a worthy pursuit, particularly for those capital-intensive businesses that have a questionable performance history. But for those that have shown competency in allocating capital, we prefer a lower payout today and the opportunity of earning higher profits in the outer years.

Banks are perhaps the best example of having paid out too much for too long. For an industry so leveraged, both in balance sheet terms and economic activity, a more prudent path would have demanded a lower payout and greater levels of reinvestment. In July, the Australian Prudential Regulator Authority (APRA), spooked by COVID, stepped in to provide formal guidance.

"On that basis, APRA believes that banks and insurers do not need to continue to defer capital distributions, provided they moderate payments to sustainable levels based on robust stress testing, and continue to prioritise supporting their customers and the economy. APRA has therefore set an expectation that dividend payout ratios for ADIs will be maintained below 50 per cent for this year."

This directive should come as no surprise, while sending a clear message to bank boards that the days of raising capital on one hand and paying out on the other, are no longer sustainable or appropriate. Equally, Telstra and Tabcorp are two other businesses that should take note.

The structural winds of change, fast tracked by COVID, should lead to a rethink on what level of dividend payout is sustainable. The notion of combining high payouts, accompanied by leveraged balance sheets and business underinvestment have now been fully exposed.

While individual circumstances will dictate the correct course of action for each business, we would firmly argue accepting less today with the aim of generating greater returns down the track, is a more sustainable driver of long-term success.

Finally

COVID-19 has already shaped the views of many investment commentators and seasoned investors. We don't profess to know how things will pan out from here, but our investment philosophy has always been about the people, the business and the powerful compounding combination of both when applied to the most important investment component, time. On that score there is no shift. ***SFM***

INVESTMENT PROCESS – WHAT HAS CHANGED?

We have just completed our second quarter and first reporting season under COVID conditions. The question we have been asked during the period is, how has our investment process changed in this new environment?

Much has been written about the drivers of the stock markets lows in March, and its performance since that point. Commentators and professionals alike have been in awe of the market's performance. Australia's Funds Management experts have identified new phenomenon such as RobinHood traders, Reddit feeds, YOLO traders (You Only Live Once), Momentum trading and TINA (There Is No Alternative – to equities).

While each may play a role in the melting pot that represents global financial markets, we view these as merely noise, filling the quiet place that would probably exist if daily media headlines weren't required. See separate article, *How COVID Can Help You Distinguish Between Expert Opinions, Social Media and Social Issues.*

In our minds, you don't have to roll back time too far to see a similar *"U turn"* in equity sentiment. In January 2019, the Federal Reserve backed off, or back flipped, on its three-year effort to normalise interest rates at 2.5%-3.0%.

From September 2018 to January 2019, the All Ordinaries fell nearly 15%. A veteran Australian Fund Manager described *"the savage rotation between sectors during the final months of 2018 as one of the most violent he has witnessed in a career spanning many market meltdowns".* Some managers moved to cash as they fretted about future inflation and higher rates. We watched these strategy changes based on deep insight and grounded research and wondered who remained true to label.

The yield on the 2-Year Treasury, an indicator of expectations of Fed policy, fell from a peak of 2.89% in November 2018, to 1.86% before the Fed Open Market Committee (FOMC) meeting in June 2019.

The problem for the Fed was, and remains, the financial markets are still affected by huge liquidity remaining from the central bank's quantitative easing (QE) program. The Fed has proved to itself and financial markets that it can't get out of the way of its own balance sheet.

So how have conditions changed in our minds this time around? The big picture or macro backdrop, which unfolded during the pandemic included;

- Significant government stimulus across the globe
- A sizeable shift in treasury yields
- The increased debt profile of governments who had to foot (some of) the bill for lockdowns
- Fed policy targeting an average inflation rate, thereby prioritising employment
- Acceleration of structural shifts driven by technology

Not all of this was totally new. In fact, in concept, there was nothing new to see here.

Stimulus

While the pandemic stimulus packages were clearly new and the magnitudes large, this playbook was used extensively during the GFC. Like the GFC the key danger of large-scale stimulus is poor or wasteful execution, which in itself is an entirely separate story.

The key difference in the pandemic is the target of the stimulus. Lockdowns are a response to a government's inability to deal with a pandemic. Inadequacies in health resources, testing and tracing were exposed. As a result, stimulus was designed to bridge a gap or act as a lifeline for *"main street".*

Politically this is nowhere near as toxic as propping up *"Wall street",* so it was always going to see greater bipartisan support. We described this as the infinity injection in our last quarterly newsletter. It was a turning point, for financial markets, in the crisis that had immediate impact. We expect more stimulus if COVID or lockdowns continue.

In Australia, state and federal governments combined have announced $369b in spending and support since March. This is extraordinary, and we have seen the immediate impact on public companies from Nick Scali, Kogan, Redbubble, ARB and Harvey Norman.

Yet we can't help but focus on the long-term indebtedness of our nation. Late in the quarter we applauded a speech about wasteful spending on infrastructure. Productivity Commission chairman Michael Brennan warned against stimulus, *"The supply-side policy is an important enabler of the recovery, without which demand-side stimulus is incomplete or compromised in its effectiveness".*

Yields

We got used to low yields and interest rates being *"lower for longer"* after the multiple quantitative easing programs that ushered global asset and equity markets out of the GFC. Post GFC we have held the view that governments would continue to act as a stabilising force in financial markets. To see the U.S. Federal Reserve appoint agents to act on its behalf was not surprising, given the circumstances. Yields have been a key driver of equities.

In this period, the decline in the nominal U.S. 10-year Treasury yield, from 1.9% at the start of the year to 0.7% at the end of June, was highly supportive of equity valuations. In the U.S., this was viewed as providing a 25% boost to the S&P 500.

Real yields are what you get on U.S. government bonds after compensating for inflation. They are typically associated with the yields on Treasury Inflation-Protected Securities, or TIPS. Inflation adjusted bonds currently generate a negative return. Globally this has implications for asset managers everywhere. John Coombe from asset consultant JANA, summed up the situation below.

"Here I am sitting with a bond portfolio that I know isn't going to actually beat inflation, says Mr Coombe, who points out JANA's super clients have promised to deliver a return above inflation. That means the rest of the portfolio has to perform heroically to compensate."

The impact on equities is driven by the formulas used to estimate what stock prices should be. Lower yields help pull down the discount rate. That makes future corporate earnings more valuable, though greater uncertainty about the future can offset this positive impact.

We don't believe in Discounted Cash Flow modelling (DCF), nor have we ever taken this approach. Our preferred method is to look at a whole of business valuation, which focuses on the return, earnings before interest tax and amortisation generated from all the debt and equity employed in the business, less the cash on hand. It is this whole business yield, which we refer to as our buyout ratio. We compare this buyout ratio to the risk-free rate. This gives us a perspective on the risk we are taking by holding equity in the business over a long period. Obviously, we are seeking a premium to the risk-free rate to compensate for the equity risk. We consider that equity holders are the last in the queue to be rewarded.

A key point of the buyout ratio is that all debt is considered. We note that many fund managers are today focused on liquidity, because businesses have been forced to close during the pandemic. Our preference, which has always been a key plank of our investment process, is a net cash balance sheet. Our view is that an organically funded business that lives within its means, is a higher quality business than one that is fuelled by debt. Our buyout ratio makes this distinction. A price to earnings ratio does not account for debt.

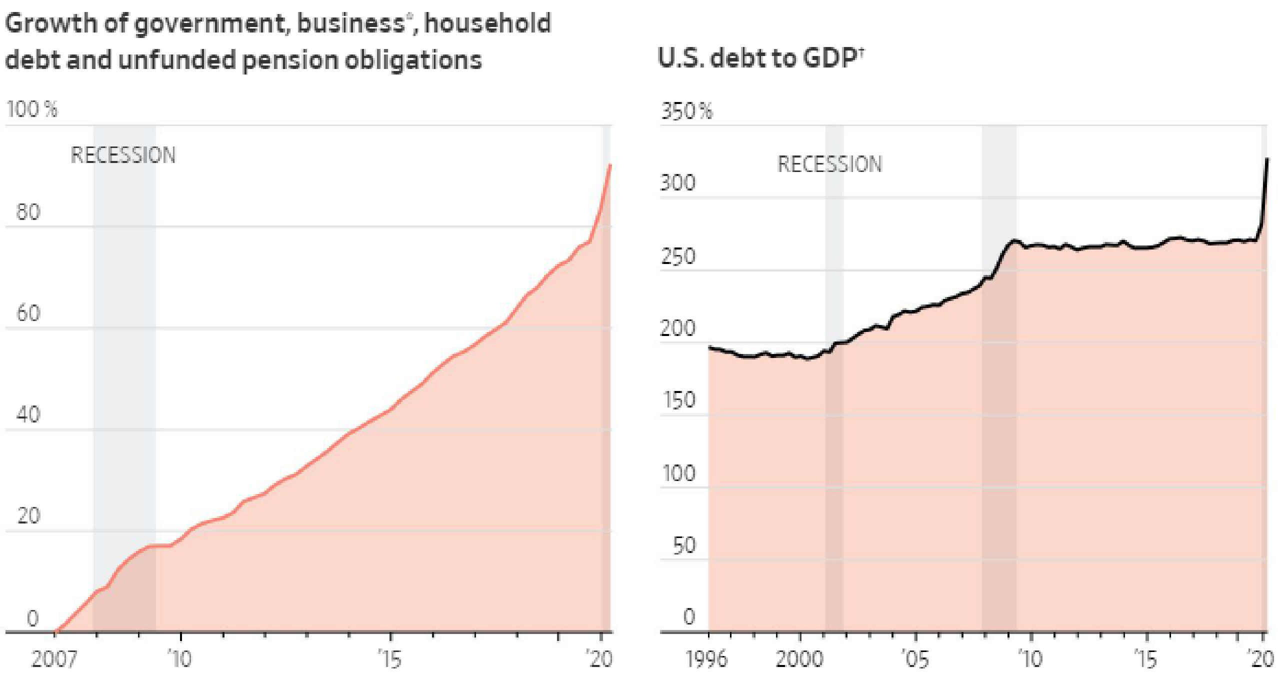
Another consequence of the drop in real yields has been the weakening U.S. dollar. When real yields have declined recently, the dollar has dropped with them.

Like bonds, gold is an asset that some investors turn to for safety. Gold benefits when government bonds offer lower returns. It also tends to climb when inflation accelerates, because it then takes more dollars to purchase the same amount of the precious metal. According to BNP, 72% of gold's price changes has historically been explained by moves in real yields, while another 21% has been attributable to shifting global inflation expectations. We do not currently see inflation and we do not invest in gold, see *Where to from here? Debt* in June 2020 Quarterly Newsletter. The themes we continue to see are the need for technology in a business and the benefits that come from scale. Both these forces are tending to hold inflation back.

Inflation targeting when you have more debt

According to the AFR, five years ago Macquarie's head of fixed income Brett Lewthwaite addressed a packed audience of financial advisers, explaining to them there was simply too much debt in the system to support higher interest rates. The chances of a sustained inflation outbreak were slim to none. Yields were going nowhere but down. This view was in direct contrast to a much higher profile equities manager who preceded him at the same meeting.

Figure 1: Historical view of the rising amounts of debt



Source: WSJ COVID Study 2 Oct 2020

As noted above, we had a front row seat to the Fed's attempts to normalise interest rates prior to Christmas 2019. That program failed, ending in the financial backflip of our times. It also indirectly led to the changed stance on *"average inflation targeting"*, which became part of Fed policy in August 2020. We would argue this is not a new policy, rather recognition of the same facts Lewthwaite addressed, which are even more appropriate today than when he originally made the comment. There is simply too much debt in the system for rates to be raised. As a result, rates are likely lower for longer. The Fed has an even clearer mission now; to create jobs not destroy them.

Again, we are not seeing much change here.

Structural issues

Almost all industries have turbo charged their use of technology in the period we are talking about, being the onset of COVID to the close of the September quarter. Many businesses will not survive the structural shift. But make no mistake, structural change was well underway before any of us had heard of COVID-19.

For many years, our big picture view has been driven by the twin themes of technology and scale. We have long believed that the businesses we invest in must embrace technology to achieve scale. With scale earnings, growth and leadership can be achieved. Efficiencies of scale can drive margin expansion. Reinvestment should also be a goal in this process. If a business can do this organically, using its own cashflow, then we consider it to be a worthy operation. If this is overlaid with quality management who believe in the importance of culture, you then have the many ingredients for success. The balance sheet is *"your get out of jail card"* when things go wrong. Inevitably over time something does go wrong, and this is the opportunity for the investor to act.

So with all this in mind, the simple answer to the question posed at the beginning of this article is, our process has remained consistent or true to label. We continue to seek businesses with:

1. Competent management teams
2. Business leadership qualities
3. Strong balance sheets
4. A focus on capital management

These four simple bullet points are linked. On a combined basis they are more than motherhood statements, they represent our interpretation of quality. It is these major periods of market volatility that test the conviction of investors and fund managers alike. At these key stress points, a process works or fails. If the process is being changed along the way, it is very hard for a manager to have the confidence to execute on the opportunities presented in times of stress.

We attempt to evaluate our own actions during these periods (not just our performance). There is a subtle difference here.

A common element in each crisis was the all-consuming drive for liquidity. During the GFC and the COVID pandemic, uncertainty was so high that many believed that fundamentals no longer applied. In the depths of the pandemic, it was said to us that because you didn't know the E in a Price to Earnings calculation you couldn't value a business. If you have a very short-term approach this is a reasonable view. We take a much longer-term approach however. The fundamentals we hold dearly have sat on our business roadmap since day one. They are a great guide in a crisis.

On both occasions (GFC & COVID), our confidence in our investment process enabled us to add high-quality businesses to the portfolio. Importantly, it also gave us the confidence to hold, and add to, the high-quality businesses we already owned. These actions were based on our investment process and they drive future performance. ***SFM***

DATA IS KING

The popular term *"content is king"* was made famous in the era of print newspapers, particularly surrounding the classifieds section that delivered information, enabling reader engagement and transactional activity to take place.

While content in its various forms remains powerful today, data is quickly coming through the ranks. Data can mean different things to different people, but as we begin to understand the very essence of it – how it can be packaged and delivered – its relevance and value becomes increasingly apparent.

Above all else, the emergence of data solutions is delivering customers with two immediate and important outcomes.

Firstly, it is facilitating the capture and filtering of information. The result is digestible and relevant insights, often tailoring a specific need.

Secondly, and most importantly, it is removing the time-consuming burden of replicating that same data capturing process, thereby removing business cost and complexity.

Digital adoption and data go hand in hand, and when delivered with the customer in mind, they have the power to both cut costs and drive new revenue opportunities. Companies that are delivering mission critical datasets have become a necessity, and perhaps only now is the power of data starting to be fully appreciated. COVID-19 has accelerated many aspects of life, none more so than how we communicate, work and deliver on everyday outcomes. Two companies which have recently shone a light on the powerful capabilities of data are listed businesses ResMed and Nearmap.

ResMed

ResMed, a global leader in respiratory care, built its business on delivering cutting edge hardware and consumable products in treating sleep apnea patients. This remains the foundation of the company. To that we can also now add a digitally led strategy, with the purpose of delivering connected health care solutions via personalised datasets. The company's ability to measure, capture, monitor and deliver personal health data in a cloud based eco-system, in an out of hospital setting, demonstrates the groundswell of change underway. It is little wonder that management are prepared to invest significantly in building out this offering.

We profiled the ResMed business in our June 2019 Quarterly Newsletter, highlighting the company's transition to a broader digital health solution. The company has big ambitions to connect care providers, pharmaceutical manufacturers and patients with reliable information and this ability to join the dots, so to speak, is even more relevant post COVID.

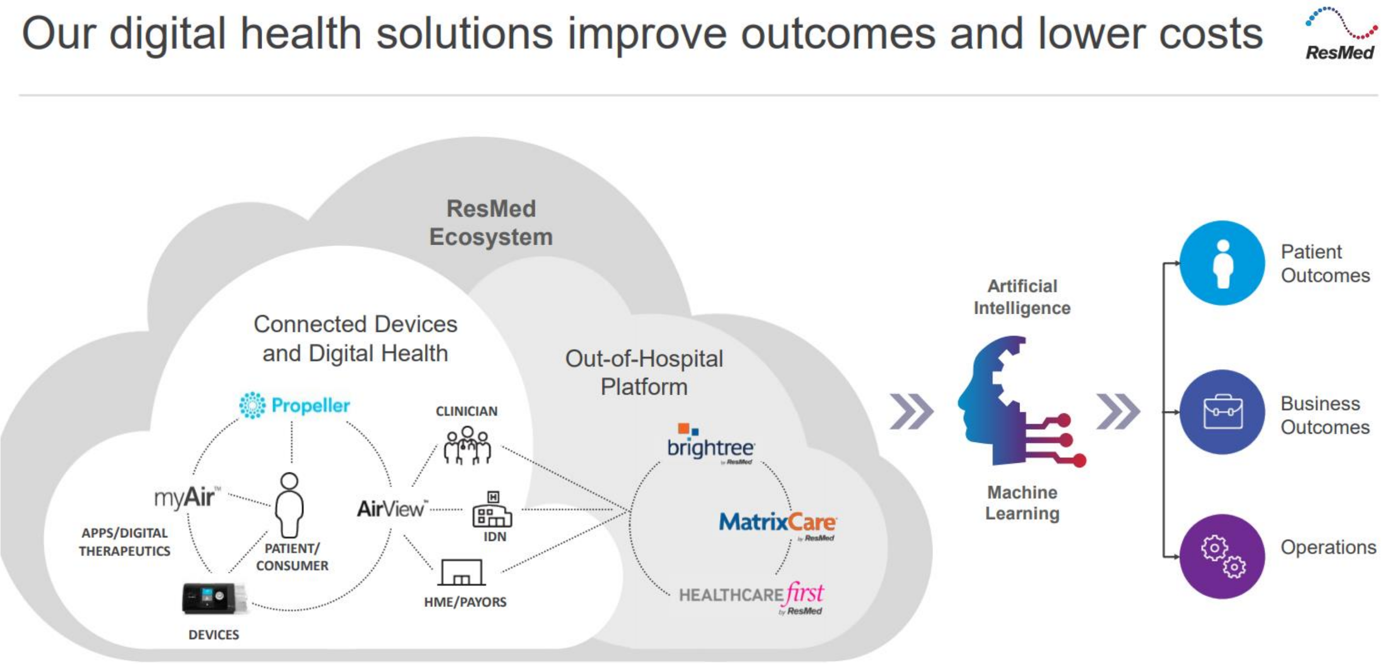
ResMed impacted over 110m lives during 2020, working towards its mission to *"change 250m lives by 2025".* But what does this actually mean? As with any mission statement, it is first and foremost aspirational.

By way of example, all you need to do is look at its flagship device, the AirSense 10 Continuous Positive Airway Pressure (CPAP), to see how the company is driving innovation and making strides in digital health. This device, which is used by patients suffering from obstructive sleep apnea, now has cloud connectivity. The result is an instant capture of a patient's nightly sleep performance, with the data automatically sent to the physician via the company's web program, myAir.

The last piece of the puzzle is how physicians use this information. Here the company's AirView patient management system allows the device to be monitored and reset remotely. Thus, a patient using an AirSense10 CPAP device no longer requires a physical visit to their physician if modifications to the settings are required. Equally, a track record of each night's sleep is collated and stored in the cloud, to help monitor for trends or patterns. To add to this, consumables, including mask re-supplies, can also be diarised and shipped to patients as required.

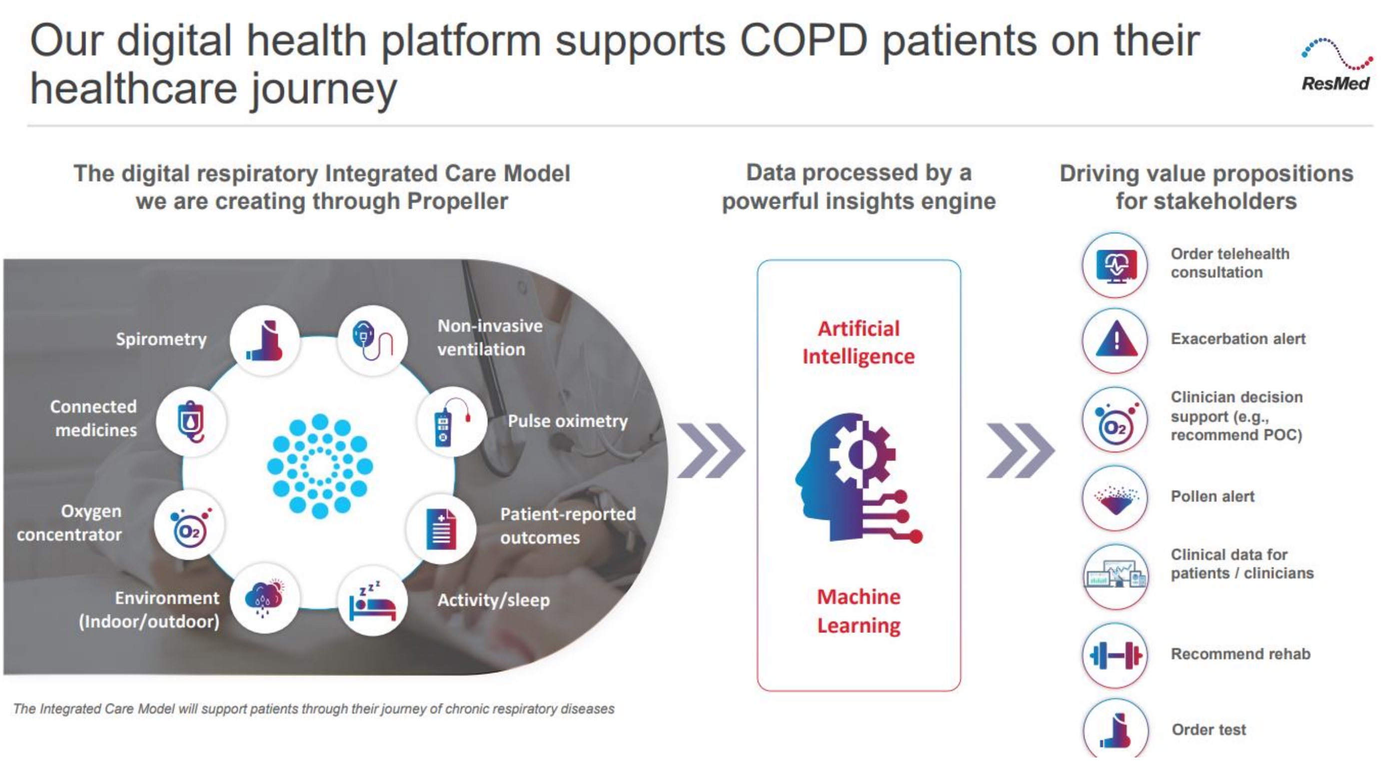
Today, ResMed has over 12m cloud connected CPAP devices, and around 14m patients enrolled in AirView software solutions. In terms of the 110m lives, this can be broken up into 16m patients using devices and full mask systems, with another 95m patient accounts managed through the out of hospital software solutions. This level of interaction and connectivity creates a powerful ecosystem, leading to better patient compliance and more in-depth insights that influence product development and what ResMed management highlight as a *"competitive advantage"*. Figure 2 and Figure 3 illustrates ResMed's view of the ecosystem landscape.

Figure 2: ResMed's health ecosystem



Source: ResMed 2Q20 Investor Presentation

Figure 3: ResMed's health platform for COPD patients



Source: ResMed 2Q20 Investor Presentation

CEO Mick Farrell highlighted this in the company's fourth quarter results released in August 2020, *"Our vision is to enable a system where a patient's health data moves with them as they transition care settings, giving providers the information they need to deliver personalized care and saving the person and the caregiver, both time and money. We are focused on leveraging our competitive advantage as the only long-term strategic player with solutions that span across these 7 important out-of-hospital health care verticals, home medical equipment, skilled nursing facilities, senior living, life plan communities, home health, hospice as well as home care services."*

Nearmap

We profiled Nearmap in our December 2018 Quarterly Newsletter. As an investment, it is still early days for this aerial imagery company. From its start-up days in 2007, the business continues to evolve and transform the way customers undertake work. This can be a little tricky since it requires a step change in consumer attitudes and commercial leadership in the field.

Churn, a measurement of whether customers maintain their subscription or cut when things get tough, is a critical metric for the company. A twelve-month run rate below 10% churn is deemed desirable. However, this was sorely tested during the early months in 2020, when in revising down full year revenue guidance, it revealed its U.S. operations experienced a spike in churn from 6% to 20%.

Such an outcome put into question the durability of customer loyalty. But the onset of COVID-19 has probably done what no marketing campaign could have done; It has forced the question of whether Nearmap's geospatial aerial mapping capabilities is non-negotiable or just another technology option when business is running smoothly. In essence, if a company were to make cuts, as we have seen in other forms of discretionary spend, this was certainly the time to do it.

For some this may be unavoidable, however, for businesses that want to stay ahead and take advantage of market disruption to grab share, removing a must have tool is certainly not an option. This is perhaps where Nearmap's image service steps in, a dataset of location-based images that are reliable, accurate and rich in detail.

What began more than a decade ago, as probably a great service offering looking for a customer, has in recent years morphed into a core data imaging platform among a growing cohort of public and private enterprises.

The technology underpinning the Nearmap digital offering enables regularly updated aerial image capture of a geography or location, with instant access via a cloud-based subscription model.

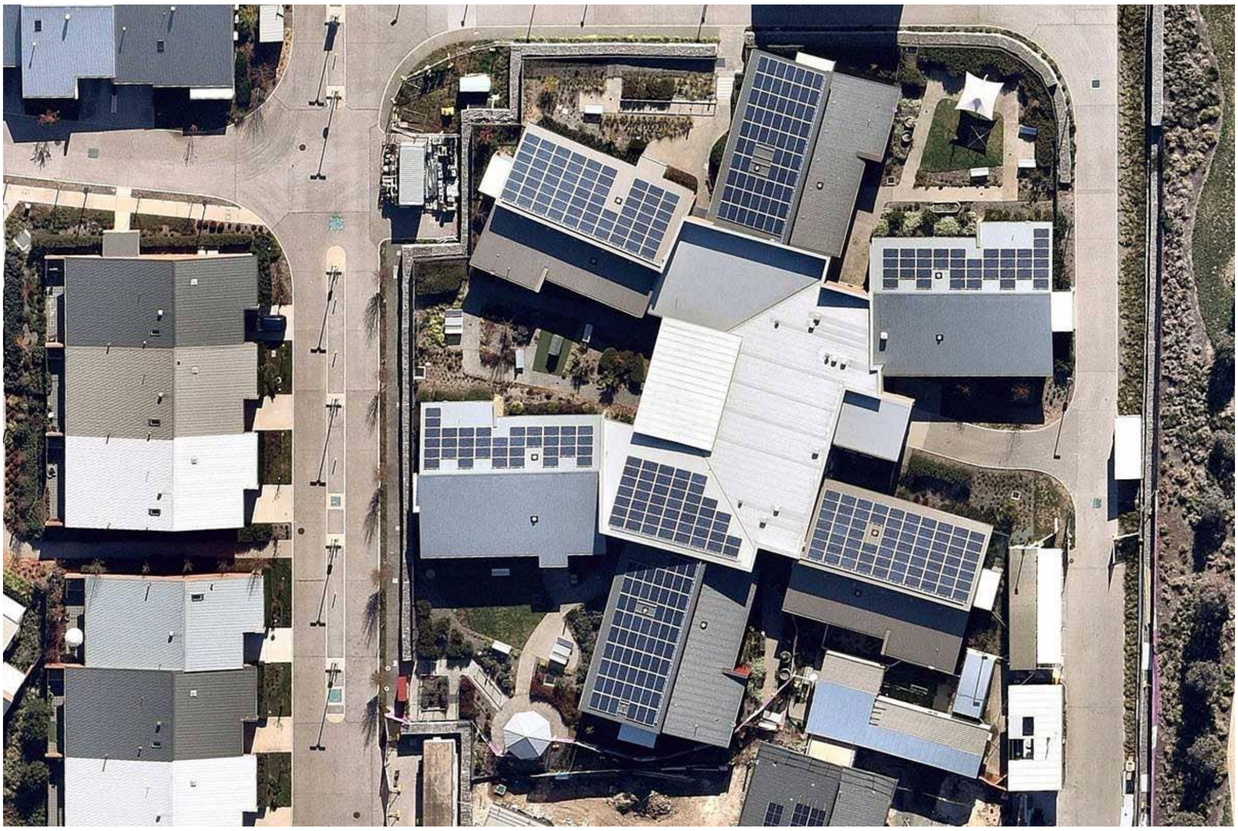
The images can be viewed in either a 2D, 3D or Oblique setting, complemented by the company's newest technology addition, the Artificial Intelligence software. With up to ten years of archived imagery history, the group's data capturing outputs are increasingly servicing new industry requirements. The most frequently sited example is the solar industry. What historically required an onsite visit to determine suitability, is now carried out in the office using aerial imagery. The same can be said of roofing.

The insurance industry is another prime candidate, utilising historical data as well as current updates to assess property claims. Government organisations including councils, urban planning departments and national park authorities speaks to the diversity of users. The captured imagery within the platform can also be re-packaged and sold repeatedly to a multitude of new users, illustrating the layering ability of Nearmap's intellectual property.

At its very core, the company is providing customers with the tools to conduct virtual site visits and get deeper insights, ultimately allowing for change at a rapid rate. It is fair to say COVID-19 has simply accelerated the merits of this offering.

It is hard to imagine that once hooked on the simplicity and power of these offerings, one could go back to how things were previously done. ResMed and Nearmap are illustrative of the structural movement to an online, digital demand world. Data and how it is captured, packaged and delivered, will play a critical role in the future successes of these two businesses and the many others looking to compete effectively. ***SFM***

Figure 4: Nearmap’s aerial solar capability



Source: Nearmap.com. 2020. Solar Lead Generation, Aerial Property View | Nearmap. [online] Available at: <https://www.nearmap.com/au/en/industries/solar-lead-generation> [Accessed 28 September 2020].

Figure 5: Nearmap’s aerial capture - assessing insurance damage

Source: Nearmap.com. 2020. Aerial Pictures, Insurance Claim Management | Nearmap. [online] Available at: <https://www.nearmap.com/au/en/industries/aerial-pictures-insurance> [Accessed 28 September 2020].

ELEPHANT IN THE ROOM

In our June 2020 Selector Quarterly Newsletter, we reported on the growing shift in investor actions towards carbon emitting enterprises.

Leading the charge in this domain has been the world's largest global asset manager BlackRock, led by CEO Larry Fink. His reasons were laid out in his January 2020 letter to chief executives, *"Awareness is rapidly changing, and I believe we are on the edge of a fundamental reshaping of finance. The evidence on climate risk is compelling investors to reassess core assumptions about modern finance"*. CEO Fink added, *"because capital markets pull future risk forward we will see changes in capital allocation more quickly than we see changes in the climate itself. In the near future – and sooner than most anticipate – there will be a significant reallocation of capital."*

As we now know, BlackRock confirmed an exit for its discretionary managed funds for any investment in companies predominantly tied to thermal coal production. These funds tally some US$1.7t. The remainder, around US$5.3t, which represent the bulk of the group's assets under management are held in iShares Exchange Traded Funds (ETFs). These funds are traded on the exchange, although they are not shares but units of a fund that are designed to closely track the performance of a chosen market index.

For BlackRock things get a bit tricky from here. While it is no big deal cutting out carbon emitters from discretionary funds, the task becomes much harder when it is part of a market index. Start to exclude certain sectors or businesses because of carbon concerns or other screening factors involving Environmental, Social and Governance (ESG) and it begins to derail the very essence of what ETFs are meant to do.

The elephant in the room is the consistency of words versus actions. When does the course of acting socially and environmentally begin to interfere with profits? If removing carbon is the correct course for discretionary funds, sufficient to write to chief executives espousing climate concerns, why does it not extend to ETFs? Is there a magic gate that protects ETFs from these emitters? The cynics would argue BlackRock's approach is conflicted, that on one hand cutting out coal miners is a relatively easy and clean decision but not if it undermines the very basis of the ETF business.

Extending that conversation to our local market and one can easily draw the conclusion that if we are to be genuine on the concerns regarding carbon or ESG matters, some things will have to fundamentally change. Being tied to a share market index not only applies to our own ETF industry, but to fund managers that invest according to index weightings.

The top 50 companies make up 69.8% of the All Ordinaries Index, as set out in Table 6. The three main miners (BHP Group, Fortescue Metals and Rio Tinto), along with the four major banks sit within the top 20 stock weightings. Any fund manager that invests along index lines is forced to hold these stocks, either replicating the rough weighting of each holding or taking a specific stance of either going under or overweight.

So how can any benchmark aligned fund manager really take ESG or climate change seriously if their actions of excluding businesses will result in a deviation from the index. If BHP is found culpable of environmental damage in Brazil, while RIO disregards due process in detonating sacred indigenous sights in Western Australia and our major banks are having to fork out hundreds of millions in fee remediation and anti-money laundering breaches, is this sufficient to exclude them as investable?

The new world that Fink is pushing is going to test many enshrined practices. Everything looks good on paper but once you get into the details of what such action means, you start to get push back and excuses on why there should be exemptions.

Fink has already done so with his decision to keep ETFs unchanged, despite the firm's active stance on carbon emitters.

The real test for our markets will come if our major investment houses and the trustees of our industry funds are prepared to lead on these issues by deviating from index investing. If not, one must question, who are we kidding. ***SFM***

Table 6: Top 50 stocks in All Ordinaries Index as at 03/08/2020

Rank	Code	Security Description	Percentage of All Ordinaries Index
1	CSL	CSL Limited	6.47%
2	CBA	Commonwealth Bank of Australia	6.37%
3	BHP	BHP Group Limited	5.66%
4	WBC	Westpac Banking Corporation	3.06%
5	NAB	National Australia Bank Limited	2.87%
6	FMG	Fortescue Metals Group Ltd	2.83%
7	WES	Wesfarmers Limited	2.68%
8	WOW	Woolworths Group Limited	2.54%
9	ANZ	Australia and New Zealand Banking Group	2.51%
10	MQG	Macquarie Group Limited	2.27%
11	TLS	Telstra Corporation Limited	2.08%
12	RIO	Rio Tinto Limited	1.97%
13	TCL	Transurban Group	1.96%
14	GMG	Goodman Group	1.59%
15	NCM	Newcrest Mining Limited	1.50%
16	COL	Coles Group Limited	1.27%
17	FPH	Fisher & Paykel Healthcare Corporation Limited	0.99%
18	WPL	Woodside Petroleum Ltd	0.98%
19	APT	Afterpay Limited	0.95%
20	ALL	Aristocrat Leisure Limited	0.85%
		Top 20	**51.39%**
21	BXB	Brambles Limited	0.85%
22	ASX	ASX Limited	0.83%
23	SHL	Sonic Healthcare Limited	0.79%
24	TPG	TPG Telecom Limited	0.76%
25	QBE	QBE Insurance Group Limited	0.76%
26	REA	REA Group Ltd	0.74%
27	A2M	The A2 Milk Company Limited	0.74%
28	RHC	Ramsay Health Care Limited	0.74%
29	AMC	Amcor PLC	0.70%
30	APA	APA Group	0.68%
31	COH	Cochlear Limited	0.67%
32	XRO	Xero Limited	0.67%
33	JHX	James Hardie Industries PLC	0.66%
34	IAG	Insurance Australia Group Limited	0.61%
35	NST	Northern Star Resources Ltd	0.60%

36	SYD	Sydney Airport	0.60%
37	MFG	Magellan Financial Group Limited	0.58%
38	STO	Santos Limited	0.57%
39	SUN	Suncorp Group Limited	0.56%
40	AGL	AGL Energy Limited.	0.53%
41	EVN	Evolution Mining Limited	0.53%
42	SCG	Scentre Group	0.51%
43	RMD	ResMed Inc.	0.51%
44	S32	South32 Limited	0.51%
45	ORG	Origin Energy Limited	0.50%
46	DXS	Dexus	0.48%
47	AIA	Auckland International Airport Limited	0.44%
48	AZJ	Aurizon Holdings Limited	0.44%
49	SPK	Spark New Zealand Limited	0.43%
50	MGR	Mirvac Group	0.42%
		Top 50	**69.82%**

Source: IRESS Market Technologies

KOGAN – MAGIC PUDDING

In our last quarterly we outlined our thoughts on the generosity of the Kogan board in allocating new shares to the company's two founding shareholders, Ruslan Kogan and David Shafer. To recap, the board felt it appropriate to propose a further six million shares, by way of a long-term option grant, be collectively issued to the key executives, in a move that *"retains and incentivises the Executive Directors well into the future".*

That long-term incentive option grant proposal was dated 12 May 2020, although it remains subject to shareholder approval at the company's upcoming annual general meeting. No doubt this will be a mere formality, with the company's market valuation comfortably north of $2b and the shares currently trading above $20. A stark comparison to those dark COVID days during February through to April, when investors headed for the exit and the shares briefly traded at lows of $3.84.

Fortunately for Ruslan and Shafer, the non-executive directors forming the remuneration committee, with the assistance of an independent expert, decided this was just the right time to put this plan in place. How fortuitous that with everything else happening, the most important piece of information for investors to digest was how the current founding executives, who still controlled 31.1% of the company, could be further incentivised.

Most boards put forward recommendations for shareholder consideration *after* lodging their full year financial results, with approval sought at the annual meeting in the back half of the year. However, time is of the essence and with a weakened share price and online sales flourishing, the Kogan board set the future strike price for the new share option package looking back in time. How far back? Just far enough to capture the share price plunge between February and April.

These six million options have a current value of circa $120 million, with an effective purchase price of $5.30 per share, representing an outlay of $32m. Being a long-term incentive, Ruslan and Shafer will only benefit if they stick around until 2023 and the share price remains above the indicative $5.30 per share mark.

In August however, having just delivered a very strong full year financial result, the two executives took advantage of the strong performance and agreed to collectively sell 7.3m of their existing shares, representing a quarter of their current holding of 29.2m shares. The sale price of $21.60 per share seems a far cry from the proposed six million new option package at the indicative price of $5.30 per share.

It is hard to grasp how the board can describe the sell down of 25% as *"a minor portion of their shareholding*". Equally questionable is the reasoning for the options grant in the first place. The view that it would further align the interests of investors and executives to stay the course is certainly a valid objective.

As this sell down illustrates however, both Ruslan and Shafer are clearly opportunistic in heading for the exits, while benefiting from the equity top up through the issue of newly minted options.

To be clear, the issue is not with the granting of options to executives, but the method and opportunistic pricing of them.

Perhaps we are just missing the point, but if governance matters are important, then surely some pushback is not only justified but warranted. If not, then let the Kogan 'magic pudding' show continue.

For the record, we are not and have never been shareholders in the company but continue to wish the company and its executives well. ***SFM***

REPORTING CREEP OR DELUGE?

Investors keen on a little night time reading could do worse than to pick up a few annual reports to ease the tensions and drift off to sleep.

As we reflect on the most recent reporting period one thing is noticeably clear, the volume of information flowing from companies is ever growing. Not all is driven by ASX reporting requirements, with many due to the expectations and demands from stakeholders and proxy adviser groups for additional disclosures and sustainability reporting.

Governments and all matter of organisations have found companies a soft target, pushing responsibility down the chain to boards and directors. It is no longer good enough to run a company profitability and ethically. The onus to do the right thing and report on all facets of activity has continued to inundate management teams, resulting in a deluge of new information.

If we take Cochlear as a leading example, the 2020 August reporting season saw the company publish the following documents, with a combined total of 209 pages for the investor to read:

- 2020 Strategy Overview – 20 pages
- 2020 Corporate Governance Statement – 25 pages
- 2020 Environmental, Social and Governance Report – 36 pages
- 2020 Tax Contribution Report – 12 pages
- 2020 Annual Report – 116 pages

If we wind the clock back a decade, Cochlear released its full year 2010 Preliminary Financial Report during the August 2010 reporting season, 78 pages in total.

The group's 2010 annual report was published the following month in two separate parts, Editorial and Financial, which combined was 106 pages. Included within was the following: the financial statements (and notes to the financial statements); a directors' report, including an overview of performance and remuneration; an auditors' report; and a Corporate Governance Statement.

Fast forward five years to 2015, Cochlear published their full year 2015 statutory accounts and annual report in one 126-page release to the ASX. As an addition in this annual report was a four page Environmental, Social and Governance (ESG) review.

Cochlear's first foray into ESG reporting however was in 2013, when the company published a two-page summary in their annual report focusing on the following areas:

- Cochlear's approach to ESG;
- Environmental awareness;
- Social Support; and
- Governance.

Cochlear then went on to produce its first standalone ESG Report in 2018. CEO Dig Howitt commented on the group's commitment to ESG in the report, "*This year, as well as developing a new ESG framework, we're proud to publish Cochlear's first ESG Report. This report outlines how we aim to improve the impact we have on our communities, environment, employees, and reflects our commitment to high standards of corporate governance.*"

2018 also marked Cochlear's first year of publishing its environmental performance data, including energy use, greenhouse gas emissions (scope 1, 2 and 3) and intensities. The data was tracked over a three-year period and showed emissions from both energy use and energy-related emissions intensity in Australia had reduced year-on-year over the period.

Now the train was in full motion. And in 2019, Cochlear considered for the first time the Global Reporting Initiative (GRI) Index Sustainability Reporting Standards when developing their ESG Report. The final six pages of their ESG Report contained the references and links to the relevant GRI disclosure standards.

Global Reporting Initiative (GRI)

The GRI is an international independent standards organisation that helps businesses, governments and other organisations understand and communicate their impacts on ESG issues. The GRI was founded in 1997, following the public outcry over the environmental damage from the Exxon Valdez oil spill in 1989. The first version of the GRI guidelines was published in 2000, which provided an initial global framework for sustainability reporting.

In 2016, the GRI released the first global standards for sustainability reporting. These standards, which Cochlear has adopted, are regarded as the most widely used and comprehensive sustainability disclosures in the world.

In a further indication of Cochlear's commitment to ESG, in the company's recently published 2020 ESG Report it mentioned they were, "*enhancing their environmental management by continuing to broaden the environmental risk assessment to more closely align with the framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) on climate change-related risks to our business.*"

Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD was established in 2015 as an industry led task force to identify the information required by investors, lenders and insurance underwriters, to assess and price climate related risks and opportunities. It aims to develop recommendations for voluntary climate-related financial disclosures that are consistent, comparable, reliable, clear and efficient.

New Zealand Prime Minister Jacinda Ardern recently announced they were to become the first country in the world to legislate mandatory climate risk reporting based on the TCFD framework for banks, asset managers and insurers.

Whilst Australia has yet to take that step, in a letter published in February 2020, the Australian Prudential Regulation Authority (APRA) encouraged the adoption of voluntary frameworks, such as the TCFD, for all APRA-regulated entities.

Modern slavery

2020 signals the commencement of new reporting obligations for Australian entities, under the Commonwealth Modern Slavery Act 2018, with the first round of statements due to be lodged by calendar year end. As defined by the Act, reporting entities are large businesses or other entities in the Australian market with annual consolidated revenue of $100m or more. Whilst some companies, such as Cochlear, have already been producing a statement under UK law, many others will be tackling this for the first time.

The Australian Government recently extended the deadline for the first submission of statements. As stated on the Home Affairs Modern Slavery webpage, "*this extension recognises that COVID-19 is significantly impacting many reporting entities due to submit modern slavery statements in 2020. It aims to support these entities to meet their obligations under the Act by providing them with additional time to assess changing modern slavery risks linked to COVID-19 and prepare and submit their modern slavery statements.*"

Reporting entities with a balance date of 31 March 2020, will now have until 31 December 2020 to submit their statements. Whilst those with a 30 June 2020 reporting date will now have until 31 March 2021. The statements should set out how an entity assesses and addresses the risk of modern slavery in their supply chain and operations. Statements are required to be signed off by a director on the reporting entity's board.

The Australian Government, also required under the act to publish an annual Modern Slavery Statement, released a scoping paper in June 2020. The intention being to outline the key modern slavery risk areas and the steps under way to respond to these risks, including how to address the impact of COVID-19. The government has also provided this as an example of a best-practice approach.

Whilst we are certainly in agreement with the sentiment of the Modern Slavery Act, there is no doubt this is an additional burden on already stretched boards.

When you size it all up, you do have to wonder why would anyone sign up to be a director. ***SFM***

Table 7: Annual Reporting – requirements & timing

Requirement & Key Content	Timing	Required By
Preliminary final report (Appendix 4E)	No later than 2 months after financial year end	ASX Listing Rule 4.3A and 4.3B
Financial report, directors' report and auditors' report	No later than 3 months after financial year end	ASX Listing Rule 4.5
Annual Report to Shareholders, required content: • Financial report - financial statements - notes to financial statements - directors' declaration • Directors' report including remuneration report • Auditors' report • Corporate Governance Statement (or link to webpage where statement is located) • Additional information as required by Listing Rules	Earlier of: • 5 months after end of financial year; and • 21 days before AGM	ASX Listing Rule 4.7 & Corporations Act s 314 ASX Listing Rule 4.10.3 ASX Listing Rule 4.10
ESG or Sustainability Report*		Company / Stakeholder driven
Modern slavery statement	No later than 6 months after financial year end	Modern Slavery Act

*Recommendation 7.4 of ASX Corporate Governance Principles and Recommendations, 4th edition, February 2019 states that a listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.

HOW COVID CAN HELP YOU DISTINGUISH BETWEEN EXPERT OPINIONS, SOCIAL MEDIA AND SOCIAL ISSUES.

COVID-19 has handed us extra time to read. The question is, has it been used wisely?

Here we mesh our thoughts from some very different COVID reads.

1. Boy Swallows Universe, Trent Dalton
2. The Future We Choose: Surviving the Climate Crisis, Christiana Figueres and Tom Rivett-Carnac
3. Fewer, Richer, Greener: Prospects for Humanity in an Age of Abundance, Laurence B Siegel
4. Range: How Generalists Triumph in a Specialized World, David Epstein

Negatives front and centre

Fewer, Richer, Greener is largely an upbeat approach to the world, called rational optimism. Siegel is trying to counter a view, often held by school aged humans, that the world is destined to become a *"rotating cinder within 50 years"*. This is certainly a view discussed in our household after Australia's bushfire-ravaged January 2020.

Siegel argues to the contrary. He enthuses how life has benefited from a huge curve of betterment over the last 250 years. Without overlooking obstacles, he maps out the future advances we can expect across every dimension; health, wealth, longevity, nutrition, literacy, peace, and freedom. Interestingly, Siegel is not a specialist or an expert. His views are that of a generalist looking at overall economic progress.

He is an advocate of good governance and culture and believes the best traits spread from the developed world to the developing world. He is also adamant that we have a predisposition for an unhealthy negative view of the world. As an investor, the benefits of looking through short-termism are real.

We humans are born with a craving for fat and sugar, but we are also born with a craving for drama. We pay attention to dramatic stories and we switch off to anything less than.

Journalists and lobbyists tell dramatic stories. That's their job. They tell stories about extraordinary events and unusual people. Over time, what you're left with as the reader is an exaggerated worldview and strong negative stress feelings: *"The world is getting worse!"; "It's we vs. them!"; "Other people are strange!"; "The population just keeps growing!";* and *"Nobody cares!"*

Maybe the worst offender is the journalist hell bent on quoting the expert to provide substance. Take these comments from an expert we will name X, recently quoted in the Australian Financial Review.

"Everyone is being optimistic based on what is happening with markets overseas including the US. X said the sharp fall in share prices in February when the COVID-19 crisis spread to Italy and lockdown restrictions began had been followed by a prolonged resurgence, which suggested an oddly optimistic market.

X is not sure if the market will hit the lows of the market in February – in effect creating a W shape in performance in contrast to the current V-shaped market – but is firmly of the view that once the full impact is revealed 'prices will be impacted in a negative way'."[1]

If you step back and think about this statement, you'll realise it offers very little. A whole of market assessment is really an index call. In terms of indexes, the short-term matters little unless you are a speculator.

As an aside, an index is more interesting over time. It is designed to go up over a longer period and historically, that is what it has done. An index after all is the ultimate self-repairing beast. You simply keep everything that is good, throw away the bad bits and add pieces that are showing promise. The end result is the underlying earnings of the stocks in the grouping will rise and, almost like magic, the index will too. That is why the Buffett's and the Bogle's (see *"1935"* in our March 2020 quarterly) of the world recommend low cost index funds for the masses. It's very hard to argue against.

[1] *Extract from an expert in an AFR article.*

So, have you stopped reading expert opinions yet or the newspaper all together? Or perhaps like us, do you carefully check the name of the journalist before you invest your time reading an article?

The Expert Problem

In *Range*, Penn University Psychologist, Professor Philip Tetlock put expert opinions to the test. He started during the Cold War by collecting short and long-term forecasts from 284 highly educated experts. Most had doctorates and averaged 12 years' experience in their respective specialties. The project lasted 20 years and comprised 82,361 probability estimates about the future.

The average expert was a horrific forecaster. Their areas of specialty, years of experience, academic degrees, and even access to classified information made no difference. They were bad across the board, regardless if it were short-term or long-term forecasting. When experts declared some future event was impossible or near impossible, it only occurred 15% of the time. When they declared a sure thing, it failed 25% of the time.

The point of this article is not to rant or discredit journalists, or even experts for that matter. In fact, journalism has a fabled and extensive history in this country and at one point in time, writing was considered an art. Think Charles Bean, Frank Hurley, Sir Keith Murdoch, Germaine Greer and Michelle Grattan. The mantle is carried today by the likes of Grattan, Gottliebsen, Durie and Boyd to name a few.

In days gone by, even the local newspaper carried weight. When I was growing up, for a period I too wanted to be a journalist. Journalism at UTS or Mitchell College (now Charles Sturt University) were both highly recommended.

The problem is that media has changed and the solid foundations with which it was built on, has largely disappeared. For starters, the local no longer exits. The shift of classifieds from print to digital altered the financial model and the rivers of gold ceased to flow. At Selector we may well be part of the problem. We have supported the companies that have driven this shift, because we believe they represent higher quality businesses with better financial models, such as Seek, Carsales.com and REA Group.

Social media followed and has only further accelerated the structural change. It quickly killed off the vulnerable pockets of media and then it filled the void that was left behind. Problem is, the gap has been filled with lies, false claims and fake news, and this very sensationalistic approach represents a large social issue.

Thankfully today, there remain pockets of excellent journalism and the truly talented continue to write. Trent Dalton, for example, writes for The Australian and his bestselling debut novel *Boy Swallows Universe*, published in 2018, has now sold more than 425,000 copies worldwide and established Dalton as one of the nation's favourite authors.

True or False

Boy Swallows Universe was an unlikely COVID-19 read during our work from home period. We rarely endorse fiction, but this book is different. Fiction is generally defined as narrative in form, in any medium, consisting of people, events, or places that are imaginary — in other words, not based on history or fact.

So here is the twist. Dalton's mother, a former drug dealer, says the book is 50:50 true. Dalton is quoted separately as saying it is more like 60:40 true, and there's a good chance his synapses fire faster than his mums. So, on the basis of our definition above, it is not real fiction.

Set in Brisbane's housing commission suburbs, during the hot Aussie summers of the 1980s, thirteen-year-old Eli Bell hatches a plan to save his drug user mum after his drug dealing stepdad meets a grizzly end. Eli's babysitter is an infamous reformed murderer (real person), his older brother is mute (fake), and their real dad tried to drown them in a Holden Kingswood (who knows). It's iconic Australian storytelling. Being 60% true makes it all the better.

40% of *Boy Swallows Universe* is made up; it's in the hands of the reader to decipher fact from fiction. Here we draw a parallel with social media. If you consume social media, you really need to work hard to decode what is in fact true.

What we do know, is that social media has the power to influence. If you have children or grandkids you know this first-hand. Almost all under 18s are influenced by social media. It's generally their only source of news, substantiating the view that large slabs of media are gone. They don't listen to the radio, let alone a WIRELESS! And it's not just the younger generations. Remarkably the key debates of our times and global financial markets are also heavily impacted by social media.

The following is an extract from *The Future We Choose*, by Christiana Figueres and Tom Rivett-Carnac, both instrumental leaders in negotiating the Paris Agreement. The book challenges the reader to choose between two possible scenarios for the planet and builds a case to tackle the climate crisis head-on.

Three centuries ago, Jonathan Swift wrote, 'Falsehood flies and truth comes limping after it'. How prophetic this turned out to be. A recent analysis by MIT shows that on Twitter, lies spread on average six times faster than truth, and that truth never reaches the same level of penetration. Social media is an engine for the production and dissemination of lies. This fact has serious consequences for our society and in particular for our ability to come together to deal with complicated long-term threats like the climate crisis. In this `post-truth era', the undermining of science now has currency. The fabric of the scientific method is fraying. Objectivity is under attack. Some political leaders have chosen to part company with objective reality. The rise of social media has afforded these leaders ample opportunity to obscure facts. This move towards subjectivity creates a breeding ground for oppression and tyranny. We all have an urgent responsibility to recognise and defend such an attack on truth because if it persists, our small window of opportunity to turn back the tide on the climate crisis will be lost forever. In no period of history did leaders ever speak the truth at all times, but right now an altogether different level of lying is evident in the political arena. Humans are vulnerable to the post-truth world for a reason. Our natural inclination seems to be to seek confirmation of things we already believe to be true, rather than evidence for an objective reality.

Bias

We feel validated when we have our beliefs confirmed, and we respond with positive emotion to anyone who makes us feel this way. Thus, if a leader affirms our belief that vaccines cause autism, or that climate change is a hoax, or supports anything else we feel to be true, then we get a frisson of positive emotion. This well-documented and researched phenomenon is called confirmation bias.

Climate change will result in disasters, lots of them: inundations of major cities, loss of islands, a rising tide of migration. At these moments of extreme vulnerability, leaders with authoritarian instincts will want to seize the chance to consolidate their power. Populist authoritarian rulers will not seek to address the complex climate crisis with long-term solutions; instead, they will find someone to blame. We cannot allow them to use the coming disasters to exacerbate tragedy to the detriment of us all.

We all have a part to play in defending the truth. Here's how we can start; free your mind and be open to changing your view when presented with new facts. In the end, you are responsible for what you choose to believe in a post-truth world. Make no mistake, this problem is not ancillary to the climate crisis. If we can't agree on something as basic as a verified fact, our hands will be tied when it comes to the big stuff, and climate change is huge.

Beating back bias

Siegel, writing pre-COVID, contends that for the first time in human history reliable statistics exist. There's data for almost every aspect of global development. The data shows a very different picture: a world where most things improve; a world that is not divided. People across cultures and religions make decisions based on universal human needs, which are easy to understand. The fast population growth will soon be over. The total number of children in the world has stopped growing. The remaining population growth is an inevitable consequence of large generations born decades back. We live in a globalised world, not only in terms of trade and migration. More people than ever care about global development! The world has never been less bad. Which doesn't mean it's perfect. The world is far from perfect.

The dramatic worldview has to be dismantled, because it is stressful and wrong. It leads to bad focus and bad decisions. We know this because we have measured the global ignorance among the world's top decision makers in the public and private sector. Their global ignorance is high, just like the ignorance of journalists, activists, teachers and the general public. This has nothing to do with intelligence. It's a problem of factual knowledge. Facts don't come naturally. Drama and opinions do.

Why the ignorance?

Unconscious bias is the answer. The unconscious mind is amazing. It can process vastly more information than our conscious mind by using shortcuts based on our background, cultural environment, and personal experience. In this process we engage implicit knowledge, instinct, and intuition. These automatic reactions can drive near instantaneous decisions about everything around us. The problem is we often *"jump to the wrong conclusion"*, particularly when rational thinking is required on matters beyond our immediate areas of understanding.

Clearly this problem is compounded if the information being processed, in these short windows, is flawed or inaccurate to start with. In this case often being wrong quickly jumps to always being wrong, an outcome that makes the *"expert opinion"* failure rates look good.

The solution lies in real facts, accurate data and research that may well not be at our fingertips. A reliable repeatable process is required and while a simple method is better, it doesn't make it any easier.

4 simple steps

1. Deliberately slow down decision making
2. Reconsider the reasons for decision
3. Question the stereotyping
4. Monitor (yourself) for unconscious bias

None of these steps are difficult, they just need to become the norm. The first three are process. The fourth can be tricky. While they say habits take three months of daily implementation to be developed, monitoring unconscious bias can be accomplished with a good search engine, a few questions and the time required to read and check sources.

If we boil it all down, it's really about building out a view based on verifiable facts and truths. This needs to be distinguished from having all the answers, or thinking we do, which we do not. We consider this a key part of a common-sense approach to managing risk.

Environmental Social & Governance (ESG) clearly means different things to different people. For us, the first port of call in our stock selection effort is always the people and culture of a business. We see ESG and culture as intertwined. They are both integral to the success of a business.

From management and boards, we are simply seeking honesty, transparency and consistency. We want to work with those who address the issues, errors, and problems straight up. Invariably these individuals are also building out the latency within, which drives future earnings growth. We cannot overemphasise the importance of people and culture in our approach. This is subjective or qualitative and we do not shy away from these facts.

Clearly, we also want to own businesses that can become leaders and have a balance sheet that is supportive of their future aspiration rather than a burden. A sensible approach to Capital Management should follow.

We point to four criteria:

1. People we can trust
2. Business with leadership qualities
3. Balance sheet optionality and strength

An approach to Capital Management that results in real EPS growth ***SFM***

CHOICES? HASTA LA VISTA BUDDY!

Suffer Trump or install sleepy Joe Biden? What we have witnessed in Hong Kong is wrong. Policy setting in Russia is corrupt, and inevitably wrong. While none of this is new, the common thread is the concern. Choice is not apparent.

Is socialism creeping? A little over 12 months ago an octogenarian client asked us this question. His big picture concern was about a creeping global socialism. We sat on that statement for some months and revisited it recently.

Some believe real wealth is having the choice to not spend. Others believe it is tied to health, family and community connections. Strong arguments can be presented for both of these views. One does not need to be pitted against the other, they can coexist if we have choice.

The fact is they have both become key arguments of the current COVID world we are living in.

On the one hand, we have global governments that must spend. Regardless if it is stimulus, infrastructure or bond buying programs, they need to spend or their constituents face ruin. Fiscal policy is required when monetary policy is exhausted.

Rates close to or at zero, and negative rates have removed choice. Unless you consider a potential 0.1% rate cut, recently predicted by Westpac Chief Economist Bill Evans, monetary fire power. Even though his call moved bond markets on the day, we don't think it negates the argument that monetary policy has run its course.

When governments are forced to spend, more debt piles up. This limits the options of savers. With risk free rates at record lows, their hand is forced. The only choice remaining is consume capital or move up the risk curve.

On the other hand, governments have enforced lockdowns of sorts, removed citizen's rights, restricted movement, weddings and funerals, fenced some beaches and not others and claimed it is in the name of science and social welfare. Yet the scientific evidence for this approach is often not apparent. And common sense is often missing.

At the centre of all this is choice. Without it, we are diminished as individuals, a business, community, state and nation. Choice in a democracy is essentially a right. Most feel compelled to fight when it is removed, even those with a tendency for apathy.

As humans mature, very few want to consider themselves apathetic. Generally, we search for some meaning in life; we want to add value, whether that be to a portfolio of work, a skill we have developed, family, community, state or nation. We each choose what it is we feel is worth fighting for. It might even be driven subconsciously, but ultimately that is where our energies are focused.

The recent missteps of the Andrews Government must be prosecuted, according to Robert Gottliebsen. "*We are dealing with the worst industrial workplace accident in the nation's history. More than 700 people have died, large numbers have been infected by the coronavirus as a result of governmental errors and bungles, and untold damage inflicted on the Victorian — and Australian — economies.*"

"Acting in the national interest, a group of Australia's top occupational health and safety lawyers has painstakingly trawled through the transcripts of the Jennifer Coate inquiry to discover which ministers and public servants may have breached Victorian Occupational Health and Safety (OHS) law. They have concluded that four ministers, 16 public servants, the state of Victoria, four departments and the Trades Hall Council should be prosecuted."

So far accountability is missing.

Our octogenarian has time to sit, read and think. It's a powerful combination. He was right. The scary part is the problems he identified abroad, we are now facing at home. He is now confined to state, unable to travel to see family, friends, former business associates or the world. These are the things we believe he holds dear to heart. Freedom and choice ultimately removed.

Poor management of an individual state used to only be the problem of that state, reflected in the GDP and unemployment rate of that state alone. Today, mismanagement at a state level is undermining every citizen of the nation whether they realise it or not. This previously unforeseen power, sitting with leaders that have no national mandate, needs to be curtailed. It cannot be extended, whilst the rest of us have no say in the process. ***SFM***

COMPANY ENGAGEMENTS – SEPTEMBER 2020 QUARTER

Date	Company	Description
1-Jul	FPH	Fisher & Paykel Healthcare JP Morgan Management Conference call
2-Jul	CSL	CSL GS Gene Therapy Call with U.S. Biotech Analyst
2-Jul	FPH	Fisher & Paykel Healthcare SFML Management Conference call
2-Jul	COH	Cochlear UBS Conference call with Research Audiologist
3-Jul	FPH	Fisher & Paykel Healthcare JP Morgan Management Conference call
8-Jul	NEA	Nearmap AI Product Demonstration
13-Jul	SGR	The Star Entertainment Investor Site Tour
15-Jul	CAR	Carsales.com SFML Management Conference call
15-Jul	COH	Cochlear SFML Management Conference call
16-Jul	OFX	OFX Group GS Management Conference call
17-Jul	PPS	Praemium UBS Management Conference call
24-Jul	ALU	Altium UBS Industry conference call with Altium user
27-Jul	PPT	Perpetual Capital Raising Conference call
27-Jul	ALU	Altium UBS Industry conference call with Altium user
30-Jul	ALL	Aristocrat Leisure JP Morgan Digital Gaming conference call
31-Jul	PNV	PolyNovo SFML Management Conference call
3-Aug	OFX	OFX Group SFML Management Conference call
4-Aug	AIM	AI Media Morgans IPO roadshow call
5-Aug	VAPO.NYSE	Vapotherm 2Q20 Results Conference call
6-Aug	RMD	ResMed 4Q20 Results Conference call
6-Aug	NCK	Nick Scali FY20 Results Conference call
6-Aug	NEA	Nearmap Naviga8 Event
6-Aug	NCK	Nick Scali UBS Management Conference call
7-Aug	REA	REA Group FY20 Results Conference call
7-Aug	ALL	Aristocrat Leisure UBS US Slots Industry Conference call
7-Aug	REA	REA Group Macquarie Management Conference call
10-Aug	REA	REA Group UBS Management Conference call
10-Aug	REA	REA Group GS Management Conference call
11-Aug	JHX	James Hardie Industries 1Q21 Results Conference call
11-Aug	SYD	Sydney Airport Capital Raising Conference call
11-Aug	JOBS.NASDAQ	51job 2Q20 Results Conference call
11-Aug	OFX	OFX Group Annual General Meeting
12-Aug	CPU	Computershare FY20 Results Conference call
12-Aug	SEK	SEEK FY20 Results Conference call
12-Aug	SEK	SEEK Macquarie Management Conference call
13-Aug	JHX	James Hardie Industries Management Investor Briefing Conference call
13-Aug	BRG	Breville FY20 Results Conference Call
13-Aug	CPU	Computershare SFML Management Conference call
13-Aug	BRG	Breville UBS Management Conference call
13-Aug	SEK	SEEK UBS Management Conference call
13-Aug	BRG	Breville Macquarie Management Conference call

Date	Company	Description
13-Aug	BRG	Breville JP Morgan Management Conference call
14-Aug	CPU	Computershare JP Morgan Management Conference call
17-Aug	ALU	Altium FY20 Results Conference Call
17-Aug	SYD	Sydney Airport HY20 Results Conference call
17-Aug	3PL	3P Learning UBS Management Conference call
18-Aug	ALU	Altium SFML Management Conference call
18-Aug	NWL	Netwealth Group HY20 Results Conference call
18-Aug	COH	Cochlear FY20 Results Conference Call
18-Aug	BRG	Breville GS Management Conference call
18-Aug	ALU	Altium UBS Management Conference call
19-Aug	A2M	The A2 Milk Company FY20 Results Conference call
19-Aug	CAR	Carsales.com FY20 Results Conference call
19-Aug	NEA	Nearmap FY20 Results Conference call
19-Aug	DMP	Domino's Pizza Enterprises FY20 Results Conference call
19-Aug	MP1	Megaport FY20 Results Conference call
19-Aug	CSL	CSL FY20 Results Conference call
19-Aug	DMP	Domino's Pizza Enterprises UBS Management Conference call
19-Aug	MP1	Megaport UBS Management Conference call
19-Aug	COH	Cochlear SFML Management Conference call
19-Aug	NEA	Nearmap GS Management Conference call
20-Aug	CAR	Carsales.com UBS Management Conference call
20-Aug	AD8	Audinate FY20 Results Conference call
20-Aug	SGR	The Star Entertainment FY20 Results Conference call
20-Aug	PME	Pro Medicus FY20 Results Conference call
20-Aug	MP1	Megaport JP Morgan Management Conference call
20-Aug	DHG	Domain Holdings Australia FY20 Results Conference call
20-Aug	CAR	Carsales.com SFML Management Conference call
20-Aug	NWL	Netwealth Group JP Morgan Management Conference call
21-Aug	DMP	Domino's Pizza Enterprises SFML Management Conference call
21-Aug	ARB	ARB Corporation UBS Management Conference call
21-Aug	MP1	Megaport SFML Management Conference call
21-Aug	FPH	Fisher & Paykel Healthcare Annual General Meeting
21-Aug	NEA	Nearmap SFML Management Conference call
21-Aug	DMP	Domino's Pizza Enterprises JP Morgan Management Conference call
21-Aug	IRE	Iress SFML Management Conference call
24-Aug	RWC	Reliance Worldwide FY20 Results Conference call
24-Aug	IFM	Infomedia FY20 Results Conference call
24-Aug	NHF	NIB Holdings FY20 Results Conference call
24-Aug	PWH	PWR Holdings FY20 Results Conference call
24-Aug	TLX	Telix Pharmaceuticals Taylor Collison Management Conference call
24-Aug	NHF	NIB Holdings JP Morgan Management Conference call
24-Aug	IFM	Infomedia UBS Management Conference call
24-Aug	IRE	Iress UBS Management Conference call
24-Aug	IFM	Infomedia SFML Management Conference call

Date	Company	Description
25-Aug	RWC	Reliance Worldwide JP Morgan Management Conference call
25-Aug	BKL	Blackmores FY20 Results Conference call
25-Aug	NAN	Nanosonics FY20 Results Conference call
25-Aug	NAN	Nanosonics UBS Management Conference call
25-Aug	BKL	Blackmores SFML Management Conference call
25-Aug	SGR	The Star Entertainment SFML Management Conference call
25-Aug	NAN	Nanosonics SFML Management Conference call
26-Aug	PNV	PolyNovo FY20 Results Conference call
26-Aug	SOM	SomnoMed Taylor Collison Management Conference call
26-Aug	FCL	FINEOS FY20 Results Conference call
27-Aug	PNV	PolyNovo UBS Management Conference call
27-Aug	FLT	Flight Centre Travel Group FY20 Results Conference call
27-Aug	REH	Reece FY20 Results Conference call
27-Aug	JIN	Jumbo Interactive FY20 Results Conference call
27-Aug	APX	Appen 1H20 Results Conference call
27-Aug	FLT	Flight Centre Travel Group SFML Management Conference call
28-Aug	FLT	Flight Centre Travel Group UBS Management Conference call
28-Aug	ARB	ARB Corporation SFML Management Conference call
28-Aug	NAN	Nanosonics JP Morgan Management Conference call
28-Aug	RWC	Reliance Worldwide SFML Management Conference call
31-Aug	IFL	IOOF Holdings FY20 Results Conference call
31-Aug	NHF	NIB Holdings SFML Management Conference call
31-Aug	JIN	Jumbo Interactive SFML Management Conference call
1-Sep	PNV	PolyNovo SFML Management Conference call
1-Sep	Adore Beauty	Adore Beauty Morgans IPO roadshow
2-Sep	APX	Appen UBS Management Conference call
2-Sep	AMX	Aerometrex Morgans Management Conference call
2-Sep	Nuix	Nuix Macquarie IPO roadshow
3-Sep	ALU	Altium SFML Management Conference call
3-Sep	JIN	Jumbo Interactive SFML Management Conference call
4-Sep	CSL	CSL SFML Management Conference call
7-Sep	PME	Pro Medicus UBS Management Conference call
8-Sep	PME	Pro Medicus GS Management Conference call
8-Sep	MP1	Megaport UBS SD-WAN industry insight call
9-Sep	CSL	CSL JPM Plasma collection industry call
9-Sep	ZNGA.NAS	Zynga UBS Management Conference call
10-Sep	NEA	Nearmap Capital Raising Conference call
10-Sep	NEA	Nearmap SFML Management Conference call
10-Sep	Automic Group	Automic Group UBS Management Conference call
14-Sep	FLT	Flight Centre Travel Group SFML Management Conference call
14-Sep	NHF	NIB Holdings JP Morgan Mangement Conference call
15-Sep	RMD	ResMed Morgan Stanley Annual Global Healthcare Conference
15-Sep	RMD	ResMed JP Morgan Industry insight call on US Sleep Market
15-Sep	IFL	IOOF Holdings SFML Management Conference call

Date	Company	Description
15-Sep	APX	Appen Taylor Collison Management Conference call
16-Sep	JHX	James Hardie Industries SFML Management Conference call
16-Sep	CAR	Carsales.com SK Encar Management Conference call
16-Sep	MyDeal	MyDeal.com.au Morgans IPO roadshow
17-Sep	ALL	Aristocrat Leisure UBS Gaming Conference call
18-Sep	IFL	IOOF Holdings SFML Management Conference call
21-Sep	IFL	IOOF Holdings SFML Management Conference call
22-Sep	MP1	Megaport JP Morgan Technology Corporate Day
22-Sep	CAR	Carsales.com JP Morgan Technology Corporate Day
22-Sep	REA	REA Group UBS Industry insight call
22-Sep	6100.HKG	Liepin UBS Management Conference call
23-Sep	COH	Cochlear JP Morgan Cochlear implant industry update call
23-Sep	SEK	SEEK UBS China Recruitment market industry insight call
23-Sep	DOM.LON	Domino's Pizza Group PLC UBS Management Conference call
24-Sep	COH	Cochlear JP Morgan Cochlear implant industry update call
29-Sep	CTD	Corporate Travel Management Acquistion and capital raising conference call
29-Sep	TLX	Telix Pharmaceuticals SFML Management Conference call
30-Sep	IFL	IOOF Holdings Credit Suisse Management Conference call
30-Sep	JIN	Jumbo Interactive SFML Management Conference call